

# The costs and benefits of the London living wage

October 2012

Jane Wills and Brian Linneker

School of Geography  
Queen Mary University of London, Mile End Road, London E1 4NS

  
Trust for London  
Tackling poverty and inequality

 Queen Mary  
University of London





# **The costs and benefits of the London living wage**

**Jane Wills and Brian Linneker**

**September 2012**

## Acknowledgements

This research was funded by Trust for London as part of their special initiative to support the London living wage. Particular thanks go to Bharat Mehta, Mubin Haq and Austin Taylor-Laybourn for their on-going support.

As will become evident, this research involved close collaborations with senior managers from 8 different companies. These managers and their support teams supplied a considerable volume of data about contract costs, labour turnover, recruitment, sickness and training. We are very grateful for this support. In addition, most of the project case studies involved sub-contracted employment and thus required further agreement from senior managers at 16 different client companies or organisations. In two of these organisations, the in-house managers provided all of the data included in the research. Although these individuals have to remain anonymous, we are very grateful to all of them for their role in the project.

Workplace interviews were conducted with 416 workers in 16 of these workplaces and again, this required the support of senior managers from the contractor and client firms. This stage of the research programme also depended upon a fantastic team of post-graduate researchers who completed face-to-face interviews with workers at their places of work, usually at very anti-social hours of the day and night. Special thanks go to Catalina Bejarano Soto, Jana Gigl (now Director of g.e.t. game - Global Education Toolbox), Dr Olivia Sheringham (now working at the University of Oxford) and Beata Switek (doctoral candidate in Anthropology at UCL) for their dedication to the research. In addition, Dr Yara Evans, Visiting Research Fellow at the School of Geography, Queen Mary, University of London, played a critical role in setting up the questionnaire survey, managing the process of data entry and tidying up the final database. Yara provided enthusiastic support throughout the research. We are also very grateful to all the workers who agreed to be interviewed.

Dr Ellen Flint analysed the survey data relating to workers' self-reported health and wellbeing and this part of the work was overseen by Professor Steven Cummins (both from the School of Geography, Queen Mary, University of London). Their experience and input to this part of the project is much appreciated.

The final stages of the project looked at the implications of the London living wage in relation to the income, tax and the benefit systems and this involved the expert assistance of Paul Bivand and Lovedeep Vaid from the Centre for Social Inclusion and the services of Gareth Morgan from Ferret Information Systems Ltd. Their support was invaluable to the success of the project and we are very grateful for all the work that was done.

There were a good number of other employers (particularly in the care sector) who also agreed to interviews but were subsequently unable to take part in the project and we thank them for their time. In addition, Pat O'Mara from the British Institute of Cleaning Science (BICS) kindly agreed to an interview where we discussed the possibility of measuring the service standards delivered by contractors and workers in the cleaning sector. Andrew Large from the Contract Services Support Association (CSSA) was very supportive in the early stages of tendering for this research and he has subsequently encouraged our work. We are also very grateful to Ed Oliver the cartographer at Queen Mary, University of London, for producing Figures 1 and 2, and for designing the cover and layout of this report.

Thanks also to Kayte Lawton, Donald Hirsch and Tom MacInnes for providing comments on earlier drafts of this report.

### A note about the authors

**Brian Linneker** is a freelance economist and Senior Research Fellow at the Department of Geography, Environment and Development Studies, Birkbeck College, University of London. Brian provided the expertise necessary to develop the statistical indicators based on company data. Brian led in analysing the statistical data and the SPSS data file generated by the workplace questionnaire survey. He also did the analysis to scale-up the potential savings to the Treasury from living wage implementation.

**Jane Wills** is Professor of Human Geography at the School of Geography, Queen Mary, University of London. Jane co-ordinated the research and the production of this report. Some of the text in Appendix 1 is based on an article entitled 'The living wage' that is already published in the journal *Soundings: A journal of politics and culture* (2009, volume 42, pages 33-46). This project is part of on-going research to map the development and impact of the London living wage campaign and further information is available from the living wage research website: <http://www.geog.qmul.ac.uk/livingwage/>

# Contents

<b>Acknowledgements</b>	<b>1</b>
<b>Contents</b>	<b>2</b>
<b>1 Introduction</b>	<b>4</b>
1.1 Historical background	4
1.2 The London living wage	7
1.3 The impact of the living wage	8
<b>2 Research methodology</b>	<b>8</b>
<b>3 Research findings</b>	<b>14</b>
3.1 Statistical indicators	14
3.2 The employer and client perspective	18
3.2.1 The process of implementation	18
3.2.2 Living wage outcomes	20
3.3 The workplace survey	22
3.3.1 The profile of workers in living wage and non-living wage workplaces	23
3.3.2 Health and well-being amongst living wage and non-living wage workers	29
3.3.3 The impact of wages on feelings about work, family and finances	29
3.3.4 The income, tax and benefit systems	34
<b>4 Conclusions</b>	<b>36</b>
<b>5 References</b>	<b>38</b>
<b>Endnotes</b>	<b>39</b>
<b>Appendices</b>	<b>41</b>
<b>Appendix 1: The history of the living wage</b>	<b>42</b>
<b>Appendix 2: An additional case study in domiciliary care</b>	<b>44</b>
<b>Appendix 3: Generating statistical indicators from company data</b>	<b>46</b>
<b>Appendix 4: The information sheet and questionnaire survey</b>	<b>59</b>
<b>Appendix 5: Health and well-being</b>	<b>67</b>
<b>Appendix 6: The statistical significance tests used to explore the profile of workers in living wage and non-living wage workplaces</b>	<b>69</b>
<b>Appendix 7: The statistical analysis of the data on workers' feeling about work, family and finances</b>	<b>69</b>
<b>Appendix 8: The statistical analysis of the data on income, tax, NI and benefit spending</b>	<b>77</b>



# The costs and benefits of the London living wage: A research report

## 1. Introduction

### 1.1 Historical background

The demand for a living wage first surfaced in the coalfield areas of the United Kingdom (UK) during the 1870s when workers sought to organise to improve their terms and conditions of work. Associated with the labour movement here and abroad, the living wage is a demand for sufficient income to provide a worker and their family with the means required to live. Usually associated with covering the cost of housing, clothing and food, campaigners have argued that the living wage should also support citizenship; allowing workers to play a full part in democratic society.

This demand has ebbed and flowed along with the strength of the labour movement and government intervention in welfare provision. In the UK, calls for a living wage receded during the years after the second world war, only to resurface as a response to rising levels of in-work poverty during the last twenty years (and for more on this historical background, see Appendix 1).

When they came into power in 1997, the New Labour Government recognized the need to tackle low pay. The 1998 National Minimum Wage Act provided for the establishment of a Low Pay Commission that now sets Britain's first ever National Minimum Wage (NMW). The first rate, set in April 1999, was £3.60 an hour for adults aged over 22, covering as many as 1.2 million adults, who had an average pay rise of 10%. There is evidence that the NMW has reversed half the increase in inequality of the Thatcher era without any detrimental impact on employment, with some evidence for greater productivity, some reductions in hours, some price increases and some falls in profits (Metcalf, 2007, 3). Compliance appears to have been remarkably high.

But while the NMW has clearly had a very positive impact on the incidence of low pay and income inequality in the UK since 1999, it has not been set at a high enough rate to stem the rising tide of in-work poverty. Recent data for the UK indicate that rates remain stubbornly high and at least half of all children in poverty live in households where at least one adult works (Tripney et al 2009). The New Labour Government sought to tackle this issue through the introduction of means-tested in-work benefits determined on the basis of household income and circumstances. This included the provision of Housing Benefit, Council Tax Benefit, Working Tax Credit and Child Tax Credit but this redistributive policy has done nothing to prevent the underlying growth of in-work poverty that now affects millions of households in the UK (MacInnes et al, 2010). In 2008/9, some 13.5 million

people (22% of the total population) were living in households with less than 60% median net income after housing costs. By April 2011, as many as 3.3 million households were in receipt of tax credits over and above the family element of Child Tax Credit, representing 17% of all households in the UK.<sup>1</sup>

In response to this situation, the broad-based coalition London Citizens launched a living wage campaign in 2001. In doing so, the organisation was able to draw upon direct experience from the United States of America (USA). Their sister community alliance in Baltimore, called Baltimoreans United in Leadership Development (BUILD) had secured the first living wage ordinance in the USA, in 1994. Increasingly concerned about the growth of working poverty amongst their member organisations and the impact of low pay on the wider community, BUILD proposed the idea of a living wage in order to set a new floor for wages paid on local government contracts in the city. Once they mobilised successfully, the demand spread, and some 140 cities and counties now have living wage ordinances in the USA (Luce, 2004).

The organisers and activists behind the London living wage campaign have learned a number of important lessons from this experience in the USA. Firstly, London Citizens has used its political influence over the Mayor of London (Ken Livingstone from 2004 and Boris Johnson from 2008) to ensure that economists at the Greater London Authority determine the annual living wage level that is subsequently announced and endorsed by the Mayor. This has given the living wage valuable independence from the campaign. Indeed, while early rates were proposed on the basis of research paid for UNISON and conducted by the Family Budget Unit (Parker, 2001), it is widely recognised that Mayoral support has helped to validate the idea of a living wage and its annual increase.

Secondly, the London campaign has not solely focused on Government contracts and aims to set a new benchmark for wages across the city-at-large. While the Greater London Authority has now endorsed the living wage and ensured its application across its own supply chain to include the Metropolitan Police Authority, the London Fire Brigade and Transport for London, comprising more than 3000 workers, the campaign has targeted a much wider range of high-profile companies and organisations. In the early stages, the focus was on the NHS hospital trusts in east London and the finance and related companies based at Canary Wharf. More recently, the focus has shifted to legal firms in the City, the retail sector and Local Government. In almost all cases, the coverage has impacted on the cleaning workers who are employed by specialist firms. Table 1 provides an indication of the number of living wage firms, the number of

**Table 1: The London living wage: numbers and money by end December 2011**

<b>Workplaces (by sector)</b>	<b>Date first employers complaint</b>	<b>Numbers (by 2011)</b>	<b>Accumulated Money</b>
<b>Health:</b> Homerton, Mile End, Royal London*, Whipps Cross NHS Kite Clinic Ltd	2006	1000 (ft)	£20,666,880
<b>Finance:</b> Barclays, HSBC, Deutsche Bank, Morgan Stanley, Lehman Bros, Linklaters, PWC, KPMG, Macquarie, Morgan Stanley, Normura, PWC, Prudential, RBS, Standard Chartered Bank of America, Credit Suisse, Deloitte, Goldman Sachs, Sarasin, CCLA	2005	1915 (ft)	£20,654,993
Barclays (London wide)	2007 (mid yr)	1000 (pt)	£7,285,200
<b>Legal:</b> Bates Wells Braithwaite, Eversheds, Freshfields Bruckaus Deringer, Lovells, Linklaters, Norton Rose, Slaughter and May Allen & Overy	2010	780 (ft)	£2,878,762
<b>Other:</b> Arena BLM, Argus Media, Aspen Oil, Clownfish Marketing, Connect Public Affairs, R H Evans Architects, Renegade Pictures, Rengen Energy, Richard Hywelevan Architecture & Design Ltd, Stanton Williams, Thames McGurk Ltd, Waterhouse L'Oreal	2010	58(pt)	£172,318
<b>HEIs:</b> QMUL (doubled nos in 2011) LSE SOAS Birkbeck/LSHTM UoL Union Goldsmiths, IoE, LBS, UCL, UEL, King's	2007 (mid yr)	432 (ft) 432 (pt)pt	£4,692,661
Bethnal Green Tech, City and Islington College	2011	30 (pt)	£51,948
<b>Third Sector:</b> ACEVO, Bernardos, Big Issue, BioRegional, Business to Business Exhibitions Ltd, CAN Mezzanine , Children of the Andes, Children's Rights Alliance for England, Climate Change Group, CPAG, CSSA, Crisis UK, Ecologist, Execution Charitable Trust, FoE, Food Commission, Forum For the Future Ltd, Free Tibet Campaign, Greenpeace, Groundwork UK, Healthy Living Centre, International Action Network on Small Arms, IPPR, Islington Ecology Centre, Jobs Go Public Ltd, Karmaram, Lifeline Project, MedicAlert Foundation, NCVO, Oxford Research Group, Peace Direct, Quiet Revolution, Rainforest Foundation, Rethink, Safer World, SD3 Ltd, Sustainable Development Capital, The Bromley by Bow Centre, The Ethical Property Foundation, The Young Foundation, Tindelmanor, Trust for London, UnLtd, Westway Development Trust, Zaccheaus 2000 Amnesty International UK, Ethical Property, LVSC, Save the Children, Toynbee Hall, UNICEF UK	2005	165 (pt)	£954,127
Olympics	2007	500 (ft)	£4,743,648



<b>GLA family:</b> City Hall cleaning and catering (inc traf sq café) London Fire Brigade MPA, LDA, TfL	2005	2542 (ft) 865 (pt)	£30,000,000
<b>National government:</b> Dept for Children, Families and Schools	2008 (mid yr)	30	£179,244
<b>Local government:</b> LB Lewisham LB Tower Hamlets LB Islington LB Hackney	2010	380 (ft) 1000 (pt)	£6,138,288
<b>Education:</b> Norlington School, St Charles Sixth Form College Our Lady's Convent High School, Notre Dame, Trinity, Hackney Free	2009	30 (pt)	£69,358
<b>Arts:</b> Tate, St Lukes Centre	2009	25 (pt)	£108,810
House of Commons	2010 (mid yr)	100 (ft) 62 (pt)	£615,794
<b>Retail:</b> Lush	2011	200 (pt)	£173,160
<b>Total</b>		7649 (ft) 3873 (pt) <b>11,522 (total)</b>	<b>£99,343,632</b>

Source: Author's calculations from publicised living wage cases. These workplaces are not necessarily fully accredited living wage employers as the Living Wage Foundation only started accreditation in 2011/12<sup>2</sup>

employees covered and the amount of money that has been redistributed since 2005. These figures, compiled at the end of December 2011, indicate that well over 100 employers and 10,000 workers have been involved in the redistribution of almost £100 million since 2001.

Thirdly, and in contrast to the experience in the USA, London Citizens has sought to ensure that the transmission of the demand for a living wage outside London has not resulted in a plethora of different living wage rates, methods of calculation and processes of application. In May 2011, London Citizens launched a Living Wage Foundation that is responsible for setting a living wage rate for outside the capital and providing intelligence to employers and activists who want to pursue the demand. The Living Wage Foundation has teamed up with Professor Donald Hirsch, Head of Income Studies at the Centre for Research in Social Policy, Loughborough University, to use his research into Minimum Income Standards, funded by the Joseph Rowntree Trust, to set the outside-London living wage rate.<sup>3</sup> This has been complementary to the process used by the GLA to generate the London living wage and there are on-going talks to align the calculations behind the two rates.

Finally, again in contrast to the experience in the USA, the Living Wage Foundation has sought to involve employers and other stakeholders in the campaign for a living wage. The Foundation has six Principal Partners: the funders *Trust for London*, the charity *Save the Children*, the think tank the *Resolution Foundation*, the first living wage employer in Higher Education, *Queen Mary*,

*University of London*, and two leading private sector champions, the accounting firm *KPMG* and the international law firm *Linklaters*. This effort to embrace a wide coalition of champions has helped to deepen the impact of the campaign. The Foundation is now officially accrediting living wage firms and it controls the use of the official living wage kite-mark. There are plans to hold a living wage week to promote the living wage and the annual increase in the rates of the wage will be announced during this week in November each year from 2012.

In part as a result of the success of the campaign, a growing number of other organisations are taking up the call for the living wage, in London and across the UK. Since losing the 2010 general election, the Labour Party has started to champion the living wage and some leading politicians have encouraged activists in the *National Union of Students* to agitate for the living wage on their university campuses. In addition, the campaigning charity *FairPensions* has successfully lobbied the managers and trustees of pension funds, large investment companies and shareholders, to put pressure on some of the FTSE100 companies to pay the living wage. Since 2011 their 'Just Pay!' campaign has secured the living wage for several thousand workers contracted to work for Aviva, Barclays and HSBC. As it is taken up by charities and campaigning organisations, the living wage will become less strongly associated with Citizens UK, and the role of the Living Wage Foundation will become ever more important as a repository of intelligence about the campaign and accreditation.

## 1.2 The London living wage

The living wage is the minimum hourly wage required to allow a worker to support themselves and their dependents. It should cover the cost of food, housing and basic needs. Although the household circumstances of each worker will be different, the wage rate is calculated to reflect a locally determined minimum acceptable standard of living. The methods used to calculate the wage generally involve research into the cost of living, including everyday items, adjusted for household characteristics, such as the presence of a working partner and the number of children. The London rate has been calculated and announced by the Mayor of London since 2005. The team of economists based at the Greater London Authority use a consistent methodology to calculate the rate incorporating the cost of a basic basket of goods and necessary housing, childcare and transport costs, all calculated making very modest assumptions, as well as some statistical analysis of households below half average income in London. These figures are then combined and modelled to reflect the household structure of families in London in order to generate three wage rates every year. These are the basic poverty wage that only covers essential items with nothing to spare, the living wage rate that assumes full benefit take up with an additional 15% income for contingency, and the living wage rate without benefit take up. The rates set since 2003 are shown in relation to the NMW in Table 2.

In the early days of the campaign, the annual rate was announced in April, May or June – depending upon Mayoral availability and the election cycle. However, since the launch of the Living Wage Foundation, a decision has been taken to make the announcement of the London and out-of-London rates at the same time in November each year. This brings the announcement more into line with the practice associated with the National Minimum Wage that is applied from 1 October each year.

While the living wage has the potential to provide an important mechanism to reduce working poverty in the UK, it also has some limits. Most obviously, a living wage depends upon the particular circumstances of each individual. The cost of housing, the presence of another adult in the household and their earnings, as well as the number of dependents, their ages and circumstances, and all have a dramatic impact on the level of income that a worker and their family requires to survive. While some of these variations are incorporated into the calculations undertaken to determine the living wage rate, there will always be some individuals for whom the rate is more or less than required.

In this regard, the living wage does not over-ride the need for additional welfare payments made on the basis of household circumstances such as the size of the family, disability, and the availability of affordable housing. As such, the living wage does not replace welfare expenditure and it is calculated on the basis that workers claim the money to which they are entitled (see Table 2). However, as will become evident in later parts of this report, any increase in the adoption of the living wage can reduce welfare spending as workers secure more income from wages and less from the state. As such, it is important to remember that the rate at which the living wage is set and the scope of coverage will have enormous implications for the work it can do, its impact on households and state expenditure.

To date, the living wage has garnered attention as a poverty-reduction mechanism that relies on pre-distribution rather than redistribution. Rather like collective bargaining and state-sponsored wages councils, living wage campaigns adjust “the way in which the market distributes its rewards, before government gets involved” (Coats et al, 2012, 8). As such, the living wage is particularly salient when there is little enthusiasm, for both ideological and pragmatic reasons, for increasing the role of the state.

**Table 2: The National Minimum Wage and the London Living Wage rates since 2003**

	NMW*	LLW**	Difference	LLW w/o benefits	% Change NMW-LW
<b>2003</b>	4.50	6.40	1.90	-	42.22
<b>2004</b>	4.85	6.50	1.65	-	34.02
<b>2005</b>	5.05	6.70	1.65	8.10	32.67
<b>2006</b>	5.35	7.05	1.70	9.00	31.77
<b>2007</b>	5.52	7.20	1.68	9.15	30.43
<b>2008</b>	5.73	7.45	1.72	9.60	30.02
<b>2009</b>	5.80	7.60	1.80	9.85	31.03
<b>2010</b>	5.93	7.85	1.92	10.15	32.38
<b>2011</b>	6.08	8.30	2.22	10.40	36.51

\* set by the Government funded Low Pay Commission<sup>4</sup>

\*\* calculated by the GLA from 2005<sup>5</sup>

### 1.3 The impact of the living wage

To date, almost all the published research to explore the impact of the living wage has been undertaken in the USA. A recent review of the published literature (Thompson and Chapman, 2006) indicates that the majority of studies found that: (1) the living wage had a low or moderate impact on municipal budgets; (2) that workers and their families benefited with few if any negative effects; and (3) that employers benefited from decreased labour turnover and increased productivity. The low impact on costs was found to be partly a product of the bidding process whereby contractors were expected to bear some of the costs. Moreover, even if the costs were passed on to consumers, they were found to be relatively low in relation to the existing costs of the service. A study conducted at San Francisco airport, for example, where 5400 workers were covered by the living wage, estimated that the cost to passengers using the airport would be \$1.42 per head (Reich et al, 2005). Surprisingly, this same study found that the number of affected jobs increased rather than decreased during this period. Furthermore, the implementation of the living wage for one group of workers created 'spill-over effects' as other similarly-positioned workers also experienced some increase in their level of pay (Reich et al, 2005).

In addition, most of these studies have reinforced the long-established relationship between increased wages and reduced labour turnover (see for example, Greenwald and Stiglitz, 1988). The San Francisco Airport study found that labour turnover amongst security staff fell from 95% a year to 19% a year once the living wage was being paid (Reich et al, 2005). In another study of home care workers in San Francisco where wages increased by almost 100% and in-work benefits included health insurance for the first time, Howes (2005) similarly found a sharp drop in the annual rate of labour turnover (by 57%). Costing this reduction in turnover is notoriously difficult as it depends upon the time spent by managers in recruitment and induction, back-office processing, the provision of uniforms as well as any loss in productivity. A study of the living wage in Los Angeles calculated that the reduced turnover saved 16% of the increased costs associated with higher wages (Fairris et al 2005). Reich's (2003) analysis of the same issue in relation to San Francisco was for a 10% saving in the costs associated with the living wage rate. In the qualitative interviews deployed in the research at the airport some of the employers also reported increased work performance, employee morale, customer service and a reduced rate of disciplinary hearings as a result of the living wage (Reich et al, 2005).

In the UK, there has been growing anecdotal information to make similar claims. It is argued that raising wages to the level of the living wage reduces employee turnover while increasing motivation at

work. As Mayor Boris Johnson put it in the opening to the 2009 living wage report: "*Paying the London Living Wage is not only morally right, but makes good business sense too. What may appear to be an unaffordable cost in a highly competitive market should more often be viewed as a sound investment decision. I believe that paying decent wages reduces staff turnover and produces a more motivated and productive workforce.*"

The only prior published report to try and calculate the impact of the London living wage was commissioned and published by the Greater London Authority, and conducted by *London Economics*, in 2009. Researchers interviewed representatives from 11 employing organisations that had moved to the living wage and found that the: "*most significant impact noted was recruitment and retention, improved worker morale, motivation, productivity and [the] reputational impacts of being an ethical employer*" (*London Economics*, 2009, v). The study found that more than 80% of employers believed that the living wage had increased the quality of the work. For understandable reasons, much of the research was based on managers' opinions and beliefs about the impact of the living wage, with little consistent statistical data across the employers. As a result, *Trust for London* commissioned this research to try to overcome some of these limitations and to develop a better understanding of the costs and benefits of the London living wage.

Since they did so, the *Resolution Foundation* has published a report that explores the likely impact on costs if firms were to move their in-house staff to the living wage, identifying average increased wage bills of between 0.2% (in banking) and 6.2% (in bars and restaurants) (Pennycook, 2012). However, these calculations exclude the outsourced workers in cleaning, care, catering and security who have historically tended to be the lowest paid workers, and it is these groups that feature in this research.

## 2. Research methodology

This research has been designed to explore the costs and benefits of the London living wage. From the outset, these costs and benefits were envisaged to cover clients, employers, contractors, workers, the wider public and tax payers, with possible links to international development via remittance-sending. These potential costs and benefits are outlined in Table 3.

In order to measure these potential costs and benefits, the research project comprised four distinct types of data collection: (1) statistical information provided by employers and/or clients; (2) interviews with employers and/or clients; (3) a questionnaire survey of workers; and (4) analysis of secondary data to explore the impact of the living wage on the income, tax and benefit systems.

**Table 3: The potential costs and benefits of the London living wage**

<b>Groups</b>	<b>Potential costs</b>	<b>Potential benefits</b>
<b>Clients and/or employers</b>	Increased expenditure; Decisions about wages transferred to other agencies.	Reduced staff turnover increasing workplace performance; Higher service standards; Reputational gains; Increased scrutiny of contracts leading to savings.
<b>Contractors</b>	Increased expenditure; Reduced margins/profits; Decisions about wages transferred to other agencies.	Increased employee stability and reduced turnover costs (cover, recruitment, training); Reduced absenteeism; Greater motivation and morale; Higher productivity; Improved standards; Better employee relations; Better trained applicants applying for posts; Reputational gains.
<b>Workers</b>	Increased workload; Reduced hours; Job losses; Squeezed differentials.	Increased income; Increased job quality; Stronger motivation to work; Better career opportunities; Improvements in health and well-being; Improved family life.
<b>Wider community in the UK</b>	Increased costs of services.	Reduced expenditure on tax credits, means-tested benefits, sickness and health services; Better services; Positive externalities from better paid residents; Increased potential to foster social capital.
<b>Overseas</b>		Reputational; Increased remittance-sending.

In relation to the first three of these categories of data collection, the research involved a comparative case study methodology. Potential case study employers, who were known to have at least one living wage contract or to have signed up to the living wage for their in-house staff, were approached to take part in the project. In each case, the research design depended upon being able to identify EITHER a workplace where data could be collected for the year prior to the living wage being introduced in order to provide a pre/post case study of the same workplace OR matched pairs of workplaces where the numbers of staff and the work were the broadly the same but one group were paid the living wage and the other were paid at least £1 less for every hour of work.

As a result of a series of meetings and the discussion of issues such as confidentiality and timescale, employers were able to determine if they were able and willing to take part in the project. In those cases where the employers provided services to clients on contract, they also had to seek the permission of the client for the research to proceed. In a number of cases, the principal to support the research process was first agreed through the client and then subsequently agreed with the contractor. As might be expected, however, a number of potential case study clients and employers were able and willing to identify a living wage workplace but were subsequently unable to match it with a non-living wage case. Many of the clients and employers of non-living wage workers were reluctant to take part in a project that might draw attention to the fact that they weren't paying the living wage and these political sensitivities

meant that it was often difficult to confirm matched pairs of workplaces for the research. Even though confidentiality agreements were signed when requested, the potential risks for employers put some of them off.

The final set of 17 case study workplaces (including 7 pre/post studies) are outlined in Table 4.<sup>6</sup> As will be evident, almost all of these cases involved people who were working as cleaners. This reflects the history and the impact of the campaign and at the time of the research, there were very few workers in other sectors who had been directly impacted by the campaign. In addition to the grounds work employer that was able to take part in the project, we had discussions with a catering employer and an employer in the care sector but their inclusion proved impossible. We were unable to find a matched example for the catering company and the care workers were found to have a complicated pay structure that had not changed as a result of one of the firm's clients supporting the living wage. While this prevented the inclusion of these companies and these contracts in our research, we have written up the care case, and this can be found in Appendix 2.

Although the bulk of the research covers out-sourced contracts in cleaning, it is important to note the extent to which the findings from these cases are more widely applicable. Other low paid sectors such as catering, care and security similarly involve labour intensive out-sourced work with relatively low spend on technical assets, research and development. In addition, the report can be usefully read alongside that published by the *Resolution*

*Foundation* (Pennycook, 2012) that explores the potential costs incurred in sectors that rely on large numbers of low paid in-house workers such as retail, bars and restaurants.

Researchers worked with senior managers to collect a series of data for the pre/post periods or the comparative cases. Wherever possible, this annual data included: (1) contract costs; (2) staff leaving; (3) staff starting; (4) the cost of recruitment; (5) expenditure on staff training; and (6) sickness and absence rates.

Once these figures were generated for all the case studies, we developed a number of indicators that allowed us to make comparisons across the case studies (see Appendix 3).

The **wage rate % change** figure shows the changes in wages associated with the living wage expressed as a proportion of the NLW wage rate.

For the pre/post cases a **contract cost % change** figure shows the change in contract costs associated with actual implementation of the living wage, expressed as a percentage of the NLW contract cost.

For both the pre/post and the comparative LW-NLW cases, a **wage cost % of contract cost** figure shows the increase in wage costs as a proportion of the NLW contract cost.

For both the pre/post and the comparative LW-NLW cases, a **labour turnover benefit % of contract cost** figure represents any financial savings generated from reductions in labour turnover, expressed as a proportion of the NLW contract cost.

There were some cases where it was not possible to collect all the data we needed: one employer did not want to release sensitive information about contract costs, another was not able to provide cost data about their in-house service and others didn't necessarily collect data about their spending on training. Moreover, the statistical indicators are based on the assumption that the only difference between the comparative cases is the rate of pay. In practice, of course, there will be additional variations due to contract specification, management culture and expectations, staff demographics and attitudes, and the workplace culture. These make any comparison difficult and the pre/post studies are more reliable in relation to the interpretation of the results. In addition, some of the data was estimated by managers and its quality and reliability is difficult to assess. In all cases, it is also important to recognise that the wider economic situation will have impacted on trends within any particular case study workplace. In sum, this means there is an inevitable concern about the extent to which the effects of the living wage are real or statistical since there are other changes taking place within the cases – or issues related to the data collection – that will also lead to changes in the indicators.

Efforts were made to limit these factors in setting up the comparisons, removing those that were not statistically reliable, and conducting interviews with managers and profiling the workplace to try and identify the reasons for any strong underlying trends in the data.

In the results section of this report we outline our findings, putting a positive sign in the table in cases where the living wage led to an improvement [a benefit] in the indicator from the employer's and/or clients' point of view. In this regard, it was particularly difficult to interpret the training data since a rise in the amount of staff training may indicate that the employer is investing in people and so an increase in training costs may indicate a positive benefit. However, where staff turnover is high and there are large numbers of leavers and starters on a contract, then a rise in training costs may be symptomatic of difficulties retaining staff and may be associated with higher staff turnover. Thus where lower training costs look to be associated with lower staff start rates under living wage cases, this is being interpreted in the analysis as a positive benefit to the living wage case and vice versa. In some cases, the investment in training was actually due to Government-funded schemes that were available for time-limited periods and this played a particularly significant role at one of the living wage case study workplaces.

In order to more fully understand the reasons that employers and clients signed up to the living wage, we also conducted a number of interviews with representatives from the case study firms. These **employer and client interviews** explored the history of the move to the living wage, the rationale behind the decision, the way in which the costs were being managed, the impact on in-house staff and workplace culture, the wider impact on the reputation of the organisation, its position in the market place and business performance. Formal interviews were recorded, transcribed and analysed with 4 client representatives (and in two cases, these interviews involved 3 or more representatives taking part in the discussion and the respondents were also able to talk about other living wage contracts not covered by this research). In addition, however, at least one representative from each of the 8 employers (including the care sector example) were interviewed at least twice during the process of data collection. Notes were taken and written up after these meetings, and some of the information has been included in this report.

In order to get a fuller picture of the impact of the living wage at the case study workplaces, and to explore the impact of the living wage on the workers involved, we also conducted a **questionnaire survey** with 416 of the individuals employed in these firms. The survey was conducted with workers in all the cases listed in Table 4 although the Housing Association was only able to provide one person for interview and this precluded looking

**Table 4: The case studies included in this research**

<b>Sector of employment</b>	<b>Type of employment</b>	<b>Pre/post or comparative cases</b>	<b>Dates for company data collection*</b>	<b>Workforce size*</b>	<b>Workplace sample</b>
<b>Transport services</b>	Sub-contracted service provision	2 comparative cases in cleaning	Year ending 2011 Survey May–June 2011	LW: 1300 (900 in cleaning)  NLW: 400 (cleaning)	LW:42  NLW:40
<b>Grounds work</b>	Sub-contracted service provision	1 pre/post study  1 small NLW comparator case	Year ending 2009 (NLW) v 2010 (LW)  Survey Nov 2010  Year ending 2010 (NLW)	NLW/LW: 100  NLW: 7	NLW/LW:53  NLW:6
<b>Office cleaning (large employer)</b>	Sub-contracted service provision	2 comparative cases	Year ending 2011 Survey Oct–Nov 2010	LW: 59  NLW: 130	LW:35  NLW:108
<b>University cleaning</b>	Sub-contracted service provision	2 comparative cases	Years ending 2010 and 2011  Survey Oct–Nov 2010	LW: 45  NLW: 37	LW:41  NLW:30
<b>Office cleaning (smaller employer)</b>	Sub-contracted service provision	2 comparative cases	Year ending 2011 Survey Oct 2010 (LW)  Survey April 2011 (NLW)	LW: 10  NLW: 11	LW:9  NLW:8
<b>Housing Association</b>	Estate cleaning (in-house)	1 pre/post study	Year ending 2010 (NLW) v 2011 (LW)	NLW/LW: 40	NLW/LW:1
<b>Office cleaning (smallest employer)</b>	Sub-contracted service provision	5 pre/post studies  With 1 NLW comparator	Year ending 2010 (NLW) v 2011 (LW)  Survey April–May 2011	NLW/LW: 100  NLW:6	NLW/LW:33  NLW:6
<b>Total sample size</b>		7 pre/post cases  11 living wage cases  6 non-living wage cases			NLW/LW: 87  LW: 131 (inc 4 additions)  NLW: 198  Total: 416

Note: \*NLW is the non-living wage case; LW is the living wage case

at this workforce in any depth. The responses from this worker were added to the database and treated as a living wage case, but we don't have sufficient data to say anything about the impact of the living wage on the workforce in this example. In addition, one potential case study employer provided access

to 4 of their workers employed on a contract in the voluntary sector. When they later proved unable to supply the statistical data required to be fully compliant with the research, their further input was dropped. However, there was no reason to exclude the 4 interview responses in the larger data base

and they are also classified as living wage workers.

The workplace survey was facilitated by the employers and their clients and took place via a face-to-face interview with workers during working hours. In most cases, researchers were able to sit down in a quiet place to do the interview. In one case, however, researchers had to follow workers around while they were working, so as not to lose time, and this made it harder to undertake the discussion. In some cases, the research interviews were conducted and documented in Spanish, and the data was later translated into English for entry on to the database. In each case study workplace, workers were approached about the research either by their line manager who explained the project and invited responses, or by the researchers who were able to make a direct approach to the staff. In every case, the researchers explained the purpose of the project, assured potential respondents of their anonymity and guaranteed the independence of the research. An information sheet was left with each respondent, in Spanish rather than English if required, reminding them of what had been discussed and the people to contact in the event of any concerns. The research process was governed by standards laid down by Queen Mary's Research Ethics Committee, and this also included agreement that the anonymised data would be stored securely, on a password controlled computer to be used only by the collaborators involved in this project.

In some cases, employers were willing for us to approach all their staff and to secure as many interviews as were possible during agreed interview times. In others, however, either due to concerns about the amount of time being lost, or the size and complexity of the workforce, we made a prior agreement about the numbers of staff to be interviewed. In the end, we secured 416 interviews with workers in living wage and non-living wage firms, as detailed in Table 4. In every case, we used a standard questionnaire designed using Bristol Online Surveys (see Appendix 4). This questionnaire had a number of distinct sections: it opened with questions about respondents' current work including issues such as job title, start date, working hours, rate of pay and previous employment; in living wage workplaces it then moved on to ask a series of questions about how the living wage had impacted on their work, family and life; and in non-living wage workplaces, workers were asked a much shorter question about whether they faced any particular challenges as a result of their pay. All respondents were then asked about their career plans and a series of questions about their health and well-being. The final section of the interview asked more personal questions about their place of birth, time in the UK, nationality, immigration status, ethnicity, education, household circumstances, benefit uptake and social life. A final open question asked respondents if they had any other comments they would like to make, and some of these responses are included in the findings section below. Managers

from one of the employers specifically asked that the questions about immigration status and union membership were not asked of their staff, and we respected this, leaving these sections blank for the workers concerned.

The **health and well-being** questions were designed to facilitate comparison between this group of workers and the wider population. Respondents were asked a general question about their self-reported health (Would you say your general health is: excellent, very good, good, fair or poor). They were then asked 13 questions as published by the WEMWBS psychological well-being score (see Appendix 5). These covered questions concerning optimism about the future, feeling useful, feeling relaxed, feeling interested in other people, having energy to spare, thinking clearly, feeling good about yourself, feeling close to other people, feeling confident, making your own mind up about things, feeling loved, being interested in new things and feeling cheerful. This survey is normally self-administered, but this was not possible in our research. Owing to many respondents' limited English language abilities, and the way in which the survey was conducted via an interview, we could only explore these issues by our interviewers asking the questions. While this will have skewed the data when compared to other published results, it was practised across our survey, and will not have created differences between the living wage and non-living wage workers concerned.

That said, however, the team of interviewers did report that these questions were often difficult to ask and they worried about the quality of some of the answers they were given. This particularly related to the gender dynamics of our interviews whereby the team comprised young women who were often asking older men about their well-being. As one researcher put it in a feedback session: *"It was hard for men to give proper answers ... they would say, 'Yeah, of course I've got energy to spare! Or yeah, I'm always confident, what do you think?'"* Another researcher similarly said that the men were willing to say they were always busy or struggled to be optimistic about the future but: *"when it got to the ones like do you feel loved? It's like, 'What are you doing later?'"* This was a standard finding across the sample but it will reduce the comparisons that can be made between this data and that collected in other research.

The final part of the research design involved an attempt to measure **the impact of the living wage on the income, tax and benefit systems**. While some of the questionnaire survey data has been used to shed light on these questions, we also commissioned the production of tables modelling net income, tax deductions and benefit entitlements, for different household/family types. The data were generated for a range of characteristics including single adults and adults with or without partners, with two or three children. The household/family

**Table 5: Household/family types used in modelling the impact of the living wage on the income, tax and benefit systems, including private and registered social landlords**

Single adult in a shared room
Single adult in a 1 Bed property
Lone parent - two children - 2 Beds - Full childcare
Lone parent - two children - 2 Beds - One childcare
Lone parent - two children - 2 Beds - No childcare
Couple - two children - 2 beds - one working
Couple - two children - 2 beds - both working - Full childcare
Couple - two children - 2 beds - both working - One childcare
Couple - two children - 2 beds - both working - No childcare
Couple - two children - 3 beds - one working
Couple - two children - 3 beds - both working - Full childcare
Couple - two children - 3 beds - both working - One childcare
Couple - two children - 3 beds - both working - No childcare
Couple - three children - 3 beds - one working
Couple - three children - 3 beds - both working - Full childcare
Couple - three children - 3 beds - both working - One childcare
Couple - three children - 3 beds - both working - No childcare

types were modelled to include those in private rented accommodation and those with a registered social landlord, with either 2 or 3 bedrooms, with and without childcare costs, to reflect differences in housing and costs. The family types included are listed in Table 5.

Calculations were for total net income in these different household types for 2011. Net income included the payment of Income Tax and National Insurance where payable. Where benefit take up was indicated, it included Housing Benefit, Council Tax Benefit, Working Tax Credit, Child Tax Credit, Child Benefit, and for calculations of income in 2014, Universal Credit. Net income without benefit take up excluded Working Tax Credit, Housing Benefit, Council Tax Benefit, Child Tax Credit and Child Benefit.<sup>7</sup>

The data were calculated on the basis of 2011 wage rates when the NMW was at £6.08/hr and the London living wage was £8.30/hr. A further measure of disposable income was then calculated on the basis of childcare, transport, council tax and rent being deducted from net income. In relation to these costs, *childcare* was costed on the basis of the number of children multiplied by the hours at work, where the rate of childcare is £4.76 an hour (as published by the Daycare Trust for London). In the case of couples, they were assumed to be working the same hours at the same time and therefore required childcare for that time. *Transport* was priced at the rate for a monthly travel-card,

zones 1-3, which was £53.52 for couples and £26.76 for single people (reduced by £10 a month for the outside London data). *Council Tax* was costed as a fixed rate of £1,250 a year for all the households. *Rent* costs were generated from rates (at 2010 levels) published by the Department for Communities and Local Government.<sup>8</sup> For those living in private rented accommodation, these costs were £85.05 for an adult in a shared room, £192.07 for a 1 bedroom property, £229.30 for a 2 bedroom property and £265.90 for a 3 bedroom property. For those renting from a registered social landlord, these costs dropped considerably to £84.90 for a 1 bedroom property<sup>9</sup>, £84.70 for a 2 bedroom property and £98.22 for a 3 bedroom property. Given the Government's recent announcement that they plan to increase social rents to at least 80% of market value, these differences are likely to reduce over time, ironically, increasing costs that are often borne by the tax-payer.

These data were also manipulated to explore the potential impact of the new benefit changes associated with the Welfare Reform Act, 2012. This Future Benefits Model (developed by Ferret) takes the picture in 2011 and applies future benefit rules to identify the likely impact of changes on future incomes. The net income, in benefit year 2014/2015, is calculated from earnings and benefits, including Universal Credit, Child Benefit and Council Tax support, using the scheme rules as they have been announced and current values for the



elements of the calculation, adjusted for changes in the indexation system.

The data assumes that wages will rise with RPI each year and then looks at changes in benefits. Given the planned shift from RPI to CPI, the value of many benefits is falling in real terms over time. As an example, if a benefit is worth £100 in 2011, under RPI it would be worth £100 in today's value next year as well. However, as Government have moved to CPI indexation an increase in the headline rate of CPI (5.2%) is actually a fall of 0.4% because RPI is 5.6% (meaning that the £100 benefit is actually worth £99.60 in today's value in future). In relation to benefits, or elements of benefits, that have been frozen, this drop in value is much larger, falling by 5.6% (RPI). In the model, these lower figures are used as projections, indicating the impact of benefit changes on current incomes to 2014. The calculations used for this report were produced in November 2011 and further information about these calculations can be found via Ferret Information Systems Ltd.<sup>10</sup>

In the early stages of planning this project we explored the possibility of measuring service standards across the case study workplaces. The idea was to try and measure whether the living wage made a significant difference to workplace standards. We discussed identifying an expert who could make unannounced visits to the case study workplaces and take samples to measure cleanliness, or check the standards of grounds maintenance, and then compute a comparable measure of performance across all our sites. When we discussed this with an expert recommended by the British Institute of Cleaning Science, they raised concerns over the methodology. Office spaces, housing estates and parks are used erratically throughout the day and workers will provide a service at particular times, following established routines that are not necessarily well-matched with the peaks and troughs of service use. Any measurement may just happen to capture cleanliness or park space after particularly heavy use, impacting on the overall scores to the detriment of the staff and the employer. Owing to these difficulties, this aspect of the planned research was subsequently dropped. However, employer and client interviews revealed the extent to which most companies regularly audit service standards via inspections, mystery shoppers or customer complaints. These measurements were discussed during the interviews with clients and employers and any trends – towards improvement or deterioration – were identified in relation to payment of the living wage. Where relevant, these findings are included in the section on client and employer responses below.

### 3. Research findings

This section provides an overview of the research findings looking first at the statistical indicators.

It then explores the employer and client rationale for, and experiences of, the living wage. The penultimate section analyses the sample in relation to differences between respondents in living wage and non-living wage workplaces, and looks at workers' experiences of the living wage in relation to work, finance and family. The final part considers the intersection of the living wage with the income, tax and benefit systems.

#### 3.1 Statistical indicators

Tables 6 and 7 provide a summary of the indicators generated from all the pre/post and comparative case study research. We have separated the findings into two tables: the first (Table 6) documenting the *real costs and benefits* incurred in the *pre/post cases*; and the second (Table 7) applying the *differences in costs and benefits between the living wage and non-living wage case studies*, to the non-living wage case in each pair. This latter table thus looks at differences between comparable living wage and non-living wage workplaces, and then explores the predicted changes in costs and benefits were the non-living wage workplace to adopt the living wage. The generation of these indicators and the raw data on which they are based, is explained further in the research methods section and in Appendix 3.

While the data shown in these tables shed light on the increased cost of these contracts, it is important to remember that such costs are generally a very small part of the client's overall costs. In this regard, the living wage example provided by the large office cleaning contractor represented just 0.6% of the overall cost base of this particular client in 2012. Thus while the wage rate was 25% higher and the real wage costs were 6% higher than was the case at the NLW comparative case, this contract represented a tiny fraction of the costs incurred by the client company that was paying the bills.<sup>11</sup>

Tables 6 and 7 show that the living wage is associated with increased costs associated with higher wages alongside potential savings from reduced rates of labour turnover and sickness. The research found that workers were less likely to leave the workplace when they were paid the living wage and the cases where this was not the case were found to have particular explanations for higher labour turnover rates – one of them being particularly reliant on international students who could only work for a limited length of time as allowed on their visa (the university case study) and another undergoing a period of heavy redundancies and workplace change following a change in contract (the large office cleaning contract). On average, rates of labour turnover went down by 25%, although actual rates varied greatly across the cases, as shown in Table 6.

As indicated in Tables 6 and 7, the reductions in labour turnover secured financial savings for the

**Table 6: Summary of the impact of the London Living Wage on costs and benefits in the pre/post case study firms**

Indicator	Grounds	Housing	Smallest Clean G	Smallest Clean H	Smallest Clean GLN	Smallest Clean Q	Smallest Clean S	All LW Implementers
Total contract cost per unit area	-	-	-	-	+	-	-	-
Total contract cost per worker hour (operative)	-	na	-	-	-	-	-	-
Total contract cost per unit of wage cost (operative)	-	na	-	+	+	-	+	=
Recruitment cost per worker	+	na	+	-	+	+	-	+
Staff leaving rate	+	+	+	=	+	+	=	+
Staff start rate	+	na	+	-	+	+	-	+
Training costs	+	na	na	na	na	na	na	+
Sickness rate	=	=	na	na	na	na	na	=
Wage cost % of contract cost (-)	7	na	0.2	7.2	1.5	15.4	6.6	6
Wage cost % change (+)	20	39	1	26	5	31	26	21
Labour turnover benefit % of contract cost (+)	0.2	na	0.4	0	0.2	0.7	0	0.3
Wage rate % change	18	26	21	26	31	31	26	26
Contract cost % change	1	na	33	4	-12	33	4	11
Labour turnover % change	-4	-6	-45	0	-67	-50	0	-25

Note: The 'All LW Implementers' column uses a 7 case average where data is available and a 6 case average where data is not available. The use of a negative sign (-) denotes a cost associated with the living wage and a positive sign (+) denotes a benefit, except in the case GLN contract cost % change where the (-) denotes a fall in contract cost. All 'na' entries relate to indicators for which the required data was not available. Labour turnover % change is based on the change in the staff leaving rate.

employers and clients but these were not sufficient to out-weigh any increase in costs. In the pre/post case study research, the average savings from reduced labour turnover represented just 0.3% of the pre-LW contract costs, ranging from zero to 0.7% across the 6 cases for which data were generated (Table 6). In the comparative cases, the average savings were 1% of the NLW contract costs, ranging from zero to 2% in the transport services cleaning example (Table 7). The minor financial benefits from reduced labour turnover reflect the relatively low cost of labour recruitment in our case study firms. The raw data in Appendix 3 indicate that most employers were able to recruit new cleaners or grounds workers for a few hundred pounds (including the administrative labour, managerial processes, training and uniform costs).

The data in Tables 6 and 7 show that the move to, or comparison with, the living wage involved an average wage premium of 26% in the pre/post

cases and 23% in the comparative cases. These changes in wage costs could deter would-be implementers of the living wage but the research also exposed the extent to which the impact of these increased wage costs was being managed down by most employers and clients. When we look at the cases where the living wage was actually implemented (Table 6), each case has a different configuration of costs. Whereas the wage rate went up across the board, the changes in overall contract costs were much more variable. There were two cases where contract costs went up by 33% (smallest clean Q and G); others where overall costs increased very little despite the move to the living wage (smallest clean S and H, and the grounds contract); and finally, one case (smallest clean GLN) where the overall cost of the contract went down by 12%. In this latter case the client decided to reduce workers' hours when they introduced the living wage while also reducing the frequencies of some other jobs that were part of the contract such as window cleaning. Thus although the cost of cleaners' wage

**Table 7: Summary of the impact of the London Living Wage on costs and benefits in the comparison case study firms**

Indicator	Transport	Large Office	University Cleaning*	Small Office	All non-implementer cases
Total contract cost per unit area	na	+	na	+	-
Total contract cost per worker hour	-	na	na	-	-
Total contract cost per wage cost	-	na	na	-	-
Recruitment cost per worker	+	na	-	+	+
Staff leaving rate	+	-	-	+	+
Staff start rate	+	na	-	+	+
Training costs	+	na	na	na	+
Sickness rate	+	+	-	+	+
Wage cost % of contract cost (-)*	21	6	17	7	11
Wage rate % change	32	25	17	19	23
Labour turnover benefit % of contract cost(+)*	2	0.1	0	1	1

Note: \*The University Cleaning case is expressed as a proportion of NLW wage cost, rather than NLW contract cost and produces higher proportions using this smaller sized denominator. All LW non-implementer averages are 3 case only and exclude the University Cleaning case, except wage rate % change, which includes all 4 non-implementer cases. The use of a negative sign (-) denotes a cost associated with the living wage and a positive sign (+) denotes a benefit.

increased as a result of the living wage, the overall cost of the contract went down.

In one of these cases (smallest clean G), the move to the living wage was associated with an increase in contract costs (by 33%) but was actually neutral in relation to wage costs and the effect of reduced labour turnover rates. As outlined in Table 6 and Appendix 3, cleaning wage costs increased by just 0.2% in relation to the non-living wage contract costs as the move to the living wage was accompanied by a cut in headcount and a reduction in hours. This would suggest that the same area is being cleaned by a smaller number of workers. At the same time, the living wage period had a reduction in the rate of labour turnover that saved 0.4% of the pre-living wage contract costs. However, rather than serving to reduce the overall contract costs, the price of this contract increased. This reflects increases in other costs – associated with supplies and additional services – and a potential increase in margins for the contractor.

The majority of these cases thus defy the expectation of dramatic increases in costs as a result of the living wage and demonstrate that wages are only one part of the explanation for costs. As the largest pre/post case study (in grounds) demonstrates very well, wage rates went up by 18%, overall wage costs went up by 7% but overall contract costs went up by just 1% in the living wage year. Smallest clean H presents a similar story: the wage rate increased by 26%, wage costs went up by 7.2% but overall contract costs went up by just

4% (Table 6). These cases demonstrate the ways in which the clients and employers were able to keep control of costs by adjusting other aspects of the work and the contract specification. In both of these cases, for example, the differentials for staff employed above the lowest pay bands were not raised in line with their colleagues.

When we look at the comparative cases in Table 7, a similar picture emerges. Whereas the wage premium associated with the living wage varied from 17% (in university cleaning) to 32% (in transport services where the comparative NLW case paid the NMW), and the average wage increase was 23%, these increased wage costs represented different proportions of the contract costs in the NLW case. On average, the LW increased the NLW contract costs by 11% but this ranged from 6% in the large office cleaning example to 21% in the transport services case. As noted above, the pattern of costs will depend upon the extent of wage differentials between the two cases, the importance of labour costs relative to the contract itself and the control that is exercised over any additional costs. However, it is highly significant that the implementers (Table 6) had lower rates of living wage costs than the comparative cases (Table 7). In the former cases, average costs increased by 6% whereas in the latter, the differential was 11%. This suggests that any agreement to pay the living wage is likely to increase the scrutiny of contracts, their management, the nature and organisation of work. Indeed, our interviews with employers and clients revealed a number of ways in which the living wage

had prompted this response and their comments are outlined in the following section.

Given the divergence in corporate experiences of costs and benefits associated with the living wage, it is worth exploring the cases where overall costs were controlled. The largest pre/post case study in this research is particularly important in this respect. The grounds case comprised comparison of costs in 2009 (NLW) with those in 2010 (LW) and as indicated in Table 6 (see also Appendix 3), the increased costs associated with the living wage represented just 1% of the cost of the NLW year. Given that the 100 workers had an average wage increase of £1.25 per hour, that there was a slight increase in working hours, and inflation will have had an impact, the cost-increase is remarkably low. This was because the company appears to be making reduced margins on the work they were doing. Revenue per pound spent on wage costs fell in the living wage year compared to the non-living wage year, from £1.93 to £1.70. In this case, higher wage costs were being absorbed by reductions in non-wage costs and/or reductions in profit.

This data refers to the contract awarded to provide parks services covering 1.69 million m<sup>2</sup>, including 46 parks and 150 open spaces (eg. around housing estates) for one Local Authority (LA). The 100 staff involved in this work were employed as park keepers (in the summer), grounds-workers who looked after grass-cutting and flower beds, and in litter and graffiti removal teams. The contractor had secured this contract for the decade between 2000 and 2010 and when they took it on in 2000, the transfer was accompanied by a £1.5 million investment programme to improve the parks in the borough. In late 2009, however, the contractor had been asked to retender for the work and had to submit two prices for the work: one at the LW and the other constructed in the more usual fashion. The Authority was publicly committed to paying the LW whenever possible and they awarded the contract to this firm, expecting them to pay the LW rate. However, the total cost increase was just £26,641 on the 2009 price, 1% of costs, despite moving to the LW in early 2010 (see Appendix 3).

In the new contract there was some scope for the contractor to earn extra income from managing park improvements but the contractor was also expected to find 3% annual savings in the fixed price agreed. The Local Authority's client team were also operating a rigorous contract monitoring regime that had significant cost penalties for under-performance. Client officers used a check list to deduct points for anything not in order, down to the scale of particular flower beds, and were also checking the paperwork held by the contractor (for Health and Safety and responses to complaints) to generate deductions from the cost for the contract. These penalties were accumulated and deducted from the money given to the contractor each month. Our data analysis (see Appendix 3) shows that the

contract revenue per worker hour was lower under the living wage contract, falling from £15.47 in 2009 to £14.90 per worker hour in 2010. In another way of looking at it, revenue per £ spent on wage costs fell from £1.93 to £1.70 under the living wage contract.

At the time of research, the contract manager was concerned that his company had not fully anticipated the costs of the living wage. They were providing slightly more hours to get the work completed, and they also faced a particular challenge in trying to respect established differentials between the lowest paid workers and their supervisors and managers. The company had to pay the going rates for the TUPE-covered staff,<sup>12</sup> but they also needed to reward their supervisors to secure their loyalty. Both further eroded their margins. In addition, the company had restructured the wage arrangements in order to introduce the living wage and they abolished a long-established bonus and incorporated the money into the basic wage rate. The majority of non-TUPE staff had moved from a pay rate of £7 an hour in 2009, to £7.60 an hour from 1 March 2010 but in so doing, they lost their £14 a week bonus. When they moved to the LW, their hours were also cut by one hour a week and at the time of the research, they were employed to work 40 hours a week.

In our comparative cases, the difference in the wage rate between the comparisons made a very significant difference to the overall cost differences between the two cases. The clearest demonstration of this was in the transport services case where the 2011 wages (in May, June and July when the interviews were conducted) were set at the NMW in the non-living wage case and at £7.85 in the living wage case.<sup>13</sup> As shown in Appendix 3, the cost of the contract per worker hour per year differed by £8.26. However, the client was also paying more for the contract in relation to the unit of operative wage cost in the living wage case (£2.24 versus £1.57) eroding some of these differences in the costs that were born by the contractor. As partial compensation, rates of staff resignation, new starters and sickness were considerably lower in the living wage case.

In addition, there was one example where the living wage contract was cheaper than the non-living wage comparison. The large office cleaning contractor provided two case studies that varied in wage rates by well over a pound and yet the client was paying less per unit of cleaned floor space for the living wage than for the non-living wage case (£2.37 versus £3.43, see Appendix 3). This difference largely reflected the approach of the clients in the two cases. In the non-living wage case, the contract had been held for a long time and costs had not been reviewed. In contrast, the contracting process to win the contract at the living wage workplace had been rigorously managed by the client, and the contractor had secured the UK-wide contract in June 2009. The contractor secured this

work partly on the basis of promised cost savings and improved productivity. This involved reducing the number of staff and the hours they worked. Whereas the previous contractor used to employ 101 cleaners in London, providing 2490 hours of cleaning a week (approximately 25 hours per cleaner per week), our case study contractor was employing just 59 staff to do 1170 hours of cleaning a week (approximately 20 hours per cleaner per week). Under TUPE arrangements the contractor had to employ all 101 cleaners who wanted to transfer in June 2009 but subsequently had to make a large number of redundancies. These were only completed at the end of March 2010 and most of the extra costs were borne by the contractor and not by the client. In addition, the client operated a strong inspection and penalty regime that also kept margins tight. The client was getting their cleaning at a cheaper rate than was the case at the non-living wage case (see Appendix 3).

Although the contractor that provided two comparative cases in university cleaning was not willing to reveal any information about contract costs, these data were very revealing in relation to labour turnover rates. Rather like the large office cleaning contracts outlined above, the data provided for the university cleaning contracts were counter-intuitive: higher wages had not led to reduced resignation rates amongst staff compared to the NLW case (see Appendix 3). Indeed, in 2010, the leaving rate was 24 persons per 100 employed at the non-living wage contract in contrast to 40 persons at the living wage case. In 2011, this difference was repeated with rates of 2.86 persons per 100 employed versus 17.78 at the living wage case.

Interviews with managers and supervisors helped to explain these particular trends. The comparative non-living wage workplace was steered by the client to reduce staff numbers and increase their hours (the contract employed 37 cleaners in 2009-10 falling to 35 cleaners in 2010-11), and in contrast, the living wage workplace had not made any changes in staffing arrangements.<sup>14</sup> Furthermore, the living wage workplace had a history of employing international students to work as cleaners and the resignation rate reflected the expiry of immigration visas rather more than workers' feelings about their employment.

In sum, this part of the research revealed that the move to the living wage was associated with increased costs that were less than might be expected in relation to the headline changes in wages. In addition, the cost increases were less in the pre/post cases than the comparative case studies, suggesting that the move to the living wage precipitated an examination of costs and renewed efforts to keep the costs down. Overall, costs associated with the living wage were clearly related to the degree of wage increase, the importance of labour in overall costs, any changes in hours and staffing, the degree to which labour turnover and sickness rates fell, and the impact of immigration

controls. However, the research also highlighted the role of employers and clients in managing costs and this is further illuminated in the following section.

### **3.2 The employer and client perspective**

As intimated above, the process of implementing the living wage and the outcomes achieved varied considerably across our case study firms and in this section, we draw upon interview material to further illuminate these differences and the wider lessons that can be drawn from the data. We look first at the way in which the living wage was implemented and then move on to explore the impact of the living wage on costs, performance and reputation.

#### **3.2.1 The process of implementation**

In almost all our cases, the initiative to move to the living wage was made by the clients and/or elected politicians who then sought to implement it across their operations. However, the smallest cleaning contractor had also taken the initiative to promote the living wage to their existing clients and when making tenders for any new work. In some of these cases, the living wage pitch had met a positive response from clients who had not otherwise considered it. When we interviewed the procurement manager from a French-owned financial services firm that was using the smallest cleaning contractor, she explained that they were very pleased to agree to the living wage. Being a French-owned company, they had to publish an annual statement about their corporate and social responsibility (CSR) and were happy to report that they were paying the living wage to all their workers in London. As she explained:

*"X [the smallest cleaning contractor] was the only cleaning company that actually presented a tender with that [the LW] including in the price. All the other companies that tendered for us were paying their staff quite a low wage, and that actually put us off. It was quite interesting when I had all the tenders, people were going ... we can cut the costs by this, and this, and this ... Sorry, we're not interested!"*

The fact that the living wage cleaning contractor subsequently provided a service that was also *"the most fantastic cleaning company we've ever employed"* helped to reinforce the idea that paying the living wage secured a much better service.

In contrast, however, the bulk of our examples were led by the client or the employer and not the contractor. In these cases, a private or public sector organisation decided to move to the living wage and then had to find a way of making it happen. In most cases, they decided to make the living wage mandatory as part of the procurement process, specifying that staff had to be paid at least the living wage and then leaving all decisions about differentials to the tendering firms. One procurement manager in the private sector explained that they agreed the contract on costs (labour, materials and

supplies) and then paid *“an overhead and profit mark up on top of those costs.”* When tendering, the prices submitted were determined by estimates about the number of staff required to clean the area, wage differentials for higher paid supervisors and managers, and the overheads and profit margin. When evaluating such tenders, procurement managers tended to look at the balance of costs, quality and sustainability. As long as the contractor had the capacity to deliver the service, the subsequent decisions tended to be made in relation to promises about quality, culture and performance. One client paid particular importance to the living wage, asking whether it was paid to the staff directly employed by the contractor and looking at *“their road map for getting accreditation for the living wage.”* As such, they were starting to influence the market for contract cleaning by rewarding companies that sought to increase the wages they paid to their own staff.

This client had decided to pay for the living wage while also keeping a close eye on any increase in costs. They paid monthly invoices that covered the costs and in line with a number of our other examples, if the living wage went up, they expected to pay more to the contractor to cover the costs. In contrast, however, two of our case studies in the public sector had agreed a fixed price for their contracted services. In one case, the living wage was mandated as part of the procurement process and contractors had to bid for a five year contract by factoring in assumptions about any future changes in costs. In the other, the client asked all contractors to submit two tenders: one at the living wage and one at a market-led rate. This allowed the appointed and elected officers involved to fully explore the differences between the contractors, and the significance of the London living wage, in making their decision. As the procurement officer explained, the Labour Government’s introduction of ‘best value’ allowed them: *“The option to offset the price against quality criteria for the first time ever, and we could set thresholds whereby if you didn’t make those quality thresholds, we wouldn’t even look at your price.”* Given that this organisation had goals in relation to the health and well-being of the wider community, they could consider wages as part of this broader agenda. They were particularly aware of the fact that many of the workers lived in the borough and increased spending would bolster the local economy.

Despite the differences in the way in which these contracting processes was handled, however, both of the large public sector organisations agreed a fixed price contract with their contractor – for 5 years in the case of transport services and 10 years in relation to the grounds work contract (albeit that it included a clause for a break after 5 years of the contract). From the point of view of the client – and indirectly, the taxpayer – this ensured greater control over costs, but from the point of view of the contractors, it substantially increased their risks. The contractors had to submit competitive bids

without being fully cognisant of future changes in costs (to the living wage rate, employment benefits, inflation and materials). In the case of transport services, the client reported that they had agreed an annual increase to cover changes in line with the Retail Price Index (RPI) but the living wage had increased by more than the rate of RPI in at least one of the years of the contract. As one of the client managers put it: *“It’s cost them a lot of money ... [and] they’ve spent the time ever since that increase trying to recover the money by other means.”* This respondent later told us that: *“They [the contractor] aim to win the contract in the first place, that is their prime target to start off with and then they worry about the rest of it. They expect people to be sympathetic and roll over, but we’re not.”* In a parallel example, the tender for the grounds service contract similarly failed to factor in the real costs of maintaining wage differentials above the living wage, and this was costing the contractor money that had to be taken out of their margins.

Without the option of getting the client to pay for any increase in costs, these contractors had to bear the financial risk and then face the managerial challenge of finding ways of recouping their losses. In relation to the grounds contract this was further hindered by the client’s inspection regime whereby penalties were imposed for not meeting standards. If the contractor tried to reduce head count in order to reduce costs, they were likely to encounter increased penalties from the client and complaints from the public. Indeed, in this case, the client had a team of officers responsible for checking the work that was done, and that standards were good, before any money was paid. In addition, the procurement officer involved also told us that: *“We’ve had to put in extra clauses about how we check that they are paying their staff the living wage as we are not going to give them extra money and find it in their profits. We have a mechanism for checking their books and accounts to ensure that workers are paid.”* This client also had the option to negotiate any reductions in service if they needed to make savings and reduce the price of the contract. While the contractor took on the risks associated with any increase in costs, they were subject to unpredictable demands for a reduction in service and the associated further reductions in margins.

In the case of transport services, a team of mystery shoppers were deployed to visit stations, measuring levels of cleanliness and producing statistical indicators of local performance. While this inspection regime did not impact on the money paid to contractors, it fuelled negotiations between the client and their contractors over the levels of staffing and service. Tensions had arisen over staffing at a particular station, and as a result, the contractor was now expected to put forward a business case in order to justify any changes, before they took place. Given the amount of money involved in the contract, and its potential implications for winning other work, the contractor had to comply with any reasonable

requests from the client.

These examples highlight the way in which any costs associated with the living wage have to be considered in light of the power relations between the clients and their contractors, and with regard to the way in which the clients chose to manage their service. At one private sector client, the procurement officer told us that it was always possible to increase wages while also managing down any impact on costs. As he put it: *“If you approach the position sensibly, then you can work to make the cost impact zero”* later explaining that:

*“I honestly believe that if you’re a reasonably sized organisation, you can make the transition from a non-living wage to a living wage providing that you look at it as a road map ... Give yourself time to assess where you can make efficiencies ... If you give yourself a period of time to review your cost base and understand how you can take a longer term strategic approach to it, I honestly think it’s achievable in most organisations.”*

In this case, the client had awarded two large contracts which mandated the living wage across the UK. For cleaning, organisational efficiencies were agreed with the contractor when they won the contract and these had secured reductions in costs alongside increases in wages. For catering, similar changes in organisation had been accompanied by a slight increase in the cost of the food. Managers had to explain the reason for the increase in the cost of the food to their staff but they reported that: *“it takes a pretty soulless and heartless person to counteract the argument that we’ve put those prices up to cover the cost of the living wage increases, because we support the living wage.”*

For this client, their expertise in facilities management was critical to the implementation of the living wage and their control of the costs. As the respondent explained: *“I think you’ll find that the organisations that have really made the living wage work are those that invest properly in facilities management expertise ... You have to have knowledge of how you can manage a profit and loss account for a facilities business to understand how you can make it self-funding.”* Not surprisingly, and as in the case of the grounds contract, this client completed regular performance related inspections that could generate income penalties for the contractors. For this client, wages were the key that unlocked potential benefits in performance that could not be achieved via alternative means and while the costs might go up, they could subsequently be managed down while simultaneously securing improvements due to the impact of wages on staff, as is outlined further below.

### **3.2.2 Living wage outcomes**

When asked about the impact of the living wage on service standards, all of the clients interviewed

reported improvements in the stability, attitudes and characteristics of the workers doing the jobs. As one respondent put it: *“The more you pay people, the harder people work and the more dedicated they are to the job and you can achieve a higher rate of efficiency in cleaning by paying people more.”*

The living wage was also found to attract better staff to the job. As the contract manager in transport services put it: *“As far as we’re concerned, the more money they pay, the better quality of staff we’re likely to get, and the more they’re likely to clean.”* Since moving to the living wage, this respondent felt that they had attracted more highly educated and disciplined workers who could take initiative. He told us: *“You don’t want someone who works like a robot [meaning] they clean this carpet every day. You really want someone who comes in and says ‘The carpet doesn’t need cleaning today, let me clean the walls instead’ ... You need someone who has some sort of sensibility about the way they go about their role.”*

When asked about how this compared with the service in the pre-living wage period, the same contract manager told us: *“It was a different story, it was much more hit and miss in relation to the quality of the people they had. I mean the people were not so disciplined ... they just didn’t care as much.”* Similarly, the manager at the French-owned financial services firm described how their previous cleaning firm used to send just one worker to clean on his own without any supervision. This cleaner had been seen sitting and reading the paper, and having a coffee, when he was supposed to be working. In contrast, the current contractor provided a team of people who worked hard to a much higher level of service.

In addition, and reinforcing the statistical data outlined above, paying higher wages was argued to reduce labour turnover and further assist in reducing the costs of providing the service. As one private sector procurement manager put it: *“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.”*

These benefits were argued to be much easier to see in interactive, customer-facing roles such as catering, park keeping and reception. While it might be difficult to see the improvements in cleaning, one respondent told us that: *“Everyone sees the benefit of a highly motivated catering operation because it’s much more in their faces when they go for lunch ... [And in contrast] There’s always an element to the cleaning operation which has to be done out of hours when a lot of people aren’t around. The general user doesn’t necessarily see the benefit of the living wage ... [but the] users see the benefit of us paying the living wage to the caterers.”*

The reduced rate of labour turnover also allowed stronger relationships to develop between the

in-house and contracted workers and for one procurement manager, this related directly to the issue of trust:

*"I think we trust our cleaners more. I think in the past there's always been that thing if something goes missing in the office you blame the cleaner, which is grossly unfair but sometimes quite valid. We haven't had an occasion where anybody's actually blamed our cleaners at all. They see the same person all the time and they build up a relationship, so if you come in on an early shift, and you're here at 7.30 in the morning, you see that same cleaner and you get to know them and there's a bit more of a personal relationship. I think they stay working because they're being paid properly. Also the quality and standard of their work is better, they don't have to do three jobs a day because they're being properly paid for the one that they do."*

This manager also found advantages in being able to spot the talent and ability of those employed by the cleaning contractor. She told us that they were now employing one of the cleaners in additional roles: *"She's got two degrees in Hungary, she's a really highly qualified person who's come to London because they can't work in Hungary in her chosen profession until the English is of a certain standard. They're here in an office environment, they're talking to English people every day. They're learning. They're doing a job that may be slightly beneath them but they're doing it very well and we're giving them the opportunities to talk to people, sit on reception, do admin tasks for us."*

The research also exposed the extent to which the living wage was bolstering the clients' reputations. As this private sector procurement officer explained, the living wage *"is very reflective of our brand and our values"* and he later described the positive benefits on their reputation across the services sector:

*"When we go out and talk about the benefits of the living wage ... we're actually promoting X's [client's] brand as a responsible organisation. As we go further afield across the facilities and services industries and promote the benefits of the living wage and what it's done for us, we are also promoting X's brand as a responsible employer or client."*

In this case, the client firm was also a supplier to different parts of the services sector and the respondents believed that paying the living wage was a factor in their ability to secure additional work.

More than this, however, this organisation had concrete evidence that the living wage influenced their in-house recruitment. As one of their senior managers explained: *"CSR is a material factor in the decisions made by graduates about employment and the living wage is featured in our graduate recruitment offer, website, induction and on-going communication by our Head of HR. It is always*

*one of the top 3 reasons why people join our firm (even following the financial crisis of 2008)."* While the living wage delivered improvements in service standards, reputation and profile, it also helped to ensure their recruitment of the best quality in-house professional staff.

Although less able to quantify this, the other respondents made similar points saying that their employees were generally in favour of moving to the living wage as it reinforced their sense of working for a caring employer. As the procurement officer from the French-owned financial services firm told us: *"Generally X [the client] care about who they employ and how much they pay and do look after their staff. That extends to the people that clean the office and I think that's ... respectful."* Similarly, the respondent from the transport services client said: *"My team work very closely with the contractor ... They form a good relationship with them, after all they're dependent upon them doing a good job. It's a good relationship and I'm happy for them [the staff] to earn as much as they can."* Local Authority managers reported that the living wage had been supported by their local trade unions and this had improved political relationships in the borough more widely.

The issue of relationships came up in a number of the interviews as clients also reported that paying the living wage had helped them develop better relations with their contractors. All were happy to be used as *"a showcase client"* and this helped their contractors to win tenders elsewhere. As one manager told us: *"We're continually asked to provide references for them on the quality of the work and the nature of the relationship ... and generally the relationship is good and the quality of the work is good and we're able to give positive information back."* However, the research also revealed the extent to which living wage clients and employers were embedded in peer networks (with other financial services firms, local authorities or universities for example) and these also acted as vehicles for disseminating best practice. As the procurement manager working at the council responsible for the grounds contract told us: *"I've been phoned up by numerous other councils, not just London, but all over the UK."* These relationships may prove critical to the future impact of the living wage across the UK. Moreover, at the time of interview, this organisation was working with two other local authorities to explore the joint procurement of a meals-on-wheels contract, and they had already agreed to include a living wage tender. If this contract is subsequently agreed at the living wage price, it would then act as a pilot for the living wage in these neighbouring boroughs.

As we have seen in relation to the fixed price contracts, the research exposed the extent to which one of the critical issues facing potential living wage clients and employers is their lack of control over the level, and the rate of increase, of the living



wage. None of the managers interviewed were reluctant to abandon control of a major part of their cost base to the Mayor of London and the Greater London Authority, or to academics at Loughborough University, but they could understand those who do have concerns. One procurement manager highlighted this, suggesting that the living wage campaigners needed to do more to alleviate these concerns:

*“I think there’s been a lack of understanding about how the living wage is calculated. I think people think that Boris Johnson can just decide what the living wage in London’s going to be and that this has an automatic fall out across the country. I think a bit more promotion about the method of calculation and the fact that it’s actually based on the economy and not on one person’s electoral agenda [would help] ... In reality it’s there to support all the good things we’ve been talking about.”*

In sum, the employer and client interviews exposed the extent to which the implementation of the living wage is shaped by the power relations and negotiations between the client and the contractor, and the culture of these organisations. In most cases, the costs associated with the living wage were being managed through a fixed price contract, and/or a sharper inspection regime (with associated penalties) and/or in the knowledge that a better service was being provided. The outcomes of the particular cases were determined by the costs involved and the pressure on costs (via the Treasury or the shareholders or the internal management culture). In every case, the decision to move towards the living wage was made on ethical and/or reputational grounds, before the issue of costs

was explored. Managers were also able to point to benefits associated with the living wage in relation to the stability and quality of the labour force and their performance, as well as the impact on in-house staff and the reputation of their brand and/or organisation.

### 3.3 The workplace survey

Our survey of 416 workers included a fairly even balance of respondents from living wage (219 or 52.6% of the sample) and non-living wage (197 or 47.4% of the sample) workplaces. Of those working in living wage workplaces, 116 workers or 52.9% of the affected respondents, had been employed in the workplace when it went living wage. This rate varied considerably across the different workplaces including only 9 from 42 respondents (21.4% of the sample) employed in transport services; 46 people (87% of those sampled) at the large grounds contract; 11 of the 35 respondents (31.4% of those sampled) at the large cleaning company; and 12 of the 35 respondents (34% of those sampled) in university cleaning. These rates were affected by the date when the workplace moved to become a living wage employer and the speed of labour turnover, which as we saw in relation to the statistical indicators, was relatively high at the living wage workplace serviced by the large cleaning contractor and in relation to the example in the university sector.

The survey data is analysed in three parts: the first compares the profiles of workers in living wage and non-living wage workplaces; the second looks at the health and well-being of the two groups of workers; and

**Table 8: Significant (or otherwise) differences between workers in living wage and non-living wage workplaces**

Significant differences *	Non-significant differences
Age*	Gender
Time in workplace	Immigration status
Time with employer	Civic participation
Weekly hours	Current accommodation type
Average wage rate for the job	If children under 18 living at home
Finding the job	If claim benefits
Region of birth	If relevant, wages at the second job
Ethnicity	Career aspirations for the future
Time in the UK	General health
Education level	
Partner living at home*	
Having a second job*	
Wages at the previous job	
Well-being	

\*differences are significant at the 99% level except where indicated by \* which denotes 95% significance (and for further explanation, please see Appendix 6)

the final part focuses on the impact of the living wage on workers' feelings about work, finance and family.

### **3.3.1 The profile of workers in living wage and non-living wage workplaces**

Our research analysis involved exploring the dataset to identify significant (or otherwise) differences between the workers employed in living wage and non-living wage workplaces. As outlined in Table 8, the majority of characteristics were significantly differentiated by workplace type.

Our sample included more men (257 or 61.8% of the sample) than women (159 or 38.2% of the sample) but as indicated in Table 8, gender did not differ significantly by workplace-type. The majority of the sample was aged below 44 years old, but there were some significant differences (to the 95% level) between living wage and non-living wage workers (see Table 9).

As illustrated in Figures 1 and 2, and Table 10, the overwhelming majority of the survey respondents were born outside the UK (359 people or 86.3%). The survey included workers from 43 different countries in the non-living wage workplaces and 37 different countries of origin in the living wage workplaces (including the UK, in both cases). As shown in the maps, a greater proportion of workers in non-living wage workplaces were from Africa than was the case in living wage workplaces where greater proportions were born in the UK and the European Union (EU). These differences were clear when we looked at the region of birth. There were statistically significant differences in the geographical origins of workers in living wage and non-living wage workplaces, with greater proportions of the workforce in non-living wage workplaces originating in Africa (Table 11). These workplaces also had a lower rate of people born inside the EU, and relatedly, higher numbers of those with Indefinite Leave to Remain (Table 12). Rather surprisingly, perhaps, the differences in the immigration status of workers in living wage and non-living wage workplaces (Table 12) were not statistically significant. This appears to be because those born outside the EU have later secured EU citizenship either in the UK or elsewhere in Europe.

In sum, these findings would seem to suggest that *either* the living wage is helping to 'filter' the labour market whereby those born in the EU are better able to access higher waged work *or* that these workers are more able to organise themselves to secure a living wage. In practice, it is likely to be a combination of both.

In the sample as a whole, as many as 51.3% of those born abroad had been in the UK for up to 5 years but as might be expected, this also varied by workplace (see Table 13). Counter-intuitively, those in living wage workplaces had been in the UK for *less time* than those in non-living wage workplaces. This appears to be due to the way in which country

of birth influenced patterns of employment. As an example, the workplace with the greatest proportion of workers who had been in the UK for less than 5 years was the transport services living wage case. As many as 74% of those working at this example had been in the country for less than five years and most of these workers were born in Europe. As many as 25 people from the sample of 40 (62.5%) were Bulgarian and another 4 people (11%) were from Romania and Moldova. Given the recent accession of these countries to the EU, this population is relatively new to the UK, but they were being channelled into living wage jobs. In contrast, as many as 39 of the 107 respondents (35%) interviewed at the non-living wage case study managed by the large cleaning contractor had been in the UK for more than 10 years, and most of these workers were from African countries. The research thus suggests that for those entering lower paid employment, European-born immigrants tend to be able to access better paid work than is available to those born outside the EU.

The sample population had strikingly high levels of education (see Table 14) and the living wage workforce contained a higher proportion of university graduates and post-graduates than the population in the non-living wage workplaces. As many as a quarter of the workers in living wage workplaces (24%) had a university degree or postgraduate degree in contrast to just over a tenth (13%) of those in non-living wage workplaces. This may well reflect the improved employment opportunities of those with higher levels of education although there were also great variations between particular workplaces. Our cases ranged from the small grounds non-living wage workplace where no one had a university education, to just over half (5 of 9) of the respondents at the living wage workplace managed by the small cleaning contractor having a university degree or postgraduate experience.

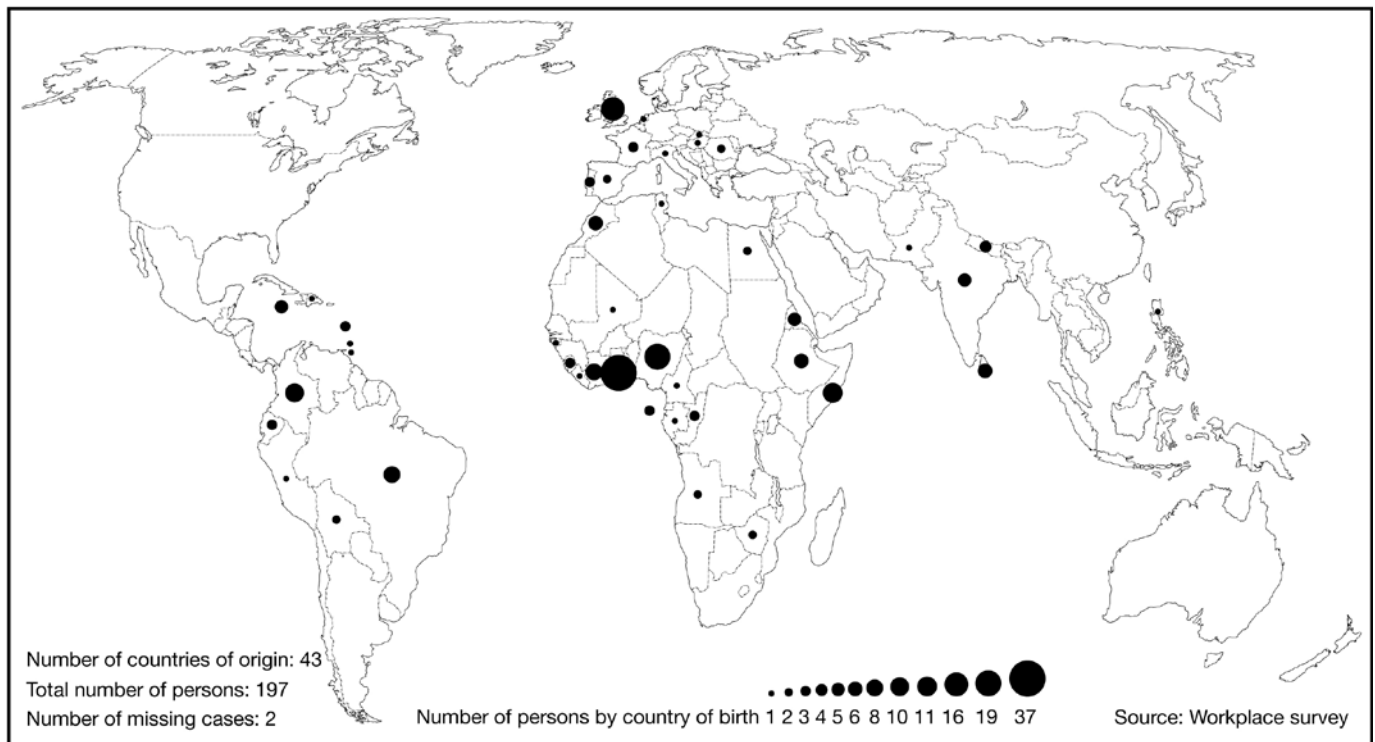
Such patterns of employment could also reflect established social networks and routes into work and when we asked respondents about the way they found out about their current employment, most had done so through a word-of-mouth contact although significantly greater numbers of workers in the living wage workplaces had found their work through an advert or an agency (Table 15). A considerable number of the foreign-born, university educated, European citizens we encountered in transport services had been recruited via an agency and this reflects the differentiation of these workers in the contemporary labour market.

Respondents were asked a number of questions about their accommodation and their family circumstances, and there were no significant differences in the proportions of living wage and non-living wage workers who lived in particular forms of accommodation. The majority of the sample were living in private rented accommodation (60.8%), a smaller group were in social housing

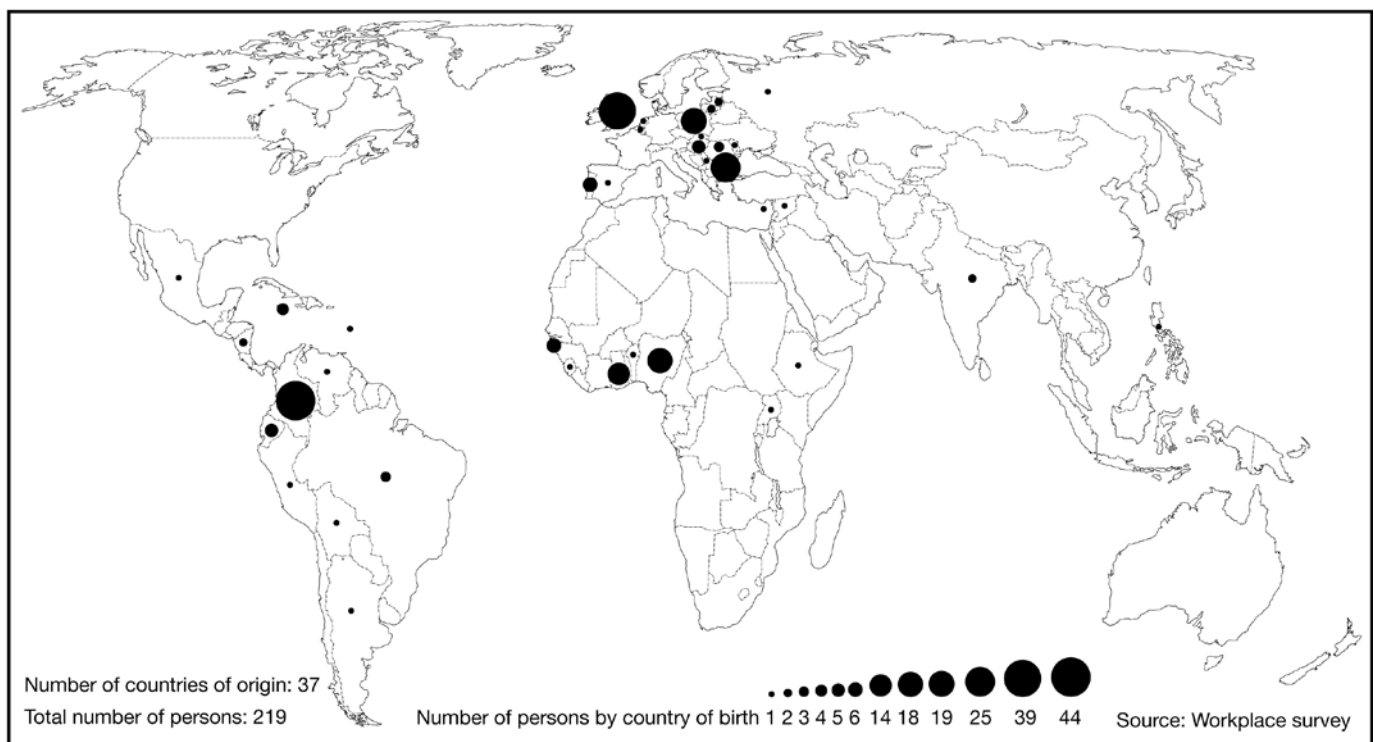
**Table 9: Age of respondents in living wage and non-living wage workplaces**

Workplace	<30 yrs (%)	30-44 yrs (%)	45-59 yrs (%)	60+ yrs (%)	Number of respondents
Living wage	28	39	32	2	212
Non-living wage	22	44	28	7	193
Total					405

**Figure 1:**  
Country of birth of workers in non-living wage workplaces



**Figure 2:**  
Country of birth of workers in living wage workplaces



**Table 10: Workers born outside-the UK**

Workplace	Yes (%)	No (%)	Number of respondents
Living wage	82	18	218
Non-living wage	92	8	196
Total			414

**Table 11: Region of birth**

Workplace	UK (%)	EU (%)	Latin America (%)	Africa (%)	Other (%)	Number of respondents
Living wage	18	32	29	19	2	219
Non-living wage	9	7	18	58	9	196
Total						415

**Table 12: Immigration status**

Workplace	EU (%)	Student (%)	ILR (%)	Other (%)	Number of respondents
Living wage	77	6	14	3	177
Non-living wage	62	9	24	5	164
Total					341

Note: these data exclude one pair of case studies where the question was not asked

**Table 13: Time in the UK of those born abroad**

Workplace	Up to 1 yr (%)	1-5 yrs (%)	>5-10 yrs (%)	>10 yrs (%)	Number of respondents
Living wage	17	43	15	25	173
Non-living wage	16	27	26	31	176
Total					349

**Table 14: The highest level of education completed by workers**

Workplace	Primary (%)	Secondary (%)	Advanced school (to 18) (%)	University (%)	Post-graduate (%)	Other (%)	Number of respondents
Living wage	5	31	39	16	8	0.5	219
Non-living wage	16	33	35	9	4	3	196
Total							415

**Table 15: How did you find out about this job?**

Workplace	Personal contact (%)	Through an agency (%)	Through an advertisement (%)	Self-enquiry (%)	Other (%)	Number of respondents
Living wage	73	9	7	4	7	218
Non-living wage	81	5	2	4	8	195
Total						413

(24.7%) and just 6% of the sample lived in a property that they owned. In relation to having children living with them at home, 28% of the sample lived with children who were under 18 and a further 13% had children in this age category who were not living with them. Almost half of the sample (49%) reported having a partner living with them at home. Only the incidence of having a partner living with them at home was statistically significantly differentiated between the two groups of workers (see Table 16).

In our survey we classified those working more than 30 hours a week as full-time and using these criteria, the sample comprised 57% full time and 43% part-time workers. Rather surprisingly, given the move by some living wage employers to increase working hours, rather more of the living wage workers were doing shorter hours than was the case in the non-living wage workplaces. As shown in Table 17, rates of full-time working were similar, but the balance of workers doing less than 16 hours a week was higher in the living wage workplaces. At least in part, this reflects the particular nature of our case studies: the two transport services cases comprised only full time workers, the university living wage case study and the cases provided by the smallest cleaning contractor all had very large proportions of workers doing very short hours of work.

Time with the employer and at the workplace (which can differ due to the process of sub-contracting and workers switching employers or being moved across contracts) varied with the presence of the living wage but perhaps counter-intuitively, there were greater numbers of longer serving workers in non-living wage workplaces (see Table 18). This may reflect differences in the fortunes of workers from different parts of the world, who have different immigration channels into the UK, and different levels of education (as discussed in relation to Tables 10 to 14 above). These data may also change over time as rates of labour turnover fall once the living wage is established.

However, when we explored workers' plans for the future there was no statistically significant difference between the workers in living wage and non-living wage workplaces. As shown in Table 19, and counter to expectations, only a slightly greater proportion of those in living wage workplaces planned to stay in their current job with their current employer. The incidence of workers hoping to move up the career ladder with their current employer was slightly differentiated in the two different types of workplace, and rather more of the workers in non-living wage workplaces were looking to move sideways into similar work with a different employer,

but otherwise, the proportions of workers with plans to retrain, shift career or leave the country were very similar. Ironically, given the negative feelings of the living wage grounds workers that we discuss in more detail below, this group were the most likely to report plans to stay in their current position (31% of 51 respondents) and to move up the career ladder with this employer (22% of 51 respondents). In contrast, none of the workers at the living wage workplace provided by the small cleaning contractor planned to stay in their current position and just one of them wanted to move up the hierarchy with their current employer. Almost all of them planned to move to a different job (4 of 9), leave the country (3 of 9) or retire (1).

It is interesting that there was a weak statistical relationship between workplace type and having a second job but this too was rather counter-intuitive as a greater proportion of those in living wage workplaces fitted this category than was true for non-living wage workplaces (see Table 20). This may reflect greater numbers in part-time work (Table 17).

Most of these second jobs were paid at less than the living wage rate, and the mean wage rate across the sample was £7.10 an hour. The fact that a slightly higher proportion of those in non-living wage workplaces were paid above the living wage for these second jobs suggests that there is no 'knock-on' effect whereby workers in living wage workplaces can secure better paid additional work (see Table 21).

In contrast, however, when respondents were asked about their wages at their previous job, there was more of an association between those in living wage workplaces and higher rates of previous pay (Table 22). Significant differences were found between the two samples although fully half of those in living wage workplaces had not been paid the living wage in the past, illustrating the extent to which their wages had risen as a result of the living wage campaign.

In the final section of the survey respondents were asked about whether they belonged to a community organisation or social club in the UK. The rates of positive answers were not significantly different across the two groups of workers (Table 23). Rather more workers in non-living wage workplaces belonged to a religious organisation than was the case in living wage workplaces and the reverse was true for trade union organisation. In relation to the latter, however, overall rates were very low (and just 28 workers in living wage workplaces and 7 of those in non-living wage workplaces belonged to a trade union). Membership of faith organisations was strongly linked to geographical origins, and/or

**Table 16: Do you have a partner living with you at home?**

Workplace	Yes (%)	No (%)	Number of respondents
Living wage	56	44	219
Non-living wage	42	58	197
Total			416

**Table 17: Working hours**

Workplace	Up to 16 hrs (%)	>16-30 hrs (%)	Over 30 hrs (%)	Number of respondents
Living wage	41	3	56	219
Non-living wage	23	20	57	197
Total				416

**Table 18: Time at workplace**

Workplace	Up to 1 year (%)	1-3 years (%)	3>5 years (%)	Over 5 years (%)	Number of respondents
Living wage	32	38	14	16	212
Non-living wage	37	25	12	27	196
Total					408

**Table 19: Future career plans**

Workplace	Stay in current job (%)	Move up the ladder with this employer (%)	Move to a similar job with a different employer (%)	Train for a different career (%)	Move to a different job altogether (%)	Leave UK (%)	Other (%)	Number of respondents
Living wage	27	13	1	14	23	10	12	215
Non-living wage	22	8	4	17	27	7	16	196
Total								411

**Table 20: Has a second job**

Workplace	Yes (%)	No (%)	Number of respondents
Living wage	34	66	219
Non-living wage	24	76	195
Total			414

**Table 21: Wages earned in the second job**

Workplace	NMW (%)	>NMW-LW (%)	>LLW (%)	Number of respondents
Living wage	30	59	11	71
Non-living wage	25	52	23	44
Total				115

**Table 22: Were you paid the living wage in your previous job?**

Workplace	Yes, paid LW (%)	Paid above LW (%)	No (%)	Last job abroad (%)	Wasn't working before (%)	Don't know/ other (%)	Number of respondents
Living wage	13	9	50	16	9	4	219
Non-living wage	10	1	56	13	14	7	197
Total							416

**Table 23: Are you a member or regular participant in a community organisation or social club in the UK?**

Workplace	Yes (%)	No (%)	Number of respondents
Living wage	44	56	178
Non-living wage	54	46	162
Total			340

Note: these data exclude one pair of case studies where the question was not asked

**Table 24: Self-reported health and wages**

		Self-rated health categories					
		Excellent	Very good	Good	Fair	Poor	Total
Non LW workplace	Frequency	39	60	73	16	3	191
	Percent	20	31	38	8	2	100
LW workplace	Frequency	47	69	77	25	3	221
	Percent	21	31	35	11	1	100

**Table 25: Self-reported well-being amongst living wage and non-living wage respondents**

	Mean WEMWBS score	Standard Deviation	Observations (n)
Non LW workplace	55.0	7.6	123
LW workplace	58.5	7.6	177
Total	57.1	7.8	300

*t-test result: means are significantly different from one another*

**Table 26: Proportions of living wage workplace and non-living wage workplace sample members in each of the NHS WEMWBS psychological wellbeing categories**

		NHS WEMWBS Psychological Wellbeing Categories				
		Very Low (0-32)	Below population average (32-40)	Population average (40-59)	Above population average (59-70)	Total
Non LW workplace	Frequency	1	3	80	39	123
	Percent	1	2	65	32	100
LW workplace	Frequency	0	3	83	91	177
	Percent	0	2	47	51	100
Total	Frequency	1	6	163	130	300
	Percent	0.3	2	54	43	100

**Chi-squared test result: proportions are significantly different from one another**

nationality, and was most strongly associated with respondents from outside the EU.

### **3.3.2 Health and well-being amongst living wage and non-living wage workers**

As outlined in the methodology, the worker questionnaire survey included two different types of health questions: one to look at overall self-reported health and the other to try and measure well-being. As outlined in Table 24, answers to the first of these indicated that overall self-reported health was good with 89% of the total sample reporting good to excellent health. This likely reflects the fact that high levels of self-rated health are usual in working samples owing to a sort of 'healthy worker effect' (where those with poor health are selected out of the sample by sick leave). Courtesy bias may also have been a factor in this sample, with workers possibly feeling uncomfortable disclosing poor health in the workplace, for fear of dismissal. The data was then examined to explore any relationship between the living wage and self-reported health and there was no statistically significant difference in levels of self-rated health between the living wage and non-living wage employees.

When we looked at psychological health, however, we did find a statistically significant association in relation to the living wage (and for more information about the multivariate linear regression deployed, see Appendix 5). The average wellbeing score for those employed in a living-wage workplace was 4.5 units higher than those employed in a non-living wage workplace (see Appendix 5, Table A5.2). This was the case despite adjustment for factors which may confound the association between living-wage employment and psychological wellbeing such as gender, educational attainment, place of birth, ethnicity and dependent children. While living-wage employees were found to have higher average wellbeing scores than their non-living wage counterparts, both groups had high levels of wellbeing when compared to the general population of the UK (Tables 25 and 26). As outlined in the research methodology, this is likely to be the result of courtesy bias introduced by the necessary use of WEMWBS as an interviewer-administered questionnaire rather than a self-completion instrument as designed. Respondents may have felt uncomfortable revealing any psychological distress to the interviewer, particularly given the workplace setting in which the questionnaire was administered. However, assuming that this courtesy bias was equal across LW and non-LW workplaces, the statistically significant difference in wellbeing scores between the two groups is still robust. The data indicate that workers in living wage workplaces had better psychological wellbeing than their non-living wage equivalents.

It is important to note that while a significant association has been found between living-wage employment and psychological wellbeing which withstands adjustment for a host of related

socioeconomic factors, causality cannot be inferred from analysis of cross-sectional data of this kind. Because the data are a single snapshot in the lives of the individuals, chronological sequencing of living wage introduction and any corresponding increase in wellbeing cannot be modelled. In sum, these data show that those who worked in a living-wage workplace had higher wellbeing scores on average than those who did not. This was shown to be irrespective of any differences in the composition of these two groups with regards to age, gender, ethnicity, working hours, educational attainment, dependent children, having another job and being born in the UK. However, it is possible that the difference in wellbeing between the two groups is a result of other factors which were not controlled for, but which were more prevalent among those working for living-wage employers, and which promoted psychological wellbeing. In addition, it is impossible to conclude from this analysis whether or not the living wage workplaces conferred other psychological benefits onto their employees, over and above payment of the living wage, which could have been responsible for the increased levels of wellbeing found among living-wage employees compared to non-living wage employees.

### **3.3.3 The impact of wages on feelings about work, family and finances**

The worker sample consisted of 219 workers in living wage and 197 workers in non-living wage workplaces. Unlike the rest of the questions covered above, these groups of workers were asked different questions about the impact of wages on their feelings about work, family and finances. Furthermore, the workers in living wage workplaces were divided into two groups: those who joined the workplace once it was already paying the living wage (103 workers or 25% of all respondents) and those who were employed as the workplace transitioned on to the living wage (116 workers or 28% of all respondents). Here we look at the two main groups in turn, starting with those in living wage workplaces and then focusing on those not receiving the living wage.

#### *Workers in the living wage workplaces*

Workers in living wage workplaces were asked a number of questions about the way in which the living wage impacted on their experiences and feelings towards work, finance and family. These questions were designed to capture any differences between the workers who had been employed when the workplace went on to the living wage (what we are calling transitional workers) and those who had subsequently moved into the workplace (new arrivals). For the analysis, however, we have amalgamated the answers given by these two groups of workers, to explore any positive benefits in relation to work, finances and family. Three new variables were created and correlation and logistic regression analyses were deployed to explore the



influence of different demographic factors on the results. These calculations are fully explained in the text and tables in Appendix 7.

The analysis revealed that 54% of workers reported experiencing benefits from the living wage in relation to their work, 38% reported financial benefits and 32% reported family benefits. In sum, while 35% of respondents experienced no benefits (which is higher than might be expected) fully 65% of workers in living wage workplaces experienced one or more dimension of benefit, 38% reported two or more dimensions of benefit and 21% reported benefits in all three areas: work, family and finances. As this would suggest, the benefits of the living wage were unevenly distributed across the sample and certain groups of the population reported more benefits than others, as is explored more fully below.

The new variable generated to capture **improvements at work** included responses to questions asking workers about the impact of the living wage on whether they were working harder; feeling happier; feeling more respected; feeling more valued; having more pride in the job; and being more likely to stay in the job. The data analysis showed that the main statistically significant factor increasing the likelihood of experiencing work benefits was having lower levels of education, to primary or secondary level. The main factors reducing this likelihood were being UK born, having higher education levels, and having aspirations to change job or career (see Appendix 7).

Given that the living wage grounds contract employed a significant number of UK-born workers (70% of the 52 people we interviewed in the workplace), it is clear that this contract was particularly important in shaping these data. The demographics of the workforce and the way in which the living wage was implemented at this site (as we outlined in more detail above) appear to have strongly impacted upon the results. In this case, 45% of the workers reported being paid at or

above the living wage in their previous job. Many also complained that the introduction of the living wage had been associated with a cut in their hours, reduced overtime and the consolidation of the bonus payment. As this worker told us during interview: *“The living wage is very good idea but we didn’t benefit fully due to cutting the bonus.”* Likewise, another told us: *“Because they cut the bonus and the hours, I don’t have more money than before.”* Many of the workers in this case felt that any increase in wages was not sufficient to really change their feelings about their employment. Moreover, it is important to note that supervisors on the grounds contract were aggrieved that that move to the living wage had reduced the differential in wages. As this respondent told us: *“People who were on a slightly higher wage felt that they should have been given a step up with the living wage. They should have gone through the whole spectrum of staff. We have not been rewarded and why should we take on more responsibility if we are not getting paid more?”*

In contrast, there were greater proportions of positive workers at other case study firms. As an example, a number of workers at the university living wage contract made positive comments and two respondents told us that: *“Cleaning is hard. When you get more money you feel more valued for what you do”* and *“The wages are an important incentive.”*

The respondents who had been in their workplace at the time it went living wage (the transitional workers) were asked to reflect on the **changes**, if any, that had occurred since they went living wage. Just over half (60% from a possible 116) reported changes and the most frequently mentioned were that workers now felt happier; that there was more supervision; that the work was more productive; and that they did a wider range of tasks. These responses were further recoded into two binary variables to capture positive and negative responses (see Table 27). In sum, 58% of transitional workers

**Table 27: Changes associated with the implementation of the living wage**

	Positive Change	Frequency	%	Negative Change	Frequency	%
1	people are happier about the work	29	25.0	the work is harder	13	11.2
2	there is more supervision	23	19.8	people are less happy about their work	12	10.3
3	the work is more productive	20	17.2	more people are leaving	7	6.0
4	I do a wider range of tasks	19	16.4	I work less hours	6	5.2
5	I have had access to more training	14	12.1	there is less supervision	5	4.3
6	the job has been reorganized	13	11.2	the work is less productive	3	2.6
7	fewer people are leaving	12	10.3	training opportunities have been cut	2	1.7
8	fewer people take unplanned time off	9	7.8	I do a narrower range of tasks	1	0.9
9	I work more hours	6	5.2	more people take unplanned time off	0	0.0
10	the work is easier	4	3.4			

Note: asked only to transitional workers (116 in total) who were employed when they moved to the living wage

reported at least one positive change and 27% of respondents reported at least one negative change associated with the living wage. It is important to note that individuals could report both positive and negative changes so these groups are not mutually exclusive, but overall, there were twice as many positive as negative responses.

These transitional workers were also asked whether the living wage had made them feel more **loyal** towards their employer. Just over half (52% of 116 respondents) replied positively to this question but the balance of responses varied greatly across the workplaces. While 83.3% (10 of 12) of those employed at one of the contracts managed by the smallest cleaning contractor, 66.6% (8 of 12) of those employed at the living wage workplace in the university sector and 60% (6 of 10) of those in transport services reported feeling more loyal, only 38.3% (18 of 47) of those working on the grounds contract gave the same response.

All the workers in living wage workplaces were asked to reflect on the impact (if any) that the living wage had on their **family life**. The analysis captured all the positive responses given to two questions that included: buying more goods; spending more time with family; sending remittances; having more leisure; and taking more holidays. When turned into a binary (positive family mention =1, otherwise 0), only a minority of respondents were found to have made a positive response (32%). The main statistically significant factor increasing the likelihood of being positive was having less education and the main factor reducing this likelihood was having higher education levels (to A levels or above).

Given an opportunity to make general comments during the survey interviews, a number of living wage workers argued that the relatively low level of the living wage, their limited working hours, and the rising cost of living had all reduced the impact of the living wage on their family life. As these respondents at the university living wage contract – many of whom worked just 10 hours a week – explained:

*“I only work here 2 hours a day. It’s not enough to make a difference.”*

*“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 and to send money back to Colombia. I wish all my jobs paid the living wage.”*

*“The money is not enough to afford all the needs and wishes of my family.”*

In addition, some workers were living with low paid partners and/or those on different shifts, so this made family life difficult. As this Bulgarian woman with a degree working in transport cleaning put it: *“I hardly see my husband because he works late and I work very early.”* Another respondent at the same workplace told us that she was taking additional

training to try and improve her employment prospects and this meant that she had no time to see her family.

Respondents were also asked about the impact of the living wage on their **finances** and the questions included the ability to buy more goods; to save more; to send more remittances; and to use a different form of transport. In combination, 38% of those in living wage workplaces reported one or more of these positive changes. The main statistically significant factor increasing the likelihood of experiencing financial benefits was having lower levels of education, to primary or secondary level. The main factors reducing this likelihood were having a second job, self-reporting as being ethnically black and participating in civic activities.

As outlined above, a number of respondents remarked about the level of the living wage in relation to the cost of living. As these comments made by workers at the living wage workplace managed by the large cleaning contractor put it:

*“I’m still struggling to pay all the bills.”*

*“It’s pretty much the same situation as before.”*

*“They’ve increased the tube twice, but not the wages, they stay the same.”*

Similarly, a worker employed on the living wage contract provided by the small cleaning contractor told us: *“Everything is expensive so the living wage doesn’t make any difference.”* While their wages had increased, the cost of living had also increased and the majority of workers were not able to report a significant change in their financial situation in relation to spending, saving or remitting money back home. As this Nigerian graduate on the transport services contract put it: *“It is very important that if you work you should be able to save for the future. But in fact, there’s no benefit of the living wage. It’s not enough because living in London and prices are very high. We need to improve our lives but we don’t get enough money to do this.”* Likewise, a worker on the grounds contract told us: *“You need more money to have a good life.”*

As we have seen, the workers in living wage workplaces often had different experiences and responses to the living wage being implemented in their workplace. When we looked at the distribution of all positive responses captured in our new binary variables (for changes in work, family and finances) we found that just over a third had nothing positive to report, a quarter had identified one area of benefit (from either work, family or finances), 17% had identified two areas of benefit and a fifth had given positive responses to all three dimensions of change (see Table 28). This illustrates the range of experiences and further highlights the importance of the process of implementation, the organisation of work and the influence of demographic characteristics in securing perceived benefits for the

**Table 28: Multiple dimensions of benefit (work, family, finance) associated with the living wage**

	frequency	%
No benefits reported	77	35
One dimension of benefit reported	57	26
Two dimensions of benefit reported	38	17
Three dimensions of benefit reported	47	21
total	219	100

workforce.

As many as 65% of the sample reported one or more dimensions of benefit that they associated with the living wage and the factor that was statistically significant in increasing the likelihood of reporting one or more benefit was having lower levels of education (to primary or secondary level) and being TUPE protected. The factor reducing this likelihood was having aspirations to change job or career.

The statistically significant factors increasing the likelihood of experiencing two or more dimensions of benefits was again having lower levels of education but the factor reducing this likelihood was self-identifying as Black African or Caribbean.

Although it is not captured in these statistics, the interviewers reported that workers' responses were also mediated by local workplace relationships. Some of those employed at the living wage case in the university sector made positive comments about their supervisors, and this seemed to impact on their feelings about work and the living wage. As these respondents put it:

*"I feel good working here ... I feel very respected by my colleagues and supervisor. The job is hard ... but I feel happy."*

*"From my experience I can say that this work place is really good. Nice supervisors, managers and colleagues. Cleaning is hard work but in a good place it is easier. In other places where I work it is much harder because of the bad treatment from the managers. It brings you down and so you don't work well."*

Similarly, a number of the living wage workers employed by the smallest cleaning contractor praised their boss and argued that this made them feel better about their work. A Colombian graduate in his thirties told us: *"[the manager] treats us very well, he is a good boss and supports us a lot. I'm happy."*

Finally, it is important to note that while some respondents were pleased that the living wage had at least allowed their pay to go up, they were often acutely aware of the low social status of cleaning, and this shaped their response to the job. As a Nigerian man working on the living wage contract in transport services explained: *"People don't respect*

*cleaners. They think you are the lowest person."* Similarly, a Ghanaian man in his forties highlighted this lack of respect: *"The work is good, and I feel I'm doing it well but it's quite a degrading job. People ignore us, or treat us with little respect."* A 25 year old Bulgarian woman graduate made the same point, saying: *"I don't feel respected for being a cleaner. I would rather be paid more than less but I would like a decent job."* These feelings may help to explain the fact that the living wage had not changed respondents' long-term career aspirations, as we discussed in relation to Table 19.

In sum, this section of our research suggests that any potential benefits that accrue from increasing pay to the level of the living wage are strongly dependent upon: (1) the degree and implementation of the pay increase; (2) changes in the cost of living; (3) the demographics of the labour supply (and place of birth, educational background and career aspirations are particularly important in this respect, see Table 29); (4) working hours; and (5) workplace relationships and culture.

#### *Workers in the non-living wage workplaces*

In non-living wage workplaces, respondents were asked a simple question about the challenges (if any) they faced as a result of their pay, and they were given a series of seven options in order to make a reply. These included 'no challenges' alongside: finding it difficult to motivate myself in relation to work; finding it difficult to manage the household expenses; having to do additional work; having to spend time looking for additional work; finding it hard to make time for family; and using the bus rather than taking the tube. For the purposes of analysis, we generated a 0-6 scale indicator to comprise all the negative answers to this question, adding one for each mention (see Appendix 7).

The majority of respondents in non-living wage workplaces (82%) mentioned one or more difficulty in relation to their low rate of pay. The most popular responses, in decreasing order were: struggling to manage household expenses, having to take the bus rather than the tube and finding it hard to feel motivated in relation to work (see Table 30). Our analysis found that the main statistically significant factors increasing the likelihood of experiencing difficulties due to low pay were working full time, having a second job, being young (under 30) and

**Table 29: Summary of risk factors influencing the extent to which workers experience benefits from the living wage or face challenges due to low pay**

Indicator	Influences	
	Decreasing likelihood of positive response	Increasing likelihood of positive response
Work Improvements in LW workplaces	being UK born	lower education levels, primary and / or secondary
	higher education levels A levels or above	
	aspire to change job / career / other	
Family Improvements in LW workplaces	higher education levels A levels or above	lower education levels, primary and / or secondary
Financial Improvement in LW workplaces	ethnicity Black	lower education levels, primary and / or secondary
	second job	
	civic participation	
Improvements in 2 dimensions (from work, family, finance)	ethnicity Black	lower education levels, primary and / or secondary
Improvements in 3 dimensions (from work, family, finance)	aspire to change job / career / other	lower education levels, primary and / or secondary
		TUPE protected worker
Low pay difficulties in non-living wage workplaces	time in UK 1-5 years	second job
		working full-time
		time at workplace up to 1 year
		age less than 30

note: factors significant at 95% level (p<0.05)

**Table 30: Challenges faced as a result of low pay**

	frequency	%
No challenges	33	17
Finding it difficult to manage household expenses	128	65
Taking the bus rather than the tube	73	37
Finding it difficult to motivate yourself in relation to work	56	28
Having to do additional work	47	24
Having to spend time looking for additional work	47	24
Finding it hard to find time for family	47	24
Total sample in non-living wage workplaces	197	

Note: Respondents could give more than one answer to this question

having worked for less than a year at the workplace (see Table 29). The main factor decreasing this likelihood was having spent time in the UK for between 1 and 5 years. These findings may reflect the fact that those facing the greatest challenges were also having to work the longest hours by working full time and doing additional work.

Just as we found in relation to respondents in living wage workplaces, and as would be expected,

many of those in non-living wage reported having insufficient money to cover the bills. Many described the challenges of family life when working long hours, and they told us that they needed additional work.

As this quote from a respondent working at the non-living wage case in transport services illuminates:

*“Living in London is very difficult for the people that are earning smaller wages, the work is getting more difficult, they pressurise you to do the job, but you*

*are still getting less and less money. You don't have much time for fun. It's really very difficult. I'm always struggling. Everything is up [prices], transport and we are on the same level [of pay] for 5 years, no increment, no nothing."*

One of his colleagues echoed this experience saying: *"The money is not enough. There's rent, bus pass, shopping and the money finishes."*

A worker employed at the small non-living wage grounds contract on the edges of London where wages were £6.80 an hour at the time of the interviews, also told us: *"It's not enough. I have to pay the mortgage and I don't really go out."* One of his colleagues similarly said: *"The wage is not enough. I'm in debt and half the wage goes to pay off the debt. It's not enough to live comfortably."* A worker employed at the non-living wage workplace in the university sector similarly said: *"When you pay your rent, bills, children, sometimes you don't have enough to live on."*

The low wages meant that workers often had to work longer hours to make ends meet. As one of the respondents at the non-living wage workplace managed by the large cleaning contractor told us: *"I have to work long hours because with normal hours I am not able to survive in London."* A British-born Mother in her 50s who worked at the transport services workplace described the effects of low pay on her family: *"I don't see much of my husband, or my two children, and my son is working. We have just £100 left to live on. We never go on holiday and saved up a whole year last time to be able to go."* A respondent from the non-living wage workplace managed by the large cleaning contractor similarly described the way in which long working hours reduced the time for family life: *"During the day I sleep and only see my wife briefly when I come home in the morning."* One of their colleagues also described how the low pay impacted on their social life: *"We used to play football on the weekends but now everybody has to work on weekends too. Now I have to stay at home because I simply don't have the money to go out."*

Other workers highlighted the way in which low pay meant that they had to spend time looking for alternative or additional work. As this Nigerian man who worked in transport services put it: *"The wage you receive is not even enough for the rent. In every job you do, there needs to be motivation. If the wage was higher, there would be no need to look for another job. It [the low wage] makes you feel bad."* A younger Ghanaian man at the same workplace told us that: *"The wages are no good so I'm looking for another job that pays better. I've been working here since 2003 and there has been less than £2 increase in wages during that time."* One respondent employed by the large cleaning contractor similarly told us that: *"It is difficult, you are always looking for something better."*

Low pay was clearly potentially destabilising the workforce in the non-living wage workplaces, with negative implications for workplace stability, morale, commitment and productivity.

### **3.3.4 The income, tax and benefit systems**

Our workplace survey found relatively low levels of benefit claiming and these were not statistically differentiated between the living wage and non-living wage workplaces. Overall, about a quarter of those surveyed (28.1%) were claiming some sort of state benefit (27% of those in living wage and 29% of those in the non-living wage workplaces). The most common benefit being claimed was child benefit (reported by 17% of the whole sample) followed by housing benefit (reported by 12% of the sample) and working tax credit (reported by 10%). Official statistics indicate that just 10% of working families in London received the higher levels of tax credits in 2008 (MacInnes and Kenway, 2009, 57) and given the low pay of our sample, and the fact that a quarter of our respondents had children under 18 living with them in the UK, our survey reflects lower rates of claiming than might be expected.

When we asked workers about their monthly income and expenditure, the living wage workers were found to be claiming less in benefits a month (an average of £370) compared to those in non-living wage cases (an average of £482 a month; and these differences are significant at the 85% level). If scaled up to the London-wide population, this difference in benefit income (£112 per worker claiming benefits per month) could be used as a way to explore the potential benefits of the living wage to the wider community. However, the response to these questions about benefit claiming and household income was rather uneven, and may not be reliable, and to compensate, we have used data generated by Ferret Information Systems Ltd, as outlined in the methodology section above.

We used this data to explore net income with and without the full benefit entitlement for different household types in 2011. Calculating net income for our different household types indicated that all those on the NMW relied on additional support from the state to top up their income, ranging from a few pounds for single adults to more than £500 a week for some lone parents and couples with children. In contrast, most of our survey respondents did not report claiming such benefits. This might be because they were not entitled or not willing to claim, but others will also be living in circumstances that do not meet with those included in the Ferret analysis (such as having cheaper housing or partners with larger incomes).

Assuming that those who are entitled do claim, our analysis indicates that when workers move on to the living wage, their overall household income slightly improves. Any additional income means that benefit payments are reduced. While workers would

generally prefer to have their income from wages rather than benefits, making their income more predictable and manageable, the benefit claw-back means that the living wage has marginal financial benefits for those workers claiming their full benefit entitlement. As these examples of changes in net income for different household types suggest:

- A single adult in a shared room in the private sector, working 24 hours a week gained £5.43 a week if working at the living wage rather than the NMW. When working full time, they gained £26.94 a week or £1,400 a year (the largest gain associated with the living wage in any of our household types claiming the full benefit entitlement).
- A single parent with 2 children (not in childcare), in a 2 bed property owned by a Registered Social Landlord (RSL), working 6 hours a week at the LW rather than the NMW gained nothing and if working 16 hours a week, gained £4.76 a week. If working full time, they gained £3.42 a week or £178 a year.
- A single parent with 2 children (one in childcare), in a 2 bed private rented property, working fulltime at the living wage rather than the NMW gained £3.15 a week or £164 a year.
- A couple with 3 children, in a 3 bed private rented property, where one adult worked fulltime at the living wage rather than the NMW gained £3.14 a week or £163 a year.
- If both these adults worked fulltime and didn't use childcare, it added £14.68 a week or £763 a year to their household net income.

If these households were not able and/or willing to claim benefits, the living wage would, of course, secure a very significant increase in their household net income. For any adult not claiming benefits and working 6 hours at the living wage rather than the NMW, the net gain would be £13.32 a week; working 16 hours would bring in an extra £35.52 a week; working 24 hours would bring in an extra £36.23 a week; and working full time (35 hours) would bring in £52.84 a week. Over a year, the full time worker would gain £2,748 a year and if two adults in a household move from the NMW to the living wage, this would increase their household net income by £5,495 a year.

Thus the London living wage makes a very significant difference to the disposable income of households that are not able or willing to claim benefits and as we saw in relation to our workplace sample, as many as 72% of those sampled in our study reported not claiming any state benefits. Such workers would keep any extra income that arose as a result of the living wage, and they would experience a significant increase in income.

The research has also highlighted that even though

the living wage does not erode the need for public subsidy – reflecting the conservative assumptions about costs and the inclusion of benefit entitlement in the calculation of the living wage rate - the wider adoption of the living wage would make a substantial saving to the public purse by increasing the tax base and reducing benefit spending. As such, moving low paid workers (from the NMW) to the living wage would have a very clear benefit to the tax payer, as the following examples attest:

- For a single adult aged over 35 in 1 bed private rented accommodation, working full time at the NMW, the benefit paid to them is £25.90 a week. If they moved on to the LLW, this benefit would disappear.
- For a single parent with 2 children (not in childcare), in a 2 bed property owned by a RSL, working full time at the NMW, the benefit paid to them is £218.93 a week. If working at the LLW, this benefit falls to £169.51 a week, saving the tax payer £49.42 a week.
- For a single parent with 2 children (one in childcare), in a 2 bed private rented property, working fulltime at the NMW, the benefit paid to them is £522.64 a week. If working at the LLW, this benefit falls to £472.94 a week, saving £49.69 a week.
- For a couple with 2 children, in a 2 bed private rented property, where one adult works fulltime at the NMW, the benefit paid is £383.47 a week. If working at the LLW, this benefit falls to £333.77, saving £49.70 a week.
- For a couple with 3 children (one of whom is in childcare), in a 3 bed private rented property, where both adults work fulltime at the NMW, the benefit is £478.22 a week. If working at the LLW, the benefit falls to £386.55, saving £91.67 a week.

Were all the adults in private rented accommodation and working fulltime on the NMW to move to the LLW, and assuming that if both adults in a household were working, they were both previously earning the NMW, the weekly benefit savings would comprise: £25.90 for an adult-only household in a shared room; £49.43 for one-adult working households with children; and £91 for two-adult working households with children. These individuals would also pay more tax to the Treasury, further increasing the savings being made.

Given the numbers of low paid workers in London, these savings are potentially very significant. Although the precise savings to be made will depend upon the extent of wage increases, the hours worked, the taxation and National Insurance rates and thresholds, and the benefit regime, including the extent of entitlement and willingness to claim, we have tried to capture these potential benefits from the London living wage.

To do this, we used the data from our survey and the Ferret household modelling to calculate estimates of the potential savings to the national Exchequer. Our best estimates indicate that moving London's low paid workers onto the London living wage – and applying the benefit claiming rates identified in our survey – would save the Treasury an estimated £823 million a year in increased tax and National Insurance payments and reduced benefit payments (and our calculations are outlined further in Appendix 8). Although some of this money would be a product of increased wages paid in the public sector, eroding the gain to the Treasury, the findings indicate the scale of potential savings to be made.

Looking ahead to anticipated changes in the benefit rules associated with Universal Credit, workers who are claiming benefit will see an increase in the impact of the living wage on their net income if they move from the NMW to the LLW:

- Whereas a single adult aged over 35 in a 1 bed private rented flat, working full time gained £12.30 a week from moving on to the living wage in 2011, the new benefit rules would increase this gain to £17.40 a week (a net gain of £5.10).
- Whereas a lone parent of two children without childcare costs, living in 2 bed private rented accommodation, working 16 hours a week, gained £4.75 a week from moving on to the living wage in 2011, the new benefit rules would increase this gain to £6.73 a week (a net gain of £1.98).
- Whereas a couple with two children with one in childcare, living in private rented accommodation with 2 bedrooms, working full time, gained £14.69 a week from moving on to the living wage in 2011, the new benefit rules would increase this gain to £36.98 a week (a net gain of £22.29 a week).
- Whereas a couple with three children, none in childcare, living in private rented accommodation with 3 bedrooms, working 24 hours a week, gained £10.07 a week from moving on to the living wage in 2011, the new benefits rules would increase this gain to £25.37 a week (a net gain of £15.30 a week).

These calculations suggest that the incentive to campaign for a living wage will increase in future. However, the bigger message of the research concerns the extent to which the Treasury and the taxpayer would benefit if the living wage were more widely adopted.

#### 4. Conclusions

This research has explored the costs and benefits of

the London living wage via a series of case studies, interviews with clients and employers, a worker survey and analysis of data on the income, tax and benefit systems. Our research has revealed the extent to which the costs and benefits of the London living wage varied by workplace. The findings are also dependent upon the scale of analysis and any evaluation needs to be differentiated in relation to the key actors affected by the changes in pay (clients, employers, workers and taxpayers).

Despite the wage premium associated with the living wage, the research found that employers and clients were able to manage these costs.

In the pre/post case studies, the additional wage costs added an average 6% to contract costs in the pre living wage period. In the comparative case studies, the wage premium would have added an average of 11% to non-living wage contract costs.

In addition, the variation in costs across the case studies highlighted the extent to which the majority of employers and clients were effectively managing down the additional costs associated with paying the living wage. The research identified a range of measures to do this including: the use of fixed price contracts; the implementation of service audits with and without financial penalties; reductions in head count and/or hours; and alterations in service specification and supplies. In some cases, contractors had a reduced margin from the living wage case.

At one private sector firm, for example, the cleaning service was provided at a lower cost per unit area than it was at the non-living wage comparator case despite a 25% wage premium being paid in this case. The procurement manager at this workplace argued that if managed carefully, the move to the living wage could be cost neutral. As he put it: *"I honestly believe that if you're a reasonably sized organisation, you can make the transition from a non-living wage to a living wage providing that you look at it as a road map ... Give yourself time to assess where you can make efficiencies ... If you give yourself a period of time to review your cost base and understand how you can take a longer term strategic approach to it, I honestly think it's achievable in most organisations."*

Our research certainly showed that the connections between wages and costs are less than straightforward and in practice, the cost impact of the living wage was dependent upon the contracting and management practices deployed by the employer and clients involved.

However, the research also showed financial and other benefits associated with the London living wage. In most cases the move to the living wage – or the comparison between living wage and non-living workplaces – showed reduced rates of labour turnover and sickness. The cases where rates were not lower had particular explanations such as

employing large numbers of international students and/or undergoing a major period of redundancies following the take-over of a contract. When we calculated the savings from reduced rates of labour turnover, the benefits varied from 0.1% to 2% of the non-living wage comparison contract or time period. The cost of labour recruitment was relatively low and while companies were saving money, these savings were marginal to overall costs.

The research also highlighted a number of non-quantified benefits from reduced rates of labour turnover such as having the staff continuity to facilitate workplace changes and increases in productivity, and building relationships between in-house and sub-contracted staff. Clients and employers also reported being able to recruit workers with a better attitude towards work once the living wage was brought in.

An unanticipated benefit was also the impact of the living wage on the in-house staff in the case study firms. Some clients reported that the living wage reinforced their brand and reputation as a good employer and that this then impacted upon their ability to recruit the best possible graduates into professional roles.

The reputational benefit was also positive for clients and employers that depended upon their interaction with the public and other employers for their core business. A private sector company suggested that paying the living wage helped them to win business from other service delivery firms.

Echoing some of these findings, the questionnaire survey found a number of statistically significant differences between the workers in living wage (LW) and non-living wage (NLW) workplaces. Those employed in LW workplaces were more likely to be born in the European Union and be more recently arrived in the country. These workers were also more highly educated than their equivalents in NLW workplaces.

These findings suggest that the LW has a filtering effect on labour supply and although labour turnover tends to go down in LW workplaces, it might be that any vacancies are filled by workers with different characteristics to those they replace. The survey found statistically significant concentrations of workers born outside the EU, and workers with lower levels of education, in NLW workplaces compared to those in LW firms.

The research is the first of its kind to find a statistically significant association between the living wage and psychological well-being. The average psychological wellbeing score for those employed in LW workplace was higher than amongst their equivalents employed in NLW workplaces and this relationship withstood adjustment for factors such as age, gender, ethnicity, working hours, educational attainment, dependent children, having another job and being born in the UK.

When we explored possible benefits from the living wage in relation to workplace experience, family life and finances, the research found that 65% of respondents had experienced one or more of these benefits; 38% reported two or more; and 21% reported all three. While experiencing benefits from the LW was uneven across the sample, the research analysis found that those with lower levels of education were more likely to report these benefits.

As many as 82% of the respondents in NLW workplaces reported having problems associated with their levels of pay and having trouble paying household expenses and having to use the bus rather than the tube were the most commonly cited complaints.

The final part of the research looked at the impact of the LW on the income, tax and benefit systems. There are an estimated 580,000 workers in London paid at wage levels below the London LW. Higher wages produce increased government tax and National Insurance payments and reduced benefit claims and our research suggests that the government is a major beneficiary from implementation. Our best estimate of potential savings to the Exchequer from living wage implementation in London is £823 million per year.

However, these figures were based on the benefit claim rate identified amongst non-LW respondents in our survey (30%). There are reasons to believe that this figure is lower than might be expected as some respondents were not eligible or willing to claim. Indeed, the data modelled by Ferret Information Systems that used official rent levels for households in accommodation provided by a Registered Social Landlord or private landlord suggested that all single adults and adults with children who were earning the National Minimum Wage (NMW) would be entitled to some form of welfare benefit. Were all the adults in private rented accommodation and working fulltime on the NMW to move to the LW, and assuming that if both adults in a household were working, they were both on the NMW, the weekly benefit savings would comprise: £25.90 for an adult-only household in a shared room; £49.43 for one-adult working households with children; and £91 for two-adult working households with children. These individuals would also pay more tax to the Treasury, further increasing the savings being made.

In sum, the research suggests that paying the living wage secures great potential benefits to the Treasury, and indirectly, to the tax-paying public and service users. While clients and employers would be paying more in wages while their workers' benefit levels go down, the research also indicates that these potential costs can be managed. Indeed, our case studies show that the headline increase in wages associated with the living wage – some 30-37% above the level of the NMW – was not reflected in the changing costs of the contracts or service. Clients and employers were managing



down the costs of the service while also benefiting from reduced rates of labour turnover that made a minor but positive impact on costs while also providing additional benefits in workplace stability and relationship building. LW workers had higher levels of psychological well-being than their NLW equivalents and this would also impact positively on costs in the workplace as well as the wider society.

## 5. References

- Bercusson, B. (1978) *Fair wages resolutions*. Studies in Labour and Social Law Volume 2. London: Mansell.
- Coats, D with Johnson, N and Hackett, P (2012) *From the poor law to welfare to work: What have we learned from a century of anti-poverty strategies*. London: The Smith Institute.
- Cole, G.D.H (1938) *Living wages: The case for a new minimum wage act*. New Fabian Research Bureau. London: Victor Gollancz Ltd.
- Fairris, D. Runstein, D. Briones, C. and Goodheart, J. (2005) *The Los Angeles living wage ordinance: Effects on workers and employers*. Los Angeles, California: Los Angeles Alliance for a New Economy (LAANE).
- Field, F. (1973) Low pay and social policy, in F. Field (ed) *Low pay: Action Society Trust Essays*. London: Arrow Books, 130-141.
- Field F. and Winyard, S. (1973) Low pay in public employment and the Wages Council sector, in F. Field (ed) *Low pay: Action Society Trust Essays*. London: Arrow Books, 39-60.
- Greater London Authority (GLA) (2011) *A Fairer London: The 2011 Living Wage in London*. London: GLA Economics.
- Greenwald, B. and Stiglitz, J. (1988) Pareto inefficiency of market economies: Search and efficiency models. *American Economic Review*, 78, 2, 351-55.
- HM Revenue and Customs (2011) *Child and Working Tax Credits Statistics*, December 2011. National Statistics.
- Howes, C. (2005) Living wages and retention of homecare workers in San Francisco. *Industrial Relations*, 44, 1, 139-63.
- Lawton, K and Cooke, G (2008) *Working out of poverty: a study of the low-paid and the 'working poor'*. London: IPPR.
- London Economics (2009) *An independent study of the business benefits of implementing a Living Wage policy in London*. London: Greater London Authority.
- Luce, S. (2004) *Fighting for the living wage*. Ithaca, NY: Cornell University Press.
- MacInnes, T. Parekh, A. and Kenway, P. (2010) *London's poverty profile*. London: New Policy Institute.
- Maxton, J. (1931) *A living wage for all*, speech moving the second reading of the living wage bill, 6 February 1931. ILP Publications.
- Metcalf, D. (2007) *Why has the British National Minimum Wage had little or no impact on employment?* CEP Discussion Paper 781.
- Oldroyd, M. (1894) *A Living Wage*. McCorquodale and Co Ltd.
- Parker, H. (2001)(ed) *Low cost but acceptable: a minimum income standard for households with children in London's east end*. York: Family Budget Unit.
- Pennycook, M. (2012) *What price a living wage? Understanding the impact of a living wage on firm-level wage bills*. London: Resolution Foundation and IPPR.
- Reich, M. Hall, P. and Jacobs, K. (2003) *Living wages and economic performance: The San Francisco Airport Model*. Berkeley, California: Institute of Industrial Relations.
- Reich, M. Hall, P. and Jacobs, K. (2005) Living wage policies at the San Francisco airport. *Industrial Relations*, 44, 1, 106-38.
- Seebom Rowntree, B. (1918) *The human needs of labour*. London: Thomas Nelson and Sons Ltd.
- Tripney, J. Newman, M. Bangpan, M. Hempel-Jorgensen, Mackintosh, M. Tucker, H. and Sinclair, J. (2009) *In-work poverty: A systematic review*. Department for Work and Pensions, Research Report 549.
- Thompson, J. and Chapman, J. (2006) *The economic impact of local living wages*. Economic Policy Institute, Briefing paper #170.
- Webb, S. and Webb B. (1911)[1897] *Industrial Democracy*. Longmans, Green and Co.

## Endnotes

- <sup>1</sup> These figures on people in low income households are taken from 'In receipt of tax credits' published at [poverty.org.uk](http://poverty.org.uk) and last accessed on 30.1.2012.
- <sup>2</sup> These figures are calculated using the difference between the NMW and LLW except for those working in Canary Wharf and the City as research suggests that these workers were already paid about £1 more than the NMW and in these cases, half the difference has been used. Full time workers are assumed to work 36 hours a week for 52 weeks a year: 1872 hours a year (although many do work long hours of overtime which are not included here). Half the workers in higher education and half of those at TfL, all those at the London Fire Brigade, the LDA and the MPA, those in the Third Sector, those working in care for Lewisham (1000 workers), schools, the Tate, St Lukes, the DCFS and those in Barclays (region) are assumed to work 15 hours a week as the vast majority are part-time: 780 hours a year. All those working at Lush are calculated as part time for 2011. The difference (or half difference) between the NMW and the LLW is applied to each hour worked for each worker for the years when the improvement in pay were in place. In relation to the Olympics, ODA data published in September 2010 have been used, indicating that 82% of employment was compliant with the Living Wage. At that time, 6,243 were employed on the park and assuming 10% were in low wage positions, this equates to 624 workers and 80% of these are assumed to have been getting the LW (500 workers). Since then, some 100,000 temporary jobs to provide services during the Games in 2012 were paid at the LLW rate.
- <sup>3</sup> See <http://www.minimumincomestandard.org/>
- <sup>4</sup> See <http://www.lowpay.gov.uk>
- <sup>5</sup> See [http://www.london.gov.uk/mayor/economic\\_unit/workstreams/living-wage.jsp](http://www.london.gov.uk/mayor/economic_unit/workstreams/living-wage.jsp)
- <sup>6</sup> It is important to note that once signed up to the LLW, employers and clients are expected to pay any annual increase within six months of the announcement. This means that in some of our LW workplaces, the workers were not actually being paid the official LW rate but had been promised it within six months of the official announcement.
- <sup>7</sup> The benefit levels were calculated in relation to household circumstances and incorporating the published information about the changes associated with the move to Universal Credit (UC). In relation to *Housing Benefit*, this is currently paid to those in and out of work and eligible rent is determined by the rent paid unless it is higher than the relevant Local Housing Allowance (LHA). LHA's are determined in relation to the size of property and in London, 70% of rents are above the LHA. This means that the additional rent comes from other income. Under UC the housing costs will be included in the needs calculation for claimants. *Council Tax Benefit* is governed by similar principles but in contrast to the LHA, claimants can receive up to 80% of Council Tax. In relation to *Tax Credits*, payments are made to the household, on the basis of household income and the needs of dependents, and comprise two components. The first is *Child Tax Credit* which includes support for children and young people aged 16-19 regardless of the labour market status of the adults. The second is *Working Tax Credit* and this provides in-work support for people on low incomes. It is payable to people who work for more than 16 hours a week who have children, a disability, or who are over 50 and returning to work after more than 6 months on out-of-work benefit. Otherwise, it is payable to people aged over 25 and working 30 hours a week or more. In contrast, *Child Benefit* is a universal entitlement paid to all families with children, on the basis of the number of children. In 2011, Child and Working Tax Credits were paid in full until the household income reached £6,400 after which 41p was taken for every additional £1 earned. The family element was similarly tapered after the household income reached £40,000 a year. The household income used to calculate the award is based on the previous years' income and payments are provisional until checked against real income (see HM Revenue and Customs, 2011).
- <sup>8</sup> These rent levels are published by the DCLG: <http://www.communities.gov.uk/housing/housingresearch/housingstatistics/housingstatisticsby/rentslettings/livetables/>
- <sup>9</sup> The apparent anomaly whereby the figure for a one bedroom property with a Registered Social Landlord is more expensive than the figure used for the two bedroom property is a result of two things: (1) the calculations for families were completed early in 2012 and those for single adults were completed slightly later in May 2011 after new figures for rents had been published by DCLG; (2) rents for one and two bedroom properties in both private and social housing sectors tend to be very similar.
- <sup>10</sup> The calculations used Ferret's *Future Benefits Model* (see <http://www.ferret.co.uk/>). This modelling develops forecasts of personal tax and means-tested benefits and credits, year by year, into the future.
- <sup>11</sup> In addition, as we outline later in this section, in

this case, the living wage contract was actually provided more cheaply (per worker hour of cleaning) than the living wage case. The cost of this contract had also fallen in relation to the client's overall operational costs, despite the living wage. Whereas the cleaning represented 1% of the client's operational costs in 2006, it had fallen to 0.6% in 2012.

<sup>12</sup> These TUPE workers were earning £8.11/hr with a £57/wk bonus; sick pay for 6 months full time and 6 months half time pay; longer holidays of 25 days and 8 bank hols; and they worked fewer hours, doing 36 hours rather than the standard 40 hours a week.

<sup>13</sup> The data in the table below that show overall changes in costs and potential benefits from reduced labour turnover are heavily dependent upon the differences in wage rates in the pre/post and comparative cases.

***Wage differences in the case study research***

Case Study	Type	Year	NLW	LW	Change	% Change
Uni Clean	Comparison	2011	6.75	7.85	1.10	16
Uni Clean	Comparison	2010	6.50	7.60	1.10	17
Grounds	Pre/Post	2009-2010	7.00	8.25	1.25	18
Small Office	Comparison	2011	6.70	8.00	1.30	19
Large Office	Comparison	2010	6.20	7.78	1.58	25
Housing	Pre/Post	2010-2011	6.61	8.30	1.69	26
Transport	Comparison	2011	5.93	7.85	1.92	32
5 Small						
G	Pre/Post	2010-2011	6.50	7.85	1.35	21
H	Pre/Post	2010-2011	6.25	7.85	1.60	26
S	Pre/Post	2010-2011	6.25	7.85	1.60	26
GLN	Pre/Post	2010-2011	6.00	7.85	1.85	31
Q	Pre/Post	2010-2011	6.00	7.85	1.85	31
Average %						24

<sup>14</sup> The non-living wage case in university cleaning was an interesting example and during the process of doing the research, the client agreed to move towards pay the living wage. In anticipation of this, the manager began to scrutinise the costs of the cleaning being provided. At the time, the client was contracting for 857 hours cleaning a week with additional supervision and management time of 80 hours. The shift from wage levels of £6.50 to £7.85 would increase the cost of the contract by £60,000 a year (allowing for increased on-costs and extra VAT). However, the manager involved used cleaning productivity indicators produced by the British Institute of Cleaning Science and a time and motion study available from the British Association for Cleaning in Higher Education to explore the costs of the contract. Applying these benchmarks implied that the number of hours could be reduced significantly without reducing

the quality of the service provided. As an example, the client was currently paying for 252 cleaning hours and 40 hours supervision to clean residential rooms that could apparently be done in 157 hours a week. In their renegotiation of the contract as part of the move to the living wage, this client thus intended to make significant reductions in the number of cleaning hours they were contracting, in this case, cutting the hours to 215 hours a week for cleaning the rooms. This allowed the move to the living wage to be cost-neutral for this particular part of the work. In addition, the client was able to make reductions in the overheads paid for staff who were being charged twice (as they did different jobs on site for the same contractor) and in the costs of equipment. Overall, the client planned to reduce the numbers of staff but increase their hours of work, benefiting those employed while reducing the overall costs.

# **The costs and benefits of the London living wage:**

## **APPENDICES**

<b>Appendix 1: The history of the living wage</b>	<b>42</b>
<b>Appendix 2: An additional case study in domiciliary care</b>	<b>44</b>
<b>Appendix 3: Generating statistical indicators from company data</b>	<b>46</b>
<b>Appendix 4: The information sheet and questionnaire survey</b>	<b>59</b>
<b>Appendix 5: Health and well-being</b>	<b>67</b>
<b>Appendix 6: The statistical significance tests used to explore the profile of workers in living wage and non-living wage workplaces</b>	<b>69</b>
<b>Appendix 6: The statistical analysis of the data on workers' feeling about work, family and finances</b>	<b>69</b>
<b>Appendix 8: The statistical analysis of the data on income, tax, NI and benefit spending</b>	<b>77</b>

# Appendix 1: The history of the living wage

The notion of a living wage first emerged in the industrial heartlands of Britain during the 1870s as the burgeoning labour movement developed the capacity to bargain over their share of economic pie. As Sidney and Beatrice Webb (1911 [1897]) argued, the early trade unions started to challenge the 'doctrine of supply and demand' with the 'doctrine of a living wage'. Workers began to demand the wages that would allow them to buy the food, shelter and clothing needed for themselves and their families to live. Rather than accepting that wages would be set by the vagaries of the market – the laws of supply and demand – workers were agitating for minimum standards that would allow them the means to survive.

The first full-length treatise in defence of a living wage was written in 1894 by Mark Oldroyd when he was Liberal MP for Dewsbury, Yorkshire. Oldroyd had a textile factory employing 2500 people in the town and when he was invited to give a lecture to the Dewsbury Pioneers Industrial Society (later the Dewsbury Co-operative Society) in December 1894, he chose the topic of the living wage. As many as one hundred and eighteen years ago, a liberal industrialist – who was also a passionate non-conformist Christian – declared: 'A living wage must be sufficient to maintain the worker in the highest state of industrial efficiency, with decent surroundings and sufficient leisure' (Oldroyd, 1894).

Oldroyd declared that the living wage should provide the basic subsistence needed by a worker and their family; it should provide 'reasonable time for recreation and rest' as well as 'reasonable home comforts'; and be sufficient to allow them to 'discharge ... the duties of citizenship'. The living wage was to be paid for by increased efficiency, greater consumption, which would help to fuel demand, and in some cases, by falling profits and/or rising prices. Oldroyd's argument was ethical as well as economic: the living wage was seen as a way to recognise the 'moral worth' of labour itself. Workers were to be afforded the dignity of providing for themselves by dint of their labour.

At this time, many in the growing labour movement were particularly exercised by the effects of 'sweating,' whereby workers were exploited beyond their capacity to recuperate. Even after long hours of arduous work they were paid less than they needed to reproduce themselves and their families. In response, political activists and social reformers began to advocate minimum standards for education, sanitation, leisure and wages, including a 'National Minimum' wage. These arguments prompted the government to pass the Trade Boards Act of 1909, setting new standards in a number of low-waged industries including chain making and lace finishing, which involved many women

working at home, as well as wholesale tailoring and paper-box making, where margins were low and sweating was common. In what were to become the Wages Councils after the Second World War, these boards involved employers, worker representatives and independent assessors in setting minimum standards for wages, hours and conditions of work.

At the same time, social reformers sought to calculate the living wage. In the early years of the twentieth century, another industrialist, Benjamin Seebohm Rowntree, son of Joseph Rowntree, Quaker, philanthropist and chocolate manufacturer, developed the tool kit for calculating the living wage, or what he called 'the human costs of labour'. Rowntree (see Seebohm Rowntree, 1918) did meticulous research in York to price the food, rent, clothing, fuel and miscellaneous items needed by a man with three children. He then advocated the extension of Trade Boards to cover each industry; these would fix wages around the new standard (35 shillings and 3 pence a week at 1914 prices for all adult men), while overseeing the industrial reforms needed to increase productivity and cover the cost. Rowntree argued that the nation depended on a living wage to ensure its workers were fit and healthy enough to work and take part in the wider community.

The demand for a living wage was then taken up as official policy by the Independent Labour Party from 1925. A living wage bill was proposed in the House of Commons in February 1931 by James Maxton MP. In his speech Maxton located the policy within the context of the curse of under-consumption. At a time of economic crisis and high unemployment, and in the wake of the general strike, Maxton and his ILP colleagues sought to focus on the politics of consumption as well as production. A living wage, they argued, would allow the population to consume 'the essential things of life ... food, better housing accommodation, better furnishing, equipment inside their home, better illumination of those homes, and better sanitation' (see Maxton, 1931). This, in turn, would stimulate growth, jobs and prosperity for the nation at large: putting money into the pockets of poor people was argued to be a way out of economic recession. In the event, although 124 Labour Party MPs voted for the Bill, it failed to win sufficient support, and the notion of a living wage was not to resurface as a political demand in Britain until the recent call and campaign led by London Citizens since 2001.

With hindsight, it can be seen that the growing welfare state gradually eclipsed the demand for a living wage. The provision of education, health, housing and pensions – together with the growth of collective bargaining and the operation of Wages Councils – undermined the demand for a living

wage. During the twentieth century, the state tended to lay down minimum standards for pay – that have generally been less than subsistence standards – and then provided a ‘top up’ depending on need and political pressure. However, by the 1970s, poverty was creeping back into everyday life. In particular, those workers who had not collectivised their wage setting and were left to the Wages Councils had experienced a relative decline in their levels of pay. Wages Councils still covered as many 3.5 million workers by the late 1970s and most had minimum standards little better than benefit levels (Cole, 1938; Field and Winyard, 1973, 44; Field, 1973, 131).

Since the 1970s, and in tandem with other western economies, there has been a very significant growth in levels of in-work poverty in the UK (Lawton and Cooke, 2008; Tripney et al 2009). The law concerning the application of fair wages in contracting was abolished in 1983 and the Wages Councils were abolished in 1993 (for background, see Bercusson, 1978). In addition, public bodies were encouraged to out-source their low waged employment to reduce costs, particularly in the NHS and Local Government.

## Appendix 2: An additional case study in domiciliary care

This company has been in business for some 14 years and it has grown during this time, largely through tendering for local authority contracts and acquisitions. At the time of interview, the company was working for 30 Local Authorities including several London boroughs, and was a substantial regional provider of domiciliary care services.

In the context of the Government's budget cuts, the sector was being squeezed very hard. Many Local Authorities last increased their rates in April 2009 and they had not done so since. There had been no allowance for inflation up to 2012, and there was no recognition of the impact of regulatory reform, nor, changes in the pension regime.

This made the move towards the London living wage in one local authority very counter-cultural. Indeed, most local authorities were reducing the amount they were willing to pay. As the managerial representative from the case study firm explained in late 2010, one south London borough was tendering for work at just £11.50 for each hour of care provided during the week and another borough in the newly-formed West London Alliance was aiming for the same service at just £12 an hour. At the time, the case study firm demonstrated that to provide a sustainable service and a profitable organisation, rates needed to be in excess of £13.00 an hour.

At a subsequent interview in May 2011, this representative reported that one local authority was now cutting the rates already paid for the provision of care. Whereas they used to pay £12.50 an hour with an enhanced rate of £4.25 for visits lasting up to 15 minutes, these rates had been cut to £12.35 and £3.09 an hour. Given that as much as a quarter of the work in this borough comprised very short visits to provide care for less than 15 minutes, this represented a very significant cut in the budget. It also meant that the company would be passing on a wage cut to staff.

In addition, a number of local authorities were reportedly looking at ways to further reduce the amount that they paid. Some were introducing call-logging software that is operated through the telephone, recording the number of minutes that the carer attends to a client, and paying accordingly. This would enable some local authorities to pay for care by the minute, reducing any incentive for staff to work in line with the actual needs of the people they serve.

It is also interesting to note that the case study firm was generally paid higher rates for its services outside London than it received from authorities within the M25. This reflected the strong competition between service providers in London as well as the

availability of a larger labour pool (often foreign-born labour) who were able and willing to work in care at low rates of pay.

### *A living wage contract?*

In 2010, the case study contractor was asked to tender at a LW wage rate in order to secure the renewal of its contract with a newly-announced LW borough. This borough had declared its intention to be a LW employer – for all its in-house and outsourced workers – and the care contract was offered to a number of firms that were able to demonstrate a commitment to paying the LW rate to all of their staff.

The case study company provided a substantial amount of care every week by employing 120 carers in the borough, many of them working less than 16 hours a week in order to secure certain benefit payments. At the time of the research, these carers were paid a flat rate with additional supplements for visits taking less than an hour, for having a qualification, for working anti-social hours, for covering weekends, and for doing sleepovers. They were not paid anything for travel time, did not have residents parking permits and were only paid for the time they attended to clients.

At the time of interview (May 2011), the average hourly rate including enhancements, exceeded the LW rate of £8.30 an hour. However, the inclusion of supplements does not meet the criteria for accreditation as a living wage employer, as established by the Living Wage Foundation, and as such, the case study firm was not an official LW firm.

In May 2011, managers reported that some 65% of staff qualified for the enhancement associated with holding an NVQ (putting up the minimum wage rate to £7.15 an hour) and that 25% of the workload comprised service provision of less than 30 minutes of care (such that a quarter of the work was paid at a minimum hourly rate of £8.50 an hour, twice the half hour rate).

Rotas were posted to staff every Friday – itself a cost of 50p a head to the company per week – and each carer had their own schedule of work to be completed during the week. As a result, each carer had a different take home pay and on average, this exceeded the LW rate. Calculations provided by the company are shown below in Table A2.1.

Take home wages during these 5 months averaged £9.30 an hour but this masked variation in the actual wage rates secured by the carers employed. Those without an NVQ who did a larger proportion of their work with service users who required at least an hour of care in each session, mostly during the

**Table A2.1: Average take-home hourly pay, per month, for carers in the LW local authority 2011**

	Jan 2011	Feb 2011	March 2011	April 2011	May 2011
<b>Wage/hr w/o enhancements</b>	8.24	7.95	7.75	8.06	7.86
<b>Wage enhancements</b>	1.37	1.32	1.29	1.34	1.31
<b>Average wage</b>	9.61	9.27	9.04	9.39	9.17

day, would have been paid less than some of their colleagues.

As long as this company was able to demonstrate the payment of LW rates to their staff, albeit on the basis of average rates of pay including enhancements, there was no requirement for the company to change the way that they calculated the pay for their staff. Indeed, given that they tender for, and provide, care work across London, dealing with many non-LW authorities, there was also no incentive for them to try and secure accreditation as a LW employer.

This case study highlights the role of the local authority in implementing and monitoring the LW. Although the LW was raised when the contracts were first awarded, there had been no subsequent

formal follow-up by the authority. The authority employed a contract monitoring officer who inspected the provider and followed up on any quality issues and concerns that were raised, but did not engage in any other contractual matters, including discussion about the LW. In addition, and in tandem with other local authorities, the borough was tightening up on the eligibility criteria for awarding care to local residents, making it likely that the volume of work would fall in the future.

While the move to become a LW borough had been very helpful in stemming the cost-pressures being felt elsewhere in London, it had not included the subsequent increases in the base LW rate. The case study also highlighted the potential for the local authority to engage in commercial monitoring once any contract was awarded at LW rates.



## Appendix 3: Generating statistical indicators from company data

As outlined in the research methodology section, the project used company data to generate a number of statistical indicators. Each is explained below and the raw data tables are included for each pre/post and comparative study in order to help illuminate the findings presented in Tables 7 and 8.

The **contract cost indicators** compare the cost of the contract in the living wage case or period with that in the non-living wage case or period. The indicators provide a simple way to compare the costs of the two-comparator contracts and the pre/post periods being researched. The indicators are derived as *total contract cost standardised for contract size*. Depending on the nature of the contract, denominator standardisation is measured as either *total worker hours* or *floor space / contract area*. The indicators are a measure of *total contract cost per unit area or per worker hour over the time period considered*.

The **staff turnover indicators** relate to the staff leaving and starting over the contract period and the cost of recruiting new staff and training them. Rates of *staff leaving* are derived as the number of staff leaving over the period expressed as a ratio of the number of staff employed over the period. The numerator is the number of staff resignations or dismissals over the period. Numbers of staff are included in this indicator irrespective of hours worked per week and this is a simple indicator of staff leaving rates at the different living wage and non-living wage cases or during pre/post periods. The indicators are expressed as *the number of staff leaving per 100 staff employed*. Rates of *staff starting* are derived in a similar way where the number of new recruits over the period are expressed as a proportion of the total number of staff employed over the period. Again the indicators express *the number of new staff recruits starting per 100 staff employed*.

The **recruitment cost indicators** measure the total amount of expenditure on the recruitment of new staff over the period expressed as a ratio of the case size measured as the total number of worker hours supplied over the period. Recruitment expenditure includes management time, administration, induction and any uniform costs incurred by the new recruits and is an indication of the *cost of recruitment per worker hour*.

The **training cost indicator** looks at differences in training costs between living wage and non-living wage cases or pre/post periods, and is expressed as a ratio of the size of the contract effort. Total expenditure on training includes expenditure on training providers, the cost of worker hours spent doing training and other resources. These costs are expressed as a ratio of the total worker hours, giving

an indication of *the total expenditure on training per worker hour over the period*.

The **sickness and absence rates and cost indicators** are developed from information on the number of days absent and the cost of absence. The indicators developed vary depending on data available, some are based on the total expenditure on sickness per person hour worked for ordinary sick pay and statutory sick pay, while other indicators are developed as the total hours or days absent expressed as a ratio of the total hours worked over the period.

The summary tables showing trends across the case studies (Tables 7 and 8) comprise a number of indicators that are used to facilitate comparisons. These tables show the direction of change (shown as +/-) associated with the living wage but the indicators have also been used to derive estimates of the magnitude of the costs and benefits of these changes. From the contractors and employers point of view the main cost increases are due to higher wage rates being paid, while the main benefits relate to staff turnover cost savings. Where data is available it has been used to generate the following indicators:

The **wage rate % change** figure which shows the changes in wages associated with the living wage expressed as a proportion of the NLW wage rate.

The **wage cost % change** figure which is the percentage change in operative wage costs associated with implementation of the living wage in the pre/post cases. The denominator is NLW wage costs not contract costs as used for the indicators below.

The **contract cost % change** figure which shows the change in contract costs associated with actual implementation of the living wage in the pre/post cases, expressed as a percentage of the NLW contract cost.

The **wage cost % of contract cost** figure which shows the increase in wage costs as a proportion of the NLW contract cost.

The **labour turnover benefit % of contract cost** figure which represents any financial savings generated from reductions in labour turnover, expressed as a proportion of the NLW contract cost.

Our analysis of the data provided by the companies to generate these figures is shown for each of our cases below. The pre/post cases are each followed by a summary statement that seeks to capture the implementation strategy that is being deployed in association with the move to the living wage.

## Pre/post case studies

**Table A3.1: Grounds work case pre/post case study**

Indicators	NLW 2009	LW 2010*	Change
Wage Rate (permanent operative)	7.00	8.25	1.25
Total Contract Cost per Hectare of Service per Year £	20,075.76	20,233.40	-
Total Contract Cost per Worker Hour per Year £	15.47	14.90	-
Total Contract Cost per £ of wage cost per Year	1.93	1.70	-
Recruitment Cost per Worker Hour per Year £	0.09	0.06	+
Staff Leaving Rate per 100 staff per Year	8.90	5.10	+
Staff Start Rate per 100 staff per Year	15.93	10.08	+
Total Training Costs per Worker Hour per Year £	0.33	0.05	+
Total Cost of Sickness per Worker Hour per year £ (OSL)	0.12	0.12	
Total Cost of Sickness per Worker Hour per year £ (SSP)	0.06	0.06	
Contract Cost (CC)	3,392,803	3,419,444	26,641
Person Hours	157,768	169,520	11,752
Total Wage Bill	1,160,865	1,397,845	236,980
Recruitment Cost	18,054	12,252	-5,802
Training Cost	72,932	12,208	-60,724
Sickness Cost			
1 OSL	26,079	27,015	936
2 SSP	13,423	13,556	133
Wage Cost Change % of NLW CC			6.98
Recruitment Cost Change % of NLW CC			-0.17
Training Cost Change % of NLW CC			-1.79
Sickness Cost OSL Change % of NLW CC			0.03
Wage Rate % Change			18
Wage Cost % Change			20
Contract Cost % Change			1

Note: OSL – Ordinary Sick Pay, SSP – Statutory Sick Pay

\* The 2010 LW rate included a minority of workers with TUPE who were paid more than the LW rate, increasing the overall rate.

**Table A3.2: Grounds work larger LW and smaller NLW comparative case studies, 2010**

Indicator	Smaller NLW	Larger LW	Change
Contract Area (hectares)	19.50	169.00	
Wage rate (permanent operative) £ per hour	6.81	8.25	
Total Contract Cost per Hectare of Service per Year £	9,789.70	20,233.40	-
Total Contract Cost per Worker Hour per Year £	12.76	14.90	-
Total Contract Cost per £ of wage cost per Year	1.73	1.70	-
Recruitment Cost per Worker Hour per Year £	0.03	0.06	-
Staff Leaving Rate per 100 staff per Year	14.29	5.10	+
Staff Start Rate per 100 staff per Year	28.57	10.08	+
Total Training Costs per Worker Hour per Year £	na	0.05	na
Total Cost of Sickness per Worker Hour per year £ (OSL)	0.02	0.12	-
SSP	0.06	0.06	

Note: OSL – Ordinary Sick Pay, SSP – Statutory Sick Pay

Grounds case: In summary, contract revenue went up 0.8%, or by £26,641; wage costs went up 20 % (7 % of NLW contract cost (CC)) or £236,980; hours worked went up by 11,752 hrs. Assuming quality

of service is the same, these wage costs are being absorbed among; 1) lower non-operative wage costs 2) lower non-wage costs, and/or 3) lower profits.

**Table A3.3: Housing estate cleaning pre/post living wage case study**

Indicator	Before NLW 2010	After LW 2011	Change
Contract Area (number of dwellings managed)	8500	8500	
Wage rate (cleaner) £ per hour	6.61	8.3	-
Total Wage Cost per Dwelling per Year £	56.47	78.37	-
Recruitment Cost per Worker Hour per Year £	na	na	
Staff Leaving Rate per 100 staff per Year	10.53	4.76	+
Staff Start Rate per 100 staff per Year	na	14.29	
Total Training Costs per Worker Hour per Year £	na	na	
Total Days of Sickness per Full Time Worker Hours per year	10.5	10.5	
Staff (FT)	38	42	
Contract Cost (CC)	na	na	
Person hours	72,618	80,262	7,644
Wage cost	480,005	666,175	186,170
Recruitment cost	na	na	na
Wage Cost Change % of CC	na	na	na
Recruitment Cost Change % of CC	na	na	na

Housing case: In summary, wage costs went up 39 %, or by £186,170; hours worked went up by 7,644 hours and staff numbers increased. The wage rate went up by 26% so this case shows an expansion

in labour effort with the LW that is being paid from some other budget or out of lower profits from another source.

**Table A3.4: Smallest cleaning contractor, pre/post NLW and LW comparison, case G**

Indicators	NLW 2010	LW 2011	Change
Wage rate per hour £ - cleaning operative	6.50	7.85	1.35
Total Area of Cleaned Floor Space (Square Feet)	30000	30000	
Total Cleaning Operatives working on the Contract (persons)	12	10	
Total Contract Cost per Unit of Cleaned Floor Space per Year	4.12	5.47	-
Total Contract Cost per Worker Hour per Year (operative)	18.39	29.29	-
Total Contract Cost per Worker Hour per Year (all staff)	10.51	12.88	-
Total Contract Cost per Unit of Wage Cost (operative)	2.83	3.73	-
Recruitment Cost per Worker Hour per Year	0.18	0.10	+
Staff Resignation / Dismissal Rate per 100 cleaning staff per Year	125.00	80.00	+
Staff Start Rate per 100 cleaning staff per Year	125.00	80.00	+
Person Hours (cleaning operatives)	6,720	5,600	-1,120
Wage Cost (cleaning operatives £)	43,680	43,960	280
Recruitment cost £	1,035	568	-466
Contract Cost	123,600.00	164,040.00	40,440.00
Wage Cost % NLW Contract Cost			0.2
Recruitment Benefit % NLW Contract Cost			-0.4
% Change Wage Rate (cleaning operative)			21
% Change Wage Cost (cleaning operatives)			1
% Change Contract Cost			33

Case G: In summary, this case shows overall contract revenue to have increased by 33%. However, operative wage costs (1% increase, or 0.2 as a proportion of NLW contract cost) remained very similar if not neutral, as staff hours were cut (-1,120 hrs) and staff numbers were cut by 2. Given that the area of cleaned space is the same, this suggests there to have been labour productivity increases with the reduction in staff hours worked, assuming service quality to be the same.

This is the only case to show total benefits being greater than total costs, but this is being achieved at the expense of cuts in hours and jobs, as contract revenue increased. The higher contract revenue of £40,440 is not all being passed onto cleaning operatives in the form of higher wages, as the estimates suggest only £280 of this amount is accounted for by the wage cost increase. The extra contract revenue could be being absorbed in a number of ways, in either; 1) higher non-operative wage costs 2) higher non-wage costs, and/ or 3) higher profits.

**Table A3.5: Smallest cleaning contractor, pre/post NLW and LW comparison, case H**

<b>Indicators</b>	<b>NLW 2010</b>	<b>LW 2011</b>	<b>Change</b>
Wage rate per hour £ - cleaning operative	6.25	7.85	1.60
Total Area of Cleaned Floor Space (Square Feet)	30000	30000	
Total Cleaning Operatives working on the Contract (persons)	6	6	
Total Contract Cost per Unit of Cleaned Floor Space per Year	3.11	3.23	-
Total Contract Cost per Worker Hour per Year (operative)	22.20	23.09	-
Total Contract Cost per Worker Hour per Year (all staff)	12.81	13.32	-
Total Contract Cost per Unit of Wage Cost (operative)	3.55	2.94	+
Recruitment Cost per Worker Hour per Year	0.02	0.12	-
Staff Resignation / Dismissal Rate per 100 cleaning staff per Year	33.33	33.33	=
Staff Start Rate per 100 cleaning staff per Year	16.67	116.67	-
Person Hours (cleaning operatives)	4,200	4,200	0
Wage Cost (cleaning operatives £)	26,250	32,970	6,720
Recruitment cost £	69	497	428
Contract Cost	93,240.00	96,996.00	3,756.00
Wage Cost % NLW Contract Cost			7.2
Recruitment Benefit % NLW Contract Cost			0.5
% Change Wage Rate (cleaning operative)			26
% Change Wage Cost (cleaning operatives)			26
% Change Contract Cost			4

Case H: In summary, contract revenue increased by 4%, or by £3,756; wage costs increased 26 % (7.2 % of NLW CC) or by £6,720. Hours worked remained the same, as did staff numbers. Assuming quality of service remained the same, these costs are being absorbed in; 1) lower non-operative wage costs 2) lower non-wage costs, and/or 3) lower profits.

**Table A3.6: Smallest cleaning contractor, pre/post NLW and LW comparison, case GLN**

Indicators	NLW 2010	LW 2011	Change
Wage rate per hour £ - cleaning operative	6.00	7.85	1.85
Total Area of Cleaned Floor Space (Square Feet)	18000	18000	
Total Cleaning Operatives working on the Contract (persons)	3	2	
Total Contract Cost per Unit of Cleaned Floor Space per Year	2.22	1.95	+
Total Contract Cost per Worker Hour per Year (operative)	19.00	20.86	-
Total Contract Cost per Worker Hour per Year (all staff)	13.57	13.17	+
Total Contract Cost per Unit of Wage Cost (operative)	3.17	2.66	+
Recruitment Cost per Worker Hour per Year	0.04	0.00	+
Staff Resignation / Dismissal Rate per 100 cleaning staff per Year	66.67	0.00	+
Staff Start Rate per 100 cleaning staff per Year	33.33	0.00	+
Person Hours (cleaning operatives)	2,100	1,680	-420
Wage Cost (cleaning operatives £)	12,600	13,188	588
Recruitment cost £	69	0	-69
Contract Cost	39,900.00	35,039.00	-4,861.00
Wage Cost % NLW Contract Cost			1.5
Recruitment Benefit % NLW Contract Cost			-0.2
% Change Wage Rate (cleaning operative)			31
% Change Wage Cost (cleaning operatives)			5
% Change Contract Cost			-12

Case GLN: In summary, contract revenue went down by -12%, or by -£4,861; wage costs went up 5 % (1.5 % of NLW CC) or by £588. Hours worked declined by -420 hours, and staff declined by 1 person. Assuming quality of service was the same, these costs are being absorbed in; 1) lower non-operative wage costs 2) lower non-wage costs, and/ or 3) lower profits.

**Table A3.7: Smallest cleaning contractor, pre/post NLW and LW comparison, case Q**

Indicators	NLW 2010	LW 2011	Change
	Q	Q	Q
Wage rate per hour £ - cleaning operative	6.00	7.85	1.85
Total Area of Cleaned Floor Space (Square Feet)	20000	20000	
Total Cleaning Operatives working on the Contract (persons)	4	4	
Total Contract Cost per Unit of Cleaned Floor Space per Year	2.02	2.68	-
Total Contract Cost per Worker Hour per Year (operative)	12.04	15.98	-
Total Contract Cost per Worker Hour per Year (all staff)	9.63	12.78	-
Total Contract Cost per Unit of Wage Cost (operative)	2.01	2.04	-
Recruitment Cost per Worker Hour per Year	0.14	0.04	+
Staff Resignation / Dismissal Rate per 100 cleaning staff per Year	125.00	75.00	+
Staff Start Rate per 100 cleaning staff per Year	150.00	50.00	+
Person Hours (cleaning operatives)	3,360	3,360	0
Wage Cost (cleaning operatives £)	20,160	26,376	6,216
Recruitment cost £	414	142	-272
Contract Cost	40,440.00	53,690.00	13,250.00
Wage Cost % NLW Contract Cost			15.4
Recruitment Benefit % NLW Contract Cost			-0.7
% Change Wage Rate (cleaning operative)			31
% Change Wage Cost (cleaning operatives)			31
% Change Contract Cost			33

Case Q: In summary, contract revenue went up 33%, or by £13,250; wage costs went up 31 % (15.4 % of NLW contract costs) or by £6,216. Hours worked remained the same as did staff numbers. Assuming quality of service remained the same, these wage costs are being absorbed within the higher contract revenue. This case could also accommodate; 1) possible higher non-operative wage costs 2) higher non-wage costs, and/or 3) higher profits, despite these wage cost increases.

**Table A3.8: Smallest cleaning contractor, pre/post NLW and LW comparison, case S**

Indicators	NLW 2010	LW 2011	Change
Wage rate per hour £ - cleaning operative	6.25	7.85	1.60
Total Area of Cleaned Floor Space (Square Feet)	21000	21000	
Total Cleaning Operatives working on the Contract (persons)	5	5	
Total Contract Cost per Unit of Cleaned Floor Space per Year	3.25	3.37	-
Total Contract Cost per Worker Hour per Year (operative)	24.34	25.28	-
Total Contract Cost per Worker Hour per Year (all staff)	11.87	12.33	-
Total Contract Cost per Unit of Wage Cost (operative)	3.89	3.22	+
Recruitment Cost per Worker Hour per Year	0.17	0.23	-
Staff Resignation / Dismissal Rate per 100 cleaning staff per Year	100.00	100.00	=
Staff Start Rate per 100 cleaning staff per Year	120.00	180.00	-
Person Hours (cleaning operatives)	2,800	2,800	0
Wage Cost (cleaning operatives £)	17,500	21,980	4,480
Recruitment cost £	414	639	226
Contract Cost	68,160.00	70,797.00	2,637.00
Wage Cost % NLW Contract Cost			6.6
Recruitment Benefit % NLW Contract Cost			0.3
% Change Wage Rate (cleaning operative)			26
% Change Wage Cost (cleaning operatives)			26
% Change Contract Cost			4

Case S: In summary, contract revenue went up 4%, £2,637; wage costs went up 26% (6.6 % of NLW CC) £4,480. Hours worked remained the same, as did staff numbers. Assuming quality of service remained the same, these higher costs exceed the higher contract revenue, so are being absorbed in; 1) lower non-operative wage costs, 2) lower non-wage costs, and/or 3) lower profits.



**Table A3.9: Smallest cleaning contractor, NLW comparison, case QA**

Indicators	NLW 2010	LW 2011	Change
Wage rate per hour £ - cleaning operative	5.93	6.08	0.15
Total Area of Cleaned Floor Space (Square Feet)	60000	60000	
Total Cleaning Operatives working on the Contract (persons)	13	13	
Total Contract Cost per Unit of Cleaned Floor Space per Year	2.18	2.28	-
Total Contract Cost per Worker Hour per Year (operative)	17.98	18.81	-
Total Contract Cost per Worker Hour per Year (all staff)	11.13	11.65	-
Total Contract Cost per Unit of Wage Cost (operative)	3.08	3.16	-
Recruitment Cost per Worker Hour per Year	0.10	0.10	=
Staff Resignation / Dismissal Rate per 100 cleaning staff per Year	84.62	23.08	+
Staff Start Rate per 100 cleaning staff per Year	69.23	76.92	-
Person Hours (cleaning operatives)	7,280	7,280	0
Wage Cost (cleaning operatives £)	42,442	43,389	946
Recruitment cost £	621	710	90
Contract Cost	130,920.00	136,956.00	6,036.00
Wage Cost % NLW Contract Cost			0.7
Recruitment Benefit % NLW Contract Cost			0.1
% Change Wage Rate (cleaning operative)			3
% Change Wage Cost (cleaning operatives)			2
% Change Contract Cost			5

In overall summary of the pre/post cases, where contract cost increases were greater than the wage costs increases (smallest cases G and Q), it suggests potential profits can be maintained, as wage costs are passed on to the client. One implementation strategy suggests total benefits can be further increased, and profits potentially increased, by reducing staff and labour effort and increasing labour productivity. In all other cases where contract cost increases are less than wage cost increases (Grounds, Housing, smallest cases H, GLN and S), these higher wage costs are being managed down and absorbed. This may have a downward effect on profits, as wage costs have to be internalised and absorbed within the firm. The evidence suggests they are not passed on to clients in these implementation management strategies.

## Comparative NLW/LW cases

**Table A3.10: Transport services NLW and LW cleaning comparative case studies, 2011**

Indicators	NLW 2011	LW 2011	Change
Contract Area	na	na	na
Wage Rate Operative £ per hour	5.93	7.85	
Total Contract Cost per Worker Hour per Year	9.32	17.58	-
Total Contract Cost per Unit Area per Year	na	na	na
Total Contract Cost per Wage Cost per Year	1.57	2.24	-
Recruitment Cost per Worker per Year £	328.03	261.28	+
Recruitment Cost per Worker Hour per Year	0.07	0.04	+
Staff Resignation / Dismissal Rate per Year per 100 persons	33.90	28.30	+
Staff Start Rate per Year, per 100 Persons	41.89	32.23	+
Total Training Hours per 1000 Worker Hours per Year	1.00	0.65	+
Total Person Working Days Sick, per 1000 person working days	32.03	9.95	+

**Table A3.11: Potential costs and benefits from implementation in transport services cleaning**

Selective Costs and Benefits	2011 (NLW)
LW Wage Rate	7.85
NLW working hours (Cleaners)	858,000
Potential Wage Cost (LW)	6,735,300
Actual Wage Cost NLW)	5,087,940
Potential Wage Cost Differential of LW implementation	1,647,360
% of Contract Cost £8 million NLW	20.59
Recruitment / Training Cost Per Worker Hour LW	0.04
NLW working hours	858,000
Potential Recruitment / Training Cost	34,320
Actual Recruitment / Training Cost (NLW)	56,749
Potential Benefit / Cost of Recruitment LW Implementation	-22,429
% of Contract Cost £8 million NLW	-0.28
Sickness Days per 1000 working days LW	9.95
Person working days 1000	123
Potential Worker Days Sick	1,220
Actual Worker Days Sick (NLW)	3,926
Potential Sickness Benefit / Cost	-2,706
Day Wage Cost (7.85 x 7hrs)	55
Potential Sickness Benefit / Cost	-148,853
% of Contract Cost £8 million NLW	-1.86
All Wage Cost £	1,647,360
All Benefits £	-171,282
All Wage Cost % of Contract Cost	20.59
All Benefits % Contract Cost	-2.14

**Table A3.12: Large office cleaning NLW and LW comparative case studies, 2010 and 2011**

Indicator	NLW 2010	LW 2010	NLW 2011	LW 2011	Change
Wage Rate Operative £ per hour	6.20	7.78	6.20	8.08	
Total Client Expenditure on Contract, per cleaner hour worked	23.98	5.98	na	14.80	
Total Client Expenditure on Contract per unit of cleaned floor space	3.39	1.05	3.43	2.37	+
Total Expenditure on Recruitment, Cleaning Hour	na	0.03	na	0.04	
Total staff resigning and dismissed per year, per 100 persons working	34.26	38.14	25.00	43.15	-
Total Staff Starting per year, per 100 persons working	na	30.93	na	15.75	
Total Expenditure on Training, per person working	na	na	na	na	
Total Person Working Day Off Sick per total persons working	3.16	2.66	1.91	1.71	+
Total Expenditure on Sick pay per person working £ per year (SSP)	64.73	48.23	76.89	62.99	+

Note: NLW 2010 wage rates only available; LW is based on all sites.

**Table A3.13: Potential costs and benefits from implementation in large office cleaning**

Selective Costs and Benefits	2011 (NLW)	2010 (NLW)
LW wage rate	8.08	7.78
NLW working hours (Cleaners)	na	265,954
Potential Wage Cost (LW)	na	2,069,122
Actual Wage Cost NLW)	na	1,685,057
Potential Wage Cost Differential of LW implementation	na	384,065
% of Contract Cost NLW £6.4 m	na	6.02
Recruitment / Training Cost Per Worker Hour LW	na	na
NLW working hours	na	na
Potential Recruitment / Training Cost	na	na
Actual Recruitment / Training Cost (NLW)	na	na
Potential Benefit / Cost of Recruitment LW Implementation	na	na
% of Contract Cost NLW £6.4 m	na	na
Sickness Expenditure per worker LW	62.99	48.23
number of workers NLW	276	216
Potential Sick Cost	17,385	10,418
Actual Sick Cost (NLW)	21,223	13,983
Potential Sickness Benefit / Cost	-3,838	-3,565
% of Contract Cost NLW	-0.06	-0.06
All Cost wage, recruitment, sickness costs £	na	384,065
All Benefits £	-3,838	-3,565
All Cost % of Contract Costs	na	6.02
All Benefits % of Contract Costs	-0.06	-0.06

**Table A3.14: University cleaning contracts NLW and LW comparative case studies, 2010 and 2011**

Indicators	NLW 2010	LW 2010	NLW 2011	LW 2011	Change
Wage rate - weekly cleaner £ per hour	6.50	7.60	6.75	7.85	
Total Contract Cost per Unit of Cleaned Floor Space per Year	na	na	na	na	
Recruitment & Training Cost per Worker Hour per Year	0.02	0.06	0.00	0.02	-
Staff Leaving Rate per 100 staff per Year	24.32	40.00	2.86	17.78	-
Staff Start Rate per 100 staff per Year	24.32	48.89	0.00	20.00	-
Total Training Costs per Worker Hour per Year	na	na	na	na	
Total Days Absent Short Term per year (up to 4 days), per FT Worker Year Hours, per Year	0.19	1.38	0.19	0.36	-
Total Days Absent per year (Over 4 days SSP), per FT Worker Year Hours, per Year	na	na	na	na	

**Table A3.15: Potential costs and benefits from implementation in university cleaning**

Selective Costs and Benefits	2010 NLW	2011 NLW
LW wage rate	7.60	7.85
NLW working hours (Cleaners)	44564	44564
Potential Wage Cost (LW)	338686	349827
Actual Wage Cost NLW)	289666	300807
Potential Wage Cost Differential of LW implementation	49020	49020
CC na, using % of Wage Cost NLW	17	16
Recruitment / Training Cost Per Worker Hour LW	0.06	0.02
NLW working hours	44564	44564
Potential Recruitment / Training Cost	2669	1105
Actual Recruitment / Training Cost (NLW)	1041	0
Potential Benefit / Cost of Recruitment LW Implementation	1628	1105
CC na, using % of Wage Cost NLW	1	0
Sickness Rate per FT worker Hours (1680) LW	1.38	0.36
FT person worker hours (NLW Hours / 1680)	27	27
Potential FT Worker Days Sick	37	9
Actual FT Worker Days Sick (NLW)	5	5
Potential Sickness Benefit / Cost	32	4
Day Wage Cost (7.60 x 7hrs)	53	55
Potential Sickness Benefit / Cost	1687	244
CC na, using % of Wage Cost NLW	1	0
All Cost wage, recruitment, sickness costs £	52336	50370
All Benefits £	0	0
All Cost % of NLW Wages Costs	18	17
All Benefits % of NLW Wage Costs	0	0

**Table A3.16: Small office cleaning contracts NLW and LW comparative case studies, 2011**

Indicator	NLW 2011	LW 2011	Change
Contract Area (square feet)	154,000	266,179	
Wage rate (cleaner) £ per hour	6.70	8.00	
Total Contract Cost per Square foot of Service per Year £	1.88	1.61	+
Total Contract Cost per Worker Hour per Year £	19.92	22.82	-
Total Contract Cost per £ of wage cost per Year	2.97	2.91	-
Recruitment Cost per Cleaning Worker Hour per Year £	0.27	0.053	+
Staff Leaving Rate per 100 staff per Year	57.00	0	+
Staff Start Rate per 100 staff per Year	57.00	10	+
Total Training Costs per Worker Hour per Year £	na	na	
Total Days of Sickness per Full Time Worker Hours per year £	0	0	
Total Days of Sickness per Full Time Worker Day per year £	1.73	0	+

Note: OSL – Ordinary Sick Pay, SSP – Statutory Sick Pay

**Table A3.17: Potential costs and benefits from implementation in small office cleaning**

Selective costs and benefits	NLW 2011
LW wage rate	8.00
NLW working hours (Cleaners)	14,560
Potential Wage Cost (LW)	116,480
Actual Wage Cost NLW cleaners	97,552
Potential Wage Cost Differential of LW implementation	18,928
% of Contract Cost NLW	6.53
Recruitment / Training Cost Per Worker Hour LW	0.05
NLW working hours	14,560
Potential Recruitment / Training Cost	772
Actual Recruitment / Training Cost (NLW)	4,000
Potential Benefit / Cost of Recruitment LW Implementation	-3,228
% of Contract Cost NLW	-1.11
Sickness Rate per FT worker Hours (1680) LW	0.00
FT person worker hours (NLW Hours / 1680)	9
Potential FT Worker Days Sick	0
Actual FT Worker Days Sick (NLW)	15
Potential Sickness Benefit / Cost	-15
Day Wage Cost (8.00 x 7hrs)	56
Potential Sickness Benefit / Cost	-840
% of Contract Cost NLW	-0.29
All Wage Cost Cleaners £	18,928
All Benefits (recruitment and sickness) £	-4,068
All Wage Cost % of Contract Costs	6.53
All Benefits % of Contract Costs	-1.40

# Appendix 4: The information sheet and questionnaire survey



Queen Mary, University of London  
Mile End Road, London E1 4NS  
Telephone: 020 7882 8200  
Facsimile: 020 8981 6276  
Email: J.Wills@qmul.ac.uk  
Website: www.geog.qmul.ac.uk

Department of Geography

## **INDEPENDENT RESEARCH INTO THE IMPACT OF WAGES ON WORKERS**

The living wage – currently £8.30 an hour (from May 2011) – is now paid to thousands of Londoners and it is an increasingly popular ethical benchmark for wages in the capital. It is also seen as a good way to improve life for people living and working in London.

Independent academic researchers from Queen Mary University of London, funded by a charity called Trust for London, are now exploring the costs and benefits of the living wage for workers, employers, tax payers and residents in London.

Your workplace has been selected as a case study for this research. Your employers have agreed that researchers can come and conduct a questionnaire survey with all employees during normal working hours.

We hope you will agree to take part in this project. There is no need to tell the researchers your name. The information you provide will be treated in the strictest confidence and will not be shared with your employer. You are free to answer only those questions that you want to answer and to terminate the interview at any time. We also guarantee that your workplace will not be named in any of the publications arising from the research.

The final research report produced at the end of the project will be put on the internet and will be freely available to you and your colleagues.

Researchers will be visiting your workplace in July 2011 and will be conducting the interviews.

These interviews can be conducted in English, Spanish or Portuguese at your request.

If you have any questions please contact the project director: Professor Jane Wills on j.wills@qmul.ac.uk or 0207 882 8200.

Many thanks in anticipation of your support.

## DataEntry LW2010



### You and your work

This section is to be completed by ALL respondents

#### Section 1 - Work

2. What is your job? (title)

3. When did you start working for your current employer? (month and year)

4. When did you start working at this workplace? (month and year)

5. How many hours per week do you do at this workplace?

6. What hourly rate you are paid for this job?

7. How did you find out about this job?

- through an advert  
 through a personal contact  
 through an agency

Other (please specify):

8. Where did you work before you came to work here?

- at a workplace in London  at a workplace in the UK  at a workplace outside the UK  was not working prior to this job

9. Who was your employer (name of company)

10. What was your job? (type of work done; job title)

11. Were you paid the living wage in your previous job? (please check with the wage rates shown to you by the researcher)

- Yes  
 No  
 My last job was abroad (not comparable)  
 My previous job was in the UK but I was paid more than the living wage  
 Don't know  
 Other (please specify):

12. Why did you move to this job?

13. Do you have terms and conditions of work that are covered by TUPE regulations, reflecting your employment with a different employer? (The TUPE is the legal framework that protects your terms and conditions of work when you are transferred from one employer to another. If operational this means that you that are paid at a different rate and/or have different entitlement to in-work benefits than some of your colleagues).

- Yes  No  Don't know  
 Other (please specify):

#### For LIVING WAGE WORKPLACES

These questions are ONLY to be answered by those employed in living wage workplaces.

14. Were you employed here when the Living Wage was brought in?

- Yes (Go to Question 18)
- No - the company was already paying the living wage when I started here (Go to Question 15)
- Don't know (Go to Question 15)
- Other (please specify): \_\_\_\_\_

**For those who moved into the living wage workplace or for whom this is the first job in the UK**

These questions are for those who answered 'no' or 'don't know' to question 14.

- 15. Reflecting on your previous experience in a non-living wage workplace, what difference does the living wage make to your work?**  
(select all that apply)

- The living wage is lower than the wage I received in my previous job
- The living wage makes no difference to my work
- The living wage makes me more likely to stay in this job
- The living wage makes me feel more respected at work
- The living wage means I have more pride in my work
- The living wage makes me work harder
- The living wage makes me feel happier about my work
- Other (please specify): \_\_\_\_\_

- 16. Reflecting on your experience in a non-living wage workplace, what difference does the living wage make to your life?**  
(select all that apply)

- The living wage is lower than the wage I received in my previous job
- It doesn't make any major difference to my life
- It means I don't have to worry about money so much
- It means I can take a different form of transport to work
- It means I don't need to do additional jobs
- It means I can spend more time with my family
- It means I can think about doing more training
- It means I can take more or longer holidays
- Other (please specify): \_\_\_\_\_

- 17. Reflecting on your experience in a non-living wage workplace, what difference does the living wage make to your family?**  
(select all that apply)

- The living wage is lower than the wage I received in my previous job
- The living wage doesn't make any difference to my family
- The living wage means that I can buy more goods for my family
- The living wage means that I spend more time with my family
- The living wage means that I send more money to my wider family via remittances
- Other (please specify): \_\_\_\_\_

Please go to question 25 now.

**For those who were in the workplace when it became a living wage workplace**

For those who answered 'yes' to question 14.

- 18. Have you noticed any changes in the workplace since the Living Wage was brought in?**

- Yes  No  Don't know
- Other (please specify): \_\_\_\_\_

If 'yes', what changes have taken place? (select all that apply)

- The job has been reorganised
- The work is easier
- The work is harder
- There is less supervision
- There is more supervision
- The work is more productive
- The work is less productive
- Fewer people are leaving
- More people are leaving
- Fewer people take unplanned time off
- More people take unplanned time off
- People are happier about their work
- People are less happy about their work



- I work more hours
- I work less hours
- I have had access to more training
- Training opportunities have been cut
- I do a wider range of tasks at work
- I do a narrower range of tasks
- Other (please specify):  
\_\_\_\_\_

19. Has the introduction of the Living Wage made you feel more loyal towards your employer?

- Yes  No  Don't know
- Other (please specify):  
\_\_\_\_\_

20. Has the introduction of the Living Wage changed how you feel about your work?

- Yes (Go to 'a' below)  No (Go to 'b' below)  Don't know
- a. If 'yes', how have your feelings about work changed? (select all that apply)
  - I feel happier about doing the work that I do
  - I feel more respected about the work that I do
  - I feel more valued by my employer and the client for the work that I do
  - My pay is important in determining the way I feel about the work I do
  - Other (please specify):  
\_\_\_\_\_

- b. If 'no', what has not changed? (select all that apply)
  - I don't feel any differently about the work that I do
  - I do't feel any more respected for doing the work that I do
  - Increasing my pay makes no difference to how valued I am by the employer and the client
  - My pay makes no difference to the way I feel about the work that I do
  - Other (please specify):  
\_\_\_\_\_

21. What difference has earning the Living Wage made to your working life?

- The living wage has made no difference to my working life (Go to 'a' below)
- The living wage has improved my working life (Go to 'b' below)
- Don't know
- Other (please specify):  
\_\_\_\_\_

- a. If the living wage has made no difference to your working life, why is this the case?  
\_\_\_\_\_
- b. If the living wage has improved your working life, please tell us more, what has changed? (select all that apply)
  - I don't need an additional job anymore
  - My partner does not need to go out to work anymore
  - I can take longer holidays
  - I can devote more time to training
  - I can devote more time to the trade union
  - I feel happier about my work
  - I get less stressed about work
  - Other (please specify):  
\_\_\_\_\_

22. What difference has earning the Living Wage made to your financial circumstances?

- The living wage has made no difference to my finances (Go to 'a' below)
- The living wage has improved my finances (Go to 'b' below)
- Don't know
- Other (please specify):  
\_\_\_\_\_

- a. If the living wage has made no difference, why not?  
\_\_\_\_\_
- b. If the living wage has improved your finances, what are the main changes? (select all that apply)
  - I am able to spend more on things that I need/want
  - I am able to save more
  - I am able to send more money to my home country
  - I am able to invest in my own education

- I have changed my main form of transport (i.e. from walking to the bus, from bus to train/tube, add note below under other if needed)
- Other (please specify): \_\_\_\_\_

---

23. What difference has earning the Living Wage made to your family life?

- The living wage has made no difference (Go to 'a' below)
- The living wage has improved my family life (Go to 'b' below)
- Don't know
- Other (please specify): \_\_\_\_\_

a. If the living wage has made no difference, why is this?

---

b. If the living wage has improved your family life, what are the main changes that have occurred? (select all that apply)

- I am able to spend more time with my family as I work fewer hours (in this job and/or an additional job)
- I am able to spend more time with my family as I am now working more sociable hours (eg. moving to daytime working)
- I am able to buy more goods for my family
- I am able to spend more on leisure with the family (e.g. eating out)
- I am able to take more holidays/trips with the family
- Other (please specify): \_\_\_\_\_

---

Please go to question 25 now.

for those in NON-LIVING WAGE workplaces

24. What, if any, are the main challenges you face in working for the rate of pay that you earn now? (select all that apply)

- I don't encounter any significant challenges in relation to pay
- It is difficult to motivate myself in relation to work
- It is difficult to manage my household expenses
- I have to do additional work
- I spend time looking for alternative work
- It is hard to make time for my family
- I have to travel by bus rather than using the tube
- Other (please specify): \_\_\_\_\_

---

For ALL respondents

25. What are your plans for the future?

- Stay on in this job with this employer
- Move up the career ladder with this employer
- Move to a similar job with a different employer
- Move up the career ladder with a different employer
- Move into training to develop a different career
- Move to a different job altogether
- To retire
- To leave the UK and live abroad
- Other (please specify): \_\_\_\_\_

---

Your health and well-being

26. Would you say your health in general is:

- Excellent  Very Good  Good  Fair  Poor \_\_\_\_\_
- Other (please specify): \_\_\_\_\_

27. We have listed some statements about feelings and thoughts. Please tick the box with the answer that best describes your experience of each over the last 2 weeks

	None of the time	Rarely	Some of the time	Often	All of the time	Don't know
a. I've been feeling optimistic about the future	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. I've been feeling useful	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c. I've been feeling relaxed	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d. I've been feeling interested in other people	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e. I've had energy to spare	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

f. I've been dealing with problems well	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
g. I've been thinking clearly	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
h. I've been feeling good about myself	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
i. I've been feeling close to other people	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
j. I've been feeling confident	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
k. I've been able to make up my own mind about things	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
l. I've been feeling loved	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
m. I've been interested in new things	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
n. I've been feeling cheerful	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

## Personal

28. What is your gender?

- Male  Female

29. What year were you born?

30. What is the highest level of education that you have COMPLETED?

- Primary School  
 Secondary School (up to 15/16 years old)  
 Advanced Schooling (equivalent to A level/full time vocational training)  
 University undergraduate  
 University postgraduate (equivalent to masters degree or PhD)  
 Other (please specify): \_\_\_\_\_

31. Were you born in the UK?

- Yes  No (go to 'a' below)

a. If 'no', when did you come to the UK? (year)

b. If 'no', where were you born? (please list the country of birth)

32. What is your nationality?

- British (Go to Question 33)  Dual nationality: British and another nationality (Go to 'a' below)  Not British (Go to 'b' below)  
 Other (please specify): \_\_\_\_\_

a. If 'dual nationality' which includes British, what is the other nationality?

b. If 'not British', what is your nationality? (please list country)

c. (SKIP THIS QUESTION WHEN INTERVIEWING AT WORKPLACES AGREED IN TRAINING SESSION)

If 'not British', what is your immigration status?

- I am a European Citizen  
 I am from outside the EU with a student visa  
 I am from outside the EU with a tier 1 or 2 entry visa to work  
 I am from outside the EU with Indefinite Leave to Remain  
 I am from outside the EU and applying via the asylum system for refugee status  
 Other (please specify): \_\_\_\_\_

33. What is your ethnic group?

- White English/Scottish/Welsh  
 White European  
 Mixed - White and Black Caribbean  
 Mixed - White and Black African  
 Mixed - White and Asian  
 Asian - Indian  
 Asian - Pakistani  
 Asian - Bangladeshi  
 Black - Caribbean  
 Black - African  
 Latin American  
 Other (please specify): \_\_\_\_\_

34. What type of accommodation do you live in?

- A property that I own (Go to 'a' below)  
 A property that I rent from a individual or company (Go to 'b' below)  
 A property that I rent from a Housing Association or Local Authority (Go to 'c' below)  
 I am not the owner OR the tenant of my home: I am staying in property owned or rented by family/friends(Go to 'd' below)

Other (please specify): \_\_\_\_\_

- a. if you own your home, how much mortgage do you pay each month? \_\_\_\_\_
- b. if renting from an individual or company, how much rent do you pay each month? \_\_\_\_\_
- c. if renting from a Housing Association or Local Authority, how much rent do you pay each month? \_\_\_\_\_
- d. if living with family/friends, how much do you pay them each month? \_\_\_\_\_

35. Which Borough of London do you live in?  
\_\_\_\_\_

36. Do you have another job?

yes (Go to 'a' below)  no (Go to Question 37) \_\_\_\_\_

Other (please specify): \_\_\_\_\_

- a. if 'yes', what is this second job? (title) \_\_\_\_\_
- b. if 'yes', how many hours per week do you work at this second job? \_\_\_\_\_
- c. if 'yes', how much do you get paid per hour in this second job? \_\_\_\_\_
- d. Do you do any additional work?  
 Yes  No  
 Other (please specify): \_\_\_\_\_

37. Do you have children under 18?

Yes (Go to 'a' below)  No (Go to Question 38)

a. if 'yes', do these children live with you?

- yes
- no

b. if 'yes', do your children require childcare?

- yes (Go to 'c' below)  no  don't know

c. how much do you pay for childcare each month?  
\_\_\_\_\_

38. Do you have a partner living with you?

Yes (Go to 'a' below)  No (Go to Question 38) \_\_\_\_\_

Other (please specify): \_\_\_\_\_

a. if 'yes', does your partner help with household expenses?

- Yes (Go to 'b' below)
- No

Other (please specify): \_\_\_\_\_

b. How much income does your partner contribute in a WEEK or a MONTH? (please specify whether Week OR Month)  
\_\_\_\_\_

39. Do you claim any of the following?  
(select all that apply)

- Child Benefit
- Child Tax Benefit
- Council Tax Benefit
- Disability Living Allowance (for a partner or child)
- Housing Benefit
- Income Support
- State Pension
- Working Tax Credit
- I DON'T CLAIM ANY OF THESE
- Other (please specify): \_\_\_\_\_

40. In order to assess your financial situation, it would be very useful to know your household's monthly income. If possible, please can you tell me the following:

	Monthly Gross (£)	Monthly after Tax/NI (£)	Weekly Gross (£)	Weekly after Tax/NI (£)
a. Personal Income from present job				

b. Total personal income from other jobs and assets				
c. Total benefit component of total household income				
d. Total household income (all sources including benefit and including any partner's income)				

41. Are you a member or regular participant in a community organisation or social club in the UK (ie. a church, mosque, social club, political party, sports club etc)

Yes (see below)

No

Other (please specify): \_\_\_\_\_

(SKIP THIS QUESTION WHEN INTERVIEWING AT WORKPLACES AGREED IN TRAINING SESSION)

If 'yes', what kind of organisation is this (select all that apply)

Trade Union

Church, Mosque, Temple or other religious organisation

Social or Sporting Club

Political Party

Other (please specify): \_\_\_\_\_

42. Is there anything you would like to tell us about your work, the living wage, your family life or anything else that has been covered by this questionnaire?

\_\_\_\_\_

[Continue >](#)

Survey testing only  
[Check Answers & Continue >](#)

## Appendix 5: Health and well-being

The WEMWBS scale was developed to assess the mental wellbeing (positive mental health) of the population via a validated scale that reflects current concepts of mental wellbeing.

Researchers at Warwick and Edinburgh Universities were commissioned to validate (for the UK) Affectometer 2, a scale previously identified as promising for assessing population mental wellbeing, and to develop a revised and shortened scale. The result was The Warwick-Edinburgh Mental Well-being Scale (WEMWBS). WEMWBS is a 14 item scale which covers both hedonic and eudaimonic perspectives. Initial validation using student populations was followed up by the inclusion of WEMWBS in two national Scottish surveys (2006 September wave of the Health Education Population

Survey (HEPS) and the 2006 Well? What do you think survey). Data analyses showed that WEMWBS performed equally well in the general population as in student groups. It has been used in our survey to record the mental well-being of workers in living wage and non-living wage workplaces.

We secured official permission to use this scale and need to acknowledge copyright: The Warwick-Edinburgh Mental Well-being Scale was funded by the Scottish Executive National Programme for improving mental health and well-being, commissioned by NHS Health Scotland, developed by the University of Warwick and the University of Edinburgh, and is jointly owned by NHS Health Scotland, the University of Warwick and the University of Edinburgh.

**Table A5.1: Descriptive analysis for the sample**

Variable and category	Frequency	Percent
<b>Non-living wave</b>	123	41.0
<b>Living wave</b>	177	59.0
<b>Male</b>	184	61.3
<b>Female</b>	116	38.7
<b>Age &lt;30</b>	81	27.0
<b>Age 30-44</b>	125	41.7
<b>Age 45-59</b>	84	28.0
<b>Age 60 plus</b>	10	3.3
<b>Highest education level: primary school</b>	28	9.3
<b>Highest education level: secondary school</b>	101	33.7
<b>Advanced schooling</b>	113	37.7
<b>University undergraduate qualification</b>	38	12.7
<b>University postgraduate qualification</b>	16	5.3
<b>Other educational level</b>	4	1.3
<b>&lt;16 hours worked per week</b>	107	35.7
<b>16-30 hours worked per week</b>	37	12.3
<b>&gt;30 hours worked per week</b>	156	52.0
<b>Not born in UK</b>	260	86.7
<b>Born in UK</b>	40	13.3
<b>White British</b>	31	10.3
<b>White European</b>	55	18.3
<b>Asian Indian</b>	3	1.0
<b>Black Caribbean</b>	12	4.0
<b>Black African</b>	104	34.7
<b>Latin American</b>	65	21.7
<b>Other ethnicity</b>	30	10.0
<b>Doesn't have another job</b>	195	65.0
<b>Has another job</b>	105	35.0
<b>Doesn't have children</b>	180	60.0
<b>Has children</b>	120	40.0
Total (for each variable)	<b>300</b>	<b>100.0</b>

This information was taken from <http://www.healthscotland.com/understanding/population/Measuring-positive-mental-health.aspx> last accessed 28 March 2012.

The descriptive analysis for our sample that was used to generate the regression analysis to explore the impact of being in a living wage workplace on reported well-being is shown in Table A5.1. As outlined in the above report, being in a living

wage workplace significantly affected the WEMWBS score and those in living wage jobs were found to be more likely to have higher (better) scores. Using multiple linear regression, this association was shown to withstand adjustment for various potential confounding factors (age, gender, ethnicity, education etc, see Table A5.2). Adjustment for hypothesised confounders did not attenuate the association between living wage workplace and psychological wellbeing, and these factors were not found to be acting as confounders.

**Table A5.2: Investigating the association between LW workplace and WEMWBS wellbeing score (linear regression)**

Variable	Unadjusted Model				Adjusted Model			
	Coefficient	p-value	95% Conf. Interval		Coefficient	p-value	95% Conf. Interval	
Non living wage workplace	0.00				0.00			
Living wage workplace	<b>3.43</b>	<0.001	1.69	5.19	<b>4.51</b>	<0.001	2.48	6.55
Male					0.00			
Female					-1.65	0.11	-3.65	0.35
Age <30					0.00			
Age 30-44					-0.91	0.43	-3.18	1.36
Age 45-59					-0.19	0.88	-2.59	2.21
Age 60 plus					-0.02	1.00	-5.70	5.67
Highest education level: primary school					0.00			
Highest education level: secondary school					1.21	0.47	-2.09	4.51
Advanced schooling					0.48	0.78	-2.83	3.78
University undergraduate qualification					0.44	0.83	-3.55	4.43
University postgraduate qualification					0.59	0.81	-4.22	5.41
Other educational level					2.15	0.60	-5.92	10.22
<16 hours worked per week					0.00			
16-30 hours worked per week					0.69	0.65	-2.32	3.71
>30 hours worked per week					-2.14	0.06	-4.39	0.11
Not born in UK					0.00			
Born in UK					0.34	0.88	-4.28	4.97
White British					0.00			
White European					3.67	0.18	-1.71	9.05
Asian Indian					9.56	0.06	-0.41	19.52
Black Caribbean					0.23	0.94	-5.99	6.45
Black African					<b>6.54</b>	0.01	1.35	11.74
Latin American					<b>5.52</b>	0.04	0.16	10.88
Other Ethnicity					<b>5.26</b>	0.04	0.29	10.22
Doesn't have another job					0.00			
Has another job					0.73	0.49	-1.37	2.84
Doesn't have children					0.00			
Has children					0.97	0.33	-0.97	2.91
Constant	55.04	<0.001	53.69	56.39	50.34	<0.001	43.74	56.94

NB. Negative coefficients indicate number of units with worse psychological wellbeing than the comparison group (which has a coefficient of 0). Positive coefficients indicate better psychological wellbeing. P<0.05 indicates statistical significance.

## Appendix 6: The statistical significance tests used to explore the profile of workers in living wage and non-living wage workplaces

The Chi Square test compares the observed proportions against a set of expected proportions, and is used to test whether there is a significant difference between living wage and non-living wage sample proportions. The null hypothesis is that there is no difference between sample proportions and assumes the apparent difference is due to chance in the sampling process, and is not representative of the situation within the general population. The alternative hypothesis is that there is a significant difference. Large values of Chi indicate a large difference. If the calculated

value of Chi is greater than the critical value at 95% significance levels ( $p < 0.05$ ) the null hypothesis can be rejected. In cases where the relationship holds at the 99% significance level, the result is even stronger. Cases that hold at the 95% significance level or above mean that it is extremely unlikely that the observed difference in sample proportions is due to chance, and the sample data thus reflect a 'real difference' between the living wage and non-living wage groups. These tests have been used to report all significant differences that are outlined in the report, unless otherwise stated.

## Appendix 7: The statistical analysis of the data on workers' feeling about work, family and finances

Correlation analysis was used to explore the patterns of association between pairs of variables and logistic regression analyses were then used to explore the influence of different socio-economic and demographic factors in relation to experiences of improvements within living wage workplaces and factors associated with experiencing difficulty in relation to pay in non-living wage workplaces. The importance of this analysis is that it takes into account the influence of a number of confounding factors, which cannot be undertaken with simple descriptive analysis (as done in relation to the correlation analysis or the chi-squared tests reported earlier in the report).

This phase of the analysis depended upon generating four new variables to capture changes associated with the living wage (in relation to work, family and finance), and challenges in relation to living on low pay, as is outlined further below. Once we had generated these new binary variables, we explored the relationships between them and the demographic data using simple correlation analysis before then using logistic regression to explore the relationships more fully. Pearson correlation 2-tailed significance tests were used to explore the relationship between pairs of variables, and are given as a value between +1 and -1. A value of 1 implies that a linear equation describes the relationship between X and Y perfectly, with all data points lying on a line for which Y increases as X increases. A value of -1 implies that all data points lie on a line for which Y decreases as X increases. A value of 0 implies that there is no linear correlation between the variables.

Logistic regression models are similar to other regression models except that the coefficients of

determination are expressed in logodds. There is a direct relationship between the logit coefficient and the odds ratio since the logit is defined as the log base e (log) of the odds. The logodds can be converted to odds ratios by using exponential transformations ( $\text{Exp } B$ ) of the coefficients, and vice versa. The definition of odds is similar to that of probability, if 200 out of 1000 workers experience improvement the probability of improvement is 0.2. The odds ratio in favour of improvement relative to no improvement is the ratio of the two mutually exclusive events ( $0.2/0.8=0.25$ , or 1 in every 4).

If the outcome variable is 'experiences improvement / does not experience improvement', then the ratio of expected numbers who experience improvement to the expected number of those who do not experience improvement will be of interest. Odds ratios for factors higher (lower) than 1 imply that the characteristic is associated with an increased (decreased) probability of experiencing the event compared to the reference category, holding all other characteristics constant in the model.

For example, in relation to any workplace benefits from the living wage, the UK born characteristic has an odds ratio of 0.24, which is significant at the 95% and above level. This means that the odds of a UK born person mentioning a workplace improvement are significantly lower (0.24 about 1 in 4) than a foreign born worker (reference category), holding all other characteristics constant in the model. The odds or likelihood of a man mentioning experiencing a workplace improvement are 1.186 times higher than for a woman (the reference category) holding all other characteristics constant in the model, although this characteristic is not significant at the 95% level in the model.



The odds ratios thus give a feel for patterns within the data. The odds ratios for the binary and categorical models are explored below and significant factors are indicated in bold text to show factors significant at the 95% level and above ( $p < 0.05$ ). The means can be interpreted as percentage figures in binary models and show the average profile of the sample.

### ***The development of new variables***

The living wage sample consisted of 54% of the workers surveyed (219 cases). These individuals were asked questions about the impact of the living wage on workplace changes, family life and finance. These were multiple response questions and three new variables were created to capture the responses given. In addition, the non-living wage sample consisted of 46% of the workers surveyed (197 cases) and one new variable was created to capture the challenges they faced as a result of their pay.

***Work benefits in living wage workplaces:*** Living wage workplace respondents were asked to reflect on the impact of the living wage workplace on differences and feelings about their work relative to their previous experience.

A positive living wage workplace benefits indicator was developed based on summing the positive responses from question 15 ('Reflecting on your experience in a non-living wage workplace, what difference does the living wage make to your work?') asked to workers joining a living wage workplace and question 20 (How do you feel about your work after the introduction of the living wage?) asked to those who had transitioned on to the living wage in their workplace.

A 0 to 5 scale indicator of positive mentions was developed from question 15 and question 20. For question 15 a score of one was given for each of the following positive mentions; more likely to stay = 1, more respected=1, work harder=1, feel happier=1, more pride=1. For question 20 a score of one was given for mentioning each of the following, feel happier=1, more respected=1, more valued=1, pay important=1. For question 15 it was possible to score a total of 5 and question 20 a total of 4.

Combining the variable scores gave an indicator of 0-5, however as the transition workers can only score a maximum of 4 this was scaled to 0 to 4 and above, as the scale. A mutually exclusive binary variable was defined for logistic regression analysis for those reporting any work benefit (positive mention = 1, otherwise 0).

***Family benefits in living wage workplaces:*** Respondents were asked to reflect on the impact of the living wage workplace on differences and feelings about their family life in relative to previous experience.

A positive family life benefit indicator was developed based on a summation and combination of question 17 ('Reflecting on your experience in a non-living wage workplace, what difference does the living wage make to your family?') and question 23 ('What difference has earning the living wage made to your family life?') asked to those who had transitioned on to the living wage in their workplace.

A 0-3 scale indicator of positive mentions was developed from question 17 (buy more goods=1, more time with family=1, send remittances=1) and a 0-5 scale of positive mentions from question 23 (more family time as fewer hours=1, more family time as more sociable hours=1, buy more goods=1, more leisure=1, more holiday=1).

Since question 17 only has a 0-3 possible positive score sum and question 23 has a 0-5 possible positive score sum, this was rescaled to 0 to 3 and above. This was turned into binary family benefit indicator (any positive family mention = 1, otherwise 0).

***Financial benefits in living wage workplaces:*** Respondents were asked to reflect on the differences the living wage had made to their financial circumstances relative to previous experience.

A financial benefits indicator was developed based on a summation and combination of questions 16 ('Reflecting on your experience in a non-living wage workplace, what difference does the living wage make to your life?'), question 17 ('Reflecting on your experience in a non-living wage workplace, what difference does the living wage make to your family?') and question 22 ('What difference has earning the living wage made to your financial circumstances?').

A 0-3 scale indicator of positive mentions was developed from question 16 and question 17 (q17c buy more goods=1, q17e send remittances=1, q16c use different transport =1) and a 0-4 scale of positive mentions from question 22 (buy more goods=1, save more=1, send remittances=1, changed transport=1).

For those joining living wage workplaces it was only possible to score 0-3, while those who transitioned in their living wage workplace could score 0-4, so this score was rescaled to 0 to 3 and above. The financial benefits variable was turned into binary based on any positive financial mention = 1, otherwise 0.

### ***Low pay difficulties in non-living wage workplaces***

The non-living wage respondents were asked to reflect on a number of challenges faced in working for a low wage rate. A low pay costs indicator was developed based on summing the negative

**Table A7.1: New variables created to capture the impact of wages on work, family and finances and the independent variables used in the analysis**

<b>Variable Type</b>	<b>Description</b>	<b>Variable Name</b>	<b>Coding</b>
<b>Dependent Variables</b>			
Work Benefit	Positive LW Workplace improvement mentions	B_WRKPOS	1=yes, 0=Otherwise
	Positive LW Workplace improvement mentions, number	B_WRK04	0-4 scale
Family Benefit	Positive LW Family improvement mentions	B_FAMPOS	1=yes, 0=Otherwise
	Positive LW Family improvement mentions, number	B_FAM03	0-3 scale
Financial Benefit	Positive LW Financial improvement mentions	B_FINPOS	1=yes, 0=Otherwise
	Positive LW Financial improvement mentions, number	B_FIN03	0-3 scale
Multi Benefits 2,3	Experience 2 or more dimensions of improvement from work, family, financial above	B_impd23	1=yes, 0=Otherwise
Multi Benefits 1,2,3	Experience 1 or more dimensions of improvement from work, family, financial above	B_impd13	1=yes, 0=Otherwise
Low Pay Difficulties	Negative NLW Low Pay Difficulties mentions	B_LOWPBI	1=yes, 0=Otherwise
	Negative NLW Low Pay Difficulties mentions, number	B_LOWPAY	0-6 scale
<b>Independent Variables</b>			
Personal Characteristics	Sex	B_SEX	1=male, 0=female
	Age less than 30 years	B_LT30	1=yes, 0=Otherwise
	Place of Birth	b_born	1=uk,2=eu,3=latin,4=africa,5=other
	UK Born	B_UKBORN	1=yes, 0=Otherwise
	EU Citizen	B_EU	1=yes, 0=Otherwise
	Ethnicity	b_ethnic	1=white,2=latin,3=black,4=other
	Time in the UK	b_timeuk	1= up to 1 year, 2 = 1-5 years, 3 = > 5-10 years, 4 = over 10 years
	Good Health or above	B_HEALTH	1=yes, 0=Otherwise
	Education level	b_educiv	1=Up to Secondary, 2=Advanced, 3=University & Other
	Education level higher A level +	B_EDUCH	1=yes, 0=Otherwise
	Family Type	b_famtyp	1=Single NK, 2=Single WK, 3= Couple WK, 4=Couple NK
	Single No Kids	B_SINGNK	1=yes, 0=Otherwise
	Single With Kids U18	B_SINGWK	1=yes, 0=Otherwise
	Couple No Kids	B_COUPNK	1=yes, 0=Otherwise
	Couple With Kids U18	B_COUPWK	1=yes, 0=Otherwise
Housing Characteristics	Housing Tenure	b_housin	1=Rent Private,2=Rent Social,3=Own-Other
	Private Renting	B_RENTPV	1=yes, 0=Otherwise
	Claim Benefits	B_BENEFT	1=yes, 0=Otherwise
	Civic Participation	B_CIVIL	1=yes, 0=Otherwise
Job Characteristics	Full Time 30+ hours=1, Part Time <30 hours =0	B_FTPT	1=yes, 0=Otherwise
	Time at workplace	b_yrswrk	1=up to 1 year,2=1-3 years,3=>3-5 years,4=over 5 years
	Tupe Protection	B_TUPE	1=yes, 0=Otherwise
	Have 2nd Job	B_JOB2	1=yes, 0=Otherwise
	Aspirations	b_aspire	0=stay with employer and / or move up,1=change job / career / other
	Ground Worker	B_GROUND	1=yes, 0=Otherwise

responses from question 24 (“What challenges do you face working for the rate of pay that you earn?”).

A 0-6 scale indicator of negative mentions was developed from question 24. A score of one was given for each of the following positive mentions; difficult to motivate myself = 1, difficult to manage household expenses=1, have to do additional work=1, spend time looking for alternate work=1, hard to make time for family=1, and bus travel rather than tube=1. This was turned into a binary for logistic regression analysis for those reporting any negative mention = 1, otherwise =0.

The logistic regression analyses for these variables are displayed in Tables A7.2 to A7.5 below. The B value shows the direction and magnitude of the association within the model and how the

independent variables are associated with the dependent variable. The standard error (S.E) and significance levels are also given along with the mean. The results shown in bold are statistically significant at the 95% level ( $p < 0.05$ ).

For workplace improvements, Pearson correlation 2 tailed significance tests show that respondents reporting positive work place differences are significantly correlated with:

Being UK born suggesting that if you are not UK born you are more likely to report work improvements.

Being a ground worker suggesting that cleaners are more likely to report positive work improvements.

**Table A7.2: Workplace improvements**

Variable	B	S.E.	Sig	Odds Ratio	Mean
<i>Dependent</i>					
B_WRKPOS					0.543
<i>Independent</i>					
Constant	1.298	0.820	0.113		
B_SEX	0.170	0.382	0.656	1.186	0.644
B_UKBORN	-1.426	0.667	<b>0.033</b>	0.240	0.179
B_EU	-0.060	0.409	0.883	0.941	0.770
B_LT30	0.398	0.385	0.301	1.488	0.278
B_EDUCH	-0.565	0.360	0.117	0.569	0.639
B_HEALTH	-0.359	0.502	0.474	0.698	0.870
B_SINGNK	-0.016	0.419	0.969	0.984	0.324
B_SINGWK	-0.257	0.576	0.655	0.773	0.119
B_COUPWK	-0.436	0.502	0.386	0.647	0.256
B_CIVIL	-0.377	0.351	0.284	0.686	0.429
B_RENTPV	-0.144	0.390	0.712	0.866	0.656
B_BENEFT	-0.064	0.451	0.887	0.938	0.267
B_GROUND	-0.037	0.610	0.952	0.964	0.242
B_TUPE	0.417	0.467	0.372	1.517	0.142
B_JOB2	0.032	0.375	0.932	1.033	0.343
-2 Log Likelihood	236.266				
Goodness of Fit	184.503				
N	183.000				

**Table A7.3: Family improvements**

Variable	B	S.E.	Sig	Odds Ratio	Mean
<i>Dependent</i>					
B_FAMPOS					0.324
<i>Independent</i>					
Constant	-0.299	0.850	0.725		
B_SEX	-0.151	0.401	0.707	0.860	0.644
B_UKBORN	-0.593	0.743	0.425	0.553	0.179
B_EU	-0.028	0.429	0.948	0.973	0.770
B_LT30	0.125	0.405	0.758	1.133	0.278
B_EDUCH	-1.008	0.383	<b>0.009</b>	0.365	0.639
B_HEALTH	0.418	0.550	0.448	1.518	0.870
B_SINGNK	-0.224	0.439	0.610	0.800	0.324
B_SINGWK	-0.679	0.653	0.298	0.507	0.119
B_COUPWK	-0.005	0.521	0.993	0.995	0.256
B_CIVIL	-0.080	0.376	0.832	0.923	0.429
B_RENTPV	0.160	0.421	0.704	1.174	0.656
B_BENEFT	-0.100	0.493	0.839	0.905	0.267
B_GROUND	-0.426	0.669	0.525	0.653	0.242
B_TUPE	0.537	0.480	0.264	1.711	0.142
B_JOB2	0.326	0.389	0.402	1.385	0.343
-2 Log Likelihood	213.773				
Goodness of Fit	179.615				
N	183.000				

For family improvements, Pearson correlation 2 tailed significance tests show that respondents reporting positive family differences are significantly correlated with:

Grounds work suggesting that if you are doing

ground work you are less likely to report family improvements.

Having a second job suggesting that if you have a second job more likely to report positive family improvements.

**Table A7.4: Financial improvements**

Variable	B	S.E.	Sig	Odds Ratio	Mean
<i>Dependent</i>					
B_FINPOS					0.384
<i>Independent</i>					
Constant	0.621	0.832	0.455		
B_SEX	0.189	0.396	0.633	1.209	0.644
B_UKBORN	-0.383	0.714	0.591	0.682	0.179
B_EU	-0.312	0.415	0.452	0.732	0.770
B_LT30	-0.084	0.394	0.831	0.919	0.278
B_EDUCH	-0.330	0.362	0.362	0.719	0.639
B_HEALTH	-0.375	0.501	0.453	0.687	0.870
B_SINGNK	0.236	0.423	0.578	1.266	0.324
B_SINGWK	-0.138	0.604	0.820	0.871	0.119
B_COUPWK	0.053	0.507	0.917	1.055	0.256
B_CIVIL	-0.624	0.368	0.091	0.536	0.429
B_RENTPV	-0.082	0.398	0.837	0.922	0.656
B_BENEFT	-0.286	0.472	0.545	0.751	0.267
B_GROUND	-0.439	0.674	0.515	0.645	0.242
B_TUPE	0.171	0.475	0.718	1.187	0.142
B_JOB2	0.109	0.430	0.799	1.116	0.342
B_FTPT	-0.160	0.436	0.714	0.852	0.562
-2 Log Likelihood	228.001				
Goodness of Fit	183.469				
N	183.000				

For financial improvements, Pearson correlation 2-tailed significance tests show that respondents reporting positive financial differences are significantly correlated with:

Being UK born suggesting that if you are UK born you are less likely to report financial improvements.

Grounds work suggesting that if you are doing grounds work you are less likely to report financial

improvements.

Being Full-Time suggesting that if you are full-time you are less likely to report financial improvements.

Having higher levels of education suggesting that you are less likely to report financial improvements if you have advanced level education.

**Table A7.5: Challenges faced as a result of low pay (asked in non-living wage workplaces)**

Variable	B	S.E.	Sig	Odds Ratio	Mean
<i>Dependent</i>					
B_LOWPBI					0.817
<i>Independent</i>					
Constant	1.647	1.126	0.143		
B_SEX	-0.955	0.520	0.066	0.385	0.589
B_UKBORN	-0.450	0.831	0.589	0.638	0.082
B_EU	-0.093	0.473	0.844	0.911	0.588
B_LT30	0.374	0.572	0.513	1.453	0.218
B_EDUCH	-0.599	0.486	0.218	0.549	0.505
B_HEALTH	-0.836	0.875	0.340	0.434	0.903
B_SINGNK	0.449	0.659	0.495	1.567	0.396
B_SINGWK	0.903	0.752	0.230	2.467	0.188
B_COUPWK	1.162	0.767	0.130	3.198	0.269
B_CIVIL	0.553	0.439	0.208	1.738	0.571
B_RENTPV	-0.505	0.499	0.311	0.604	0.553
B_BENEFT	0.276	0.598	0.645	1.317	0.297
B_GROUND	0.719	1.371	0.600	2.052	0.030
B_TUPE	1.098	1.119	0.326	2.999	0.076
B_JOB2	1.341	0.612	<b>0.029</b>	3.822	0.236
B_FTPT	1.067	0.514	<b>0.038</b>	2.905	0.574
-2 Log Likelihood	145.757				
Goodness of Fit	164.432				
N	182.000				

For these non-living wage cases, Pearson correlation 2-tailed significance tests reporting low pay difficulties were significantly correlated with:

Being UK born suggesting that if you are not UK born you are more likely to report low pay difficulties.

Being single with no children suggesting that if you are not single with no children you are more likely to report low pay difficulties.

Being a couple with children suggesting that workers who are part of a couple with children are more likely to report difficulties with low pay.

Civic participation suggesting that if the worker participates in a civic activity or group they are more likely to report difficulties with low pay.

Having a second job suggesting that those in non-living wage workplaces with second jobs are reporting more difficulties.

In sum, across the analysis, the odds ratios for factors higher (lower) than 1 imply that the characteristic is associated with an increased (decreased) probability of experiencing the event compared to the reference category, holding all other characteristics constant in the model.

**Table A7.6: Risk factors in relation to experiencing improvements in living wage workplaces**

Risk Factors	Work lw		Family lw		Financial lw		Multi 1,2,3 lw		Multi 2,3 lw	
	Odds Ratio	Sig	Odds Ratio	Sig	Odds Ratio	Sig	Odds Ratio	Sig	Odds Ratio	Sig
<b>Sex</b>										
Female	Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref
Male	1.80	0.20	0.96	0.93	1.26	0.62	1.38	0.52	1.45	0.40
<b>Age</b>										
Otherwise	Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref
less than 30	2.27	0.10	0.72	0.50	1.36	0.55	1.40	0.53	1.55	0.38
<b>Place of Birth</b>										0.24
uk	na	na	na	na	na	na	na	na	na	na
eu	0.82	0.91	1.59	0.81	0.09	0.18	0.46	0.67	0.59	0.78
latin	0.41	0.58	3.99	0.37	2.97	0.49	0.67	0.82	9.06	0.17
africa	0.96	0.98	0.94	0.97	0.81	0.88	0.63	0.79	2.82	0.50
other	Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref
<b>Ethnicity</b>										
White	4.11	0.28	1.03	0.98	3.89	0.35	3.91	0.31	2.94	0.44
Latin	9.75	0.07	0.41	0.43	0.19	0.21	3.91	0.29	0.21	0.20
Black	1.20	0.86	0.52	0.54	<b>0.09</b>	<b>0.02</b>	0.77	0.84	<b>0.11</b>	<b>0.04</b>
Other	Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref
<b>Time in the UK</b>										
up to 1 year	0.53	0.50	1.82	0.50	0.26	0.16	0.82	0.84	0.43	0.36
1-5 years	0.73	0.67	2.52	0.17	0.59	0.46	1.04	0.96	0.76	0.68
> 5-10 years	1.37	0.69	2.20	0.34	1.39	0.70	1.47	0.68	1.14	0.88
over 10 years	Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref
<b>Health</b>										
otherwise	Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref
good health or above	0.46	0.20	0.84	0.75	0.47	0.20	0.47	0.26	0.52	0.26
<b>Education</b>										
Up to Secondary	<b>3.23</b>	<b>0.03</b>	<b>2.78</b>	<b>0.06</b>	<b>3.73</b>	<b>0.02</b>	<b>4.61</b>	<b>0.01</b>	<b>3.53</b>	<b>0.02</b>
Advanced	1.36	0.52	0.86	0.77	2.08	0.15	1.31	0.60	1.71	0.28
University & Other	Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref
<b>Family Type</b>										
Single NK	0.94	0.90	0.93	0.88	1.82	0.26	0.93	0.91	1.56	0.38
Single WK	2.83	0.20	1.39	0.66	1.32	0.74	1.27	0.79	<b>4.64</b>	<b>0.05</b>
Couple WK	0.64	0.47	1.70	0.39	2.22	0.23	0.56	0.40	2.82	0.10
Couple NK	Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref
<b>Housing Tenure</b>										
Rent Private	2.52	0.28	0.53	0.47	1.54	0.61	2.59	0.31	1.30	0.75
Rent Social	3.05	0.23	0.57	0.54	1.33	0.77	2.56	0.36	1.70	0.56
Own-Other	Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref
<b>Claim Benefits</b>										
No	Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref
Yes	0.89	0.84	0.83	0.76	0.41	0.17	0.60	0.43	0.36	0.09
<b>Civic Participation</b>										
No	Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref
Yes	0.54	0.20	0.58	0.27	<b>0.39</b>	<b>0.07</b>	0.52	0.19	0.53	0.20
<b>Weekly Hours</b>										
Part-Time <30hrs	Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref
Full-Time =>30hrs	1.05	0.93	1.97	0.20	0.54	0.27	1.03	0.96	0.86	0.77
<b>Time at workplace</b>										
up to 1 year	1.54	0.49	0.74	0.63	1.43	0.59	0.95	0.94	0.82	0.75
1-3 years	2.27	0.19	0.83	0.76	1.78	0.36	0.89	0.88	1.28	0.68
>3-5 years	3.06	0.17	3.12	0.16	3.19	0.18	1.78	0.54	2.60	0.24
over 5 years	Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref
<b>TUPE Protection</b>										
No	Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref
Yes	1.76	0.38	1.65	0.41	1.28	0.70	<b>5.95</b>	<b>0.04</b>	1.01	0.99
<b>Second Job</b>										
No	Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref
Yes	0.57	0.27	1.37	0.54	<b>0.29</b>	<b>0.02</b>	0.68	0.47	0.45	0.12
<b>Aspirations</b>										
stay and/or move up	Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref
change job/career	0.50	0.11	0.69	0.38	0.72	0.44	<b>0.28</b>	<b>0.01</b>	1.06	0.89
<b>Ground Worker</b>										
No	Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref
Yes	0.71	0.67	0.38	0.29	0.59	0.56	1.73	0.55	0.34	0.22

note: bold text significant at 95% level (p<0.05)

**Table A7.7: Risk factors in relation to experiencing challenges in non-living wage workplaces**

	low Pay nlw	
Risk Factors	Odds Ratio	Sig
<b>Sex</b>		
Female	Ref	Ref
Male	0.60	0.48
<b>Age</b>		
Otherwise	Ref	Ref
less than 30	<b>6.31</b>	<b>0.05</b>
<b>Place of Birth</b>		
uk	na	na
eu	2.97	0.59
latin	1.68	0.79
africa	1.68	0.68
other	Ref	Ref
<b>Ethnicity</b>		
White	0.58	0.80
Latin	0.24	0.47
Black	0.70	0.76
Other	Ref	Ref
<b>Time in the UK</b>		
up to 1 year	<b>0.04</b>	<b>0.02</b>
1-5 years	<b>0.05</b>	<b>0.01</b>
> 5-10 years	1.06	0.96
over 10 years	Ref	Ref
<b>Health</b>		
otherwise	Ref	Ref
good health or above	0.64	0.74
<b>Education</b>		
Up to Secondary	3.02	0.26
Advanced	0.65	0.65
University & Other	Ref	Ref
<b>Family Type</b>		
Single NK	0.90	0.92
Single WK	1.04	0.98
Couple WK	2.21	0.52
Couple NK	Ref	Ref
<b>Housing Tenure</b>		
Rent Private	0.56	0.57
Rent Social	0.90	0.93
Own-Other	Ref	Ref
<b>Claim Benefits</b>		
No	Ref	Ref
Yes	2.80	0.26
<b>Civic Participation</b>		
No	Ref	Ref
Yes	2.64	0.16
<b>Weekly Hours</b>		
Part-Time <30hrs	Ref	Ref
Full-Time =>30hrs	3.44	0.13
<b>Time at workplace</b>		
up to 1 year	<b>7.84</b>	<b>0.06</b>
1-3 years	4.49	0.13
>3-5 years	0.89	0.90
over 5 years	Ref	Ref
<b>TUPE Protection</b>		
No	Ref	Ref
Yes	na	na
<b>Second Job</b>		
No	Ref	Ref
Yes	<b>11.53</b>	<b>0.01</b>
<b>Aspirations</b>		
stay and/or move up	Ref	Ref
change job/career	2.88	0.13
<b>Ground Worker</b>		
No	Ref	Ref
Yes	0.00	0.90

note: bold text significant at 95% level (p<0.05)

## Appendix 8: The statistical analysis of the data on income, tax, NI and benefit spending

In order to explore the potential savings to be made by living wage implementation in London, we had to scale-up to the London-wide population. The GLA estimate that some 10% of full-time and 41% of part-time employees in London do not receive the London Living Wage (LLW) of £8.30 per hour and that of all employees, 16% receive wage rates less than this amount (GLA, 2011, 26). In making these calculations, they use the Annual Survey of Hours and Earnings (ASHE) that is derived from a sample distribution of employee job earnings taken from HMRC PAYE records. The London Poverty Profile indicates that in 2011, this comprised some 580,000 workers.

We have used the same data set to generate the baseline numbers in our calculations but it is important to note that there are other potential sources of data that could also be used. The ASHE data weights responses in relation to the number of jobs measured by the Labour Force Survey (LFS). The concept of employment measured by the LFS is the number of people working at least one hour during the survey reference week. This differs from the concept of 'jobs', since a person can have more than one job. To this extent, the ASHE survey may underestimate the number of employee jobs in London.

The Business Register and Employment Survey (BRES) formerly the Annual Business Inquiry (ABI) is often regarded as the definitive source of official Government employee and employment statistics in the UK. The BRES provides estimates of employee jobs rather than the number of people in employment as employees, as people can have more than one job. The BRES excludes the self-employed, HM forces and Government supported trainees. Employee estimates are obtained from the number of employees employed by a business. It is the business that is sampled at workplace rather than an individual at place of residence, as is the case with the LFS.

The data in Table A8.1 indicate the size of the population that can potentially benefit from the 2011 living wage using these two sources of data. The range stretches from 570,000 to 780,000 workers in London. In what follows, we have used the lower figures from this range – based on the ASHE data – in making our calculations.

Given that the ASHE 2011 estimate suggests there are some 580,000 workers in London who do not receive the London living wage rate of £8.30, we derived weights to scale-up our sample findings to estimate the likely impact of the LLW. Weights were

**Table A8.1 Estimates of employees in London earning less than the London Living Wage, by data source, 2011**

Year	Data Source & Value	Full Time	Part Time	< LLW Estimate	Estimate Method	Estimate Rounded	Year and Type of Estimate
2011	ASHE 2011 T25.6a						
	3,539,000	2,818,000	721,000	577,410	10% of FT and 41% PT earning less than £8.30 per hour	580,000	2011 estimate based on 2011 data
	3,539,000			566,240	16% of All employees earning less than £8.30 per hour	570,000	2011 estimate based on 2011 data
	BRES 2011 Based Estimates*						
	4,287,000	3,153,000	1,135,000	780,650	10% of FT and 41% PT earning less than £8.30 per hour	780,000	2011 estimate based on 2011 data
	4,287,000			685,920	16% of All employees earning less than £8.30 per hour	690,000	2011 estimate based on 2011 data

Note: Rounding is to nearest 10,000.

\*BRES (2012) Business Register and Employment Survey, 2011. ONS: [http://www.ons.gov.uk/ons/dcp171778\\_280655.pdf](http://www.ons.gov.uk/ons/dcp171778_280655.pdf)



derived based on the extent to which each of the NLW cases in our workplace sample represented a NLW job within London. As our sample of 197 NLW cases is small compared to the London wide totals, each case represents approximately 2,644 cases in London.

However, it is important to note that the NLW workplace worker sample of 197 actually represents more than one employee job as some 24% of the NLW workers had additional jobs, some of which were also paid below the LLW. As benefit claiming, tax and NI payments depend on other job income streams entering the household, not just one worker job, there is an argument for weighting the sample by the higher figure of NLW employee jobs, not just the number of workers in NLW jobs.

We used three methods to calculate the potential savings based on our sample. The first, which we are calling the **sample sum method** – estimates the gross total income, tax and NI take and benefit saving directly from the actual figures given in the survey and scales-up these totals by weighting each case to represent those at the London level.

Wage rates and hours worked data for each case in the sample were used to produce an estimate of gross income per week from which a tax and NI contribution was estimated. Taxation was estimated by applying the 20% tax rate to annual income over the tax threshold of £6,475 (or on weekly gross income above £124.50 per week). The NI contributions were applied to income above £110 per week at 11% and this was used to estimate worker NI contributions. Tax and NI contributions were then added together to produce an estimate of exchequer take directly from the worker sample. This is a more reliable estimate of tax and NI take as it is based on the actual reported data on wage rates and hours from which a gross income estimate is derived.

However, the data reporting benefit claim values from our survey was poor with only 19% of NLW cases reporting a value. As a result, this method estimates the total exchequer benefits to be just £353.2 million per year and this is the lowest estimate generated by our research (see Table A8.2).

Partly as a result of this poor data reporting, we then used a **sample average method**. This method uses sample average values and a number of proportionate thresholds derived from the sample of those who do or do not pay tax and claim benefits, to produce a crude estimate. Confidence limits at the 95% level were used from the sample means to produce lower and upper estimates about the central estimate. The central estimate is based on the sample survey means and the confidence interval produces values above and below these sample means as an upper and lower variation of where the population mean lies. These values are used in conjunction with sample proportions to produce the estimates based on the assumption that the LW sample is a good predictor of the benefits generated

if the NLW sample went LW.

The present job gross income distribution estimates above and below the personal allowance tax threshold of £6,475 per year suggest that 60% of NLW workers would pay tax and 61% of LW workers in the sample would pay tax. While more would pay NI, the estimates are based on the proportions paying tax, and the average rates are applied to these proportions. Based on responses to the benefit claim question in the sample, 29% of NLW and 27% of LW cases claimed benefits.

Sample mean estimates of gross income, tax and NI, and benefit averages rates per worker were then applied to derive estimates. Sample rates per worker were applied to the London NLW workers total of 580,000 to generate the London-wide estimate. This method produces central estimates of the total exchequer benefits to be £693.3 million per year (see Table A8.2).

Finally, we also deployed what we are calling the **Ferret matching method**. This method matches the NLW sample of workers to Ferret family categories to generate estimates of gross income change, tax and NI, and benefit saving. These estimates are then weighted to produce estimates of London-wide scale up with LW implementation.

The Ferret modelled data show the effect on income, tax and NI, and benefit entitlement income for different categories of family of moving from a 2011 National Minimum Wage (NMW) rate of £6.08 per hour to the London Living Wage (LLW) rate of £8.30, and implies a 36.5 % wage rate increase. This modelled wage rate change is larger than the actual average sample wage rate change of £6.35 NLW to £7.82 LW. As such, the Ferret estimates are larger than those derived from the sample which reflect a 23.1% average wage increase - a difference of 13.4% assuming fixed working hours

The Ferret modelling shows the extent of tax and NI revenue increases, and benefit reductions, with higher wages and income. These data indicate that it is not possible for the exchequer to lose from paying higher wages. However, our estimates of the extent of the gain to the public purse, partly depend upon the Ferret categories generated and the matching process used.

We used two types of matching methods to estimate the extent of fiscal gains from LLW implementation for the NLW group of workers. First, one based on allocating cases on general sample proportions. Second, one attempting to match more precisely in relation to individual case family structures, childcare, partner-working, and work hours.

In the Ferret modelled categories where a 'couple

household' also has a working partner, the model treats the working partner as having the same working hours as the worker. In addition, the model assumes a double income increase in the household as it assumes both worker, and partner-worker, gain from the wage rise. To this extent, NLW couple matches where the partner also works in the sample can inflate the income effects as it assumes the family gains twice from LW implementation for the matched worker and the partner, when this might not be the case. Couple categories where one is working and the partner is not working may be a better representation of the actual situation than couple households where both are working.

To this extent, the figures generated are indicative of the general levels of fiscal savings from reduced wage subsidy benefits (where claimed), and higher tax and NI takes (where payable).

This general proportionate matching method simply splits the 197 NLW sample cases into a nested hierarchy depending on the NLW sample proportions. First it treats all cases as either private renting or RSL renting. It then splits up the cases in relation to benefit claimants or not, single or couple, children or no children, and finally, full-time or part-time. This general case matching assumes the NLW sample proportions. These are private renting at 55% and RSL renting at 45%, assuming other accommodation types are similar to RSL category. It assumes benefit claiming at 30% and non-claimants at 70%. It assumes single households at 58% and couple households at 42%; households with children at 30% and with no children at 70%; and full-time workers (35 hrs) at 57%, and part-time workers (16 hrs) at 43%.

Only 18% of the NLW sample had a reported partner income stream also entering the household. The matching here assumes all cases only have one income source from the present job, as is the case

with the majority of the NLW sample (72%). By excluding working partners and only matching to one worker in the household, the partner worker income inflation issue is avoided. These assumptions have the effect of only generating a tax and NI gain to the government from full-time workers, as Ferret data indicates part-time workers doing 16 hours not to be paying any tax on their wage increase.

This method produces estimates of total exchequer savings from London-wide implementation at £748 million per year (see Table A8.2). This is a conservative estimate as it excludes the effects of second jobs and partner incomes.

In order to try and improve the accuracy of these calculations, we also deployed a more precise matching method that reflects the use of childcare and whether a partner was reported being present. Where a partner worked, the Ferret categories used assumed they worked the same hours as the respondent, which has the effect of increasing or decreasing income depending on partner hours. Workers working hours of up to 16 were matched to the Ferret 16hrs category, those working 16-30 hours were matched to the 24hr category and those working over 30 hrs were matched to the 35hrs category. This more precise matching method produced estimates of exchequer savings from London-wide implementation of £1.029 million per year.

In sum, although these estimates are based on a number of assumptions, and are sensitive to the method and matching techniques used, the evidence suggests that there are substantial fiscal gains to be made by the exchequer from implementing the LW in London. Table A8.2 summarises the estimates produced. It shows the overall average from the estimates to be £823 million a year, and the range to spread from £693 million to £1,029 million per year.

**Table A8.2: Estimates of exchequer benefits with LLW implementation, by different methods**

£ Millions Per Year	Sample Sums Method	Sample Average Method			Ferret Matching Method		Average
		Central	Lower	Upper	Fuzzy General	Fuzzy Precise	
	Actual						All
	1	2	3	4	5	6	
<b>Gross Income Change</b>	1,340	947	849	1,034	1,801	2,220	1,577
<b>Tax &amp; NI Change</b>	359	390	346	434	430	611	477
<b>Benefit Claim Savings</b>	6	304	195	412	318	418	346
<b>Exchequer Savings (Tax &amp; NI and Benefit Claim Savings)</b>	366	693	540	846	748	1,029	823

Note: In relation to the overall averages: The Tax & NI change average is based on estimates 2, 5 & 6; The gross income change average is based on estimates 1, 2, 5 & 6; The benefit saving average is based on estimates 2, 5 & 6; The exchequer savings are based on estimates 2, 5 & 6.