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USING PROCUREMENT PROCESSES TO ENCOURAGE LIVING WAGE PRINCIPLES

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Presented to

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CONTENTS		PAGE NO.
1	INTRODUCTION	4
1.1	Context	4
1.1.1	The Manchester Minimum Wage (MMW)	4
1.1.2	Towards progressive procurement	4
1.1.3	Public procurement and the Living Wage	4
1.1.4	Manchester City Council's compliance with the Social Value Act	4
1.2	Research objectives and methodology	5
1.2.1	Research scope	5
1.2.2	Research objectives	5
1.2.3	Research methods	6
1.3	About this report	6
2	THE PERSPECTIVE OF MANCHESTER CITY COUNCIL'S SUPPLY CHAIN	7
2.1	Analysis of survey findings	7
2.1.1	Suppliers paying Living Wage and longevity of payments	7
2.1.2	The Living Wage aides loyalty and quality	7
2.1.3	The Living Wage can lead to competitive disadvantage	8
2.1.4	Some evidence of policy disseminating through the supply chain	9
2.1.5	An intention to pay the Living Wage in the future but a series of barriers	9
2.1.6	A need for leadership in the procurement process	10
3	THE PRACTICE OF OTHER LOCAL AUTHORITIES	11
3.1	Findings of call for practice	11
3.1.1	Two thirds of authorities paying the Living Wage	11
3.1.2	Authorities generally unsure about costs of implementation	11
3.1.3	Some evidence of supplier encouragement	12
3.1.4	Clauses part of the way of encouraging Living Wage	13
3.1.5	Non Living Wage authorities unlikely to become so in the future.	14
4	THE ECONOMIC AND SOCIAL CASE FOR INTRODUCING A LIVING WAGE FOR CONTRACTORS, SUB-CONTRACTORS AND BUSINESS	15
4.1	The pro's and con's for the Treasury and economy of universal adoption of the Living Wage	15
4.4	Potential costs and benefits of universal adoption for Manchester	17
4.4.1	Costs of universal adoption for Manchester	17
4.4.2	Benefits of universal adoption for Manchester	17
5	CONCLUSION	19

FIGURES

Figure 1: Percentage of suppliers currently paying Living Wage	7
Figure 2: Percentage of suppliers intending to pay Living Wage in future	9
Figure 3: Percentage of authorities paying the Living Wage	11

EXECUTIVE SUMMARY

Context

This report presents the findings of work undertaken by the Centre for Local Economic Strategies (CLES) for Manchester City Council. The work details the findings of research which has sought to explore the Living Wage and how it can be potentially embedded into the City Council's procurement processes and practices.

The work has been commissioned by the Corporate Procurement Unit at Manchester City Council and has sought to do primarily two things. First, it has sought to understand the extent to which suppliers to Manchester City Council are already paying their employees the Living Wage; and subsequently the benefits and challenges the Living Wage presents their organisation with. Second it has sought to explore how other local authorities across England are using the process of procurement to encourage and require their suppliers to pay their employees a Living Wage.

The work is extremely relevant for Manchester City Council with the recent development of a Living Wage Task and Finish Group. As such, the work will complement and add value to the activities of the Task and Finish Group and provide part of the evidence required to meet one its core objectives of 'establishing a strong social and economic case of the benefits that introducing a Living Wage will bring to the City'. We therefore also explore the pro's and con's of universal adoption of the Living Wage by all businesses in Manchester and develop some cost-benefit figures of such adoption.

To gather evidence for the work CLES has: undertaken a survey of a sample of Manchester City Council's suppliers and follow up interviews; issued a call for practice to the CLES membership base; and reviewed other studies from the UK and United States. The structure of the executive summary follows that of the main report.

The perspective of Manchester City Council's supply chain

Suppliers of Manchester City Council were asked a range of questions about their experience of the Living Wage. 53 suppliers provided a response to the survey with 14 participating in follow up interviews. We found that 26.4% of suppliers (across a range of sectors) were currently paying all their staff a Living Wage. The payment of Living Wage has been relatively recent with 45.5% of suppliers having been paying all their employees it for about two years. For those suppliers paying the Living Wage, it brings a range of benefits including: keeping staff loyal; attracting a better quality of staff; and reducing dependence on in-work benefits. Some suppliers are beginning to disseminate the principles of the Living Wage to their own suppliers.

Of the suppliers which did not currently pay all their staff the Living Wage, 43.8% intended to start doing so in the future. They did however feel that there were a range of barriers which needed to be addressed before being able to do so. These barriers included: the competitive disadvantage paying the Living Wage might bring; and decreasing local authority spend and contract values.

The practice of other local authorities

Other local authorities were asked a range of questions around whether they paid the Living Wage themselves and how they were seeking to embed its principles into their procurement processes. 32 authorities replied to the call for practice. 66.7% of responding authorities suggested they were already paying their own employees the Living Wage, with 60% of these also encouraging their supply chain to pay the Living Wage to their employees.

Authorities are seeking to encourage their suppliers to pay their employees through a number of mechanisms including: through education, encouragement, and engagement; through including specific questions in tender documentation; through supplier charters, and through specific and compulsory clauses. Of those which are not currently paying the Living Wage; only 20% suggested that they intended to become a Living Wage employer in the future. These authorities were particularly concerned in terms of cost and affordability; and risk, notably in terms of social care contracts.

The economic and social case for introducing a Living Wage for contractors, sub-contractors and business

Using other studies around the Living Wage and CLES' work on the topic elsewhere, we identified a number of pro's and con's of universal adoption of the Living Wage for all contractors, sub-contractors and businesses in Manchester. The pro's and con's were split into the themes of Treasury, Business, and Workers. Some of the identified pro's included: increased revenue for the Treasury; a rise in earnings for Workers; and increased productivity for Business. Some of the identified con's included: lower demand for labour; it might not support the poorest households the most; and it will lead to increased costs for Business in particular sectors. We also sought to estimate the costs and benefits of universal adoption of the Living Wage in Manchester. We identified £132.4m of costs in terms of increased wages and £133.7m of benefits in terms of taxation, reduced benefits, and spend in the local economy.

Conclusion

The survey, call for practice, and wider research tell us that placing a compulsory requirement on suppliers to Manchester City Council to pay the Living Wage is not a valid policy response. Instead CLES recommends that Living Wage is encouraged rather than required; considered on a case by case basis rather than universal; and signposted rather than stipulated. We recommend that Manchester adopts a similar model to that of Birmingham with a Business Charter for Social Responsibility developed and Living Wage being part of a myriad of ways in which the authority can enable economic, social and environmental well-being through procurement.

1 INTRODUCTION

The Centre for Local Economic Strategies (CLES) is pleased to present this final report to Manchester City Council. The report details the findings of work exploring the Living Wage. The Council has wanted to gather opinion around the Living Wage and its adoption amongst its suppliers and additionally scope the extent to which other local authorities are utilising the process of procurement to encourage suppliers to pay a Living wage to their employees.

The work is framed in wider work undertaken by CLES around maximising the impacts of Manchester City Council's procurement spend in local economic, social and environmental terms; and key Council priorities around economic growth and addressing in-work poverty. It is also framed by an emerging Living Wage Task and Finish Group, which is being instigated by the Council and which is seeking to identify the best model for introducing a Living Wage in Manchester.

The introduction sets the context for the work and describes the research methodology.

1.1 Context

1.1.1 The Manchester Minimum Wage (MMW)

The Manchester version of the Living Wage (the Manchester Minimum Wage) has been in operation since 2008. The policy was initially focused on the lowest paid direct employees of Manchester City Council and wanted to ensure those workers were paid a wage that enabled them to have a sufficient quality of life. The drivers of the adoption were the economic climate of the time; the recognition that wage levels linked to key aspects of well-being; and the link between paying a Living Wage and the existing priorities of the Council and its partners in the form of its Sustainable Community Strategy. Manchester City Council has also encouraged other (largely) public sector bodies to adopt the Manchester Minimum Wage, which currently stands at £7.65 per hour.

1.1.2 Towards progressive procurement

At the same time as the adoption of the Manchester Minimum Wage, Manchester City Council also committed to undertaking work to ensure its procurement processes and spend brought maximum benefit for the Manchester economy and its communities. Commencing with the development of a Sustainable Procurement Policy Statement of Intent, the Council has sought to shift both its internal cultures and influence the behaviour of its suppliers so that the objective of maximum benefit for the City is achieved. The Council has undertaken an array of practical interventions to enable this to happen including: the development of the CHEST; reductions in the bureaucracy associated with procurement documentation; undertaking action research looking at the existing impact of spend; and the development of supplier networks.

1.1.3 Public procurement and the Living Wage

In the last two years, central government have legislated for the Public Services (Social Value) Act. This requires local authorities and other providers of public services to actively explore economic, social and environmental benefits in their procurement processes and decisions. Many authorities have embedded the requirement of the Act into their policies and begun to consider how suppliers can assist them in delivering wider benefit and impact through delivery activities. Encouraging core contractors and suppliers to pay their own employees a Living Wage and ensuring the principles of the Living Wage filter through the supply chain is one such way of addressing economic and social issues such as in-work poverty. The challenge here, however, is the associated requirement under European Procurement Law to enable fair competition across all potential providers for a good or service; which means universal stipulation of the Living Wage to the supply chain is not permitted.

1.1.4 Manchester City Council's compliance with the Social Value Act

In light of policy priorities in the Community Strategy and the need to comply with the legislative requirements of the Social Value Act and Europe, Manchester City Council have been exploring ways in which they can deliver even more benefit through their procurement spend and supply chain. They have therefore agreed a motion at Executive Committee (adopted on 26th March 2014) which focuses upon requiring suppliers to participate in the economic and social regeneration of the locality. The broad wording of the agreement is:

'Under the agreement the provider will be required to [support the Council's economic and social regeneration objectives] [actively participate in the economic and social regeneration of the locality of, and surroundings of, the place of the delivery of the agreement]. Therefore selection and award criteria, specification requirement and contract performance conditions may relate in particular to social and environmental considerations.'

1.2 Research objectives and methodology

1.2.1 Research scope

One of the key elements of the agreement for Living Wage in Manchester (detailed above) is around 'encouraging' suppliers to pay their own direct employees the Manchester Minimum Wage. Given legislative requirements, the word 'encourage' is important.

Manchester City Council (through the Corporate Procurement Team) therefore wanted work undertaken which explored the extent to which its supply chain were already paying the Manchester Minimum Wage and what the challenges and benefits associated with paying this meant for their organisation. To compliment this, Manchester City Council also wanted to explore how other authorities across the country were using the process of procurement to encourage their suppliers to pay the Living Wage.

The City Council have subsequently set up a Living Wage Task and Finish Group which will feed into the Economy Scrutiny Committee and the Finance Scrutiny Committee. As such the task and finish group has five objectives:

- 1) To determine how the Council as an employer and procurer of services can maximise the number of people in the city earning the Living Wage;
- 2) To develop an understanding of how other authorities have introduced a Living Wage and identify the best model for introducing a Living Wage in Manchester;
- 3) To develop a step by step plan to implement the Living Wage in all of Manchester's schools, the Council's contractors and sub-contractors as soon as practicable;
- 4) To establish a strong social and economic case of the benefits that introducing a Living Wage will bring to the city, which links to the Council's strategic priorities;
- 5) To ensure that the introduction of a Living Wage will continue to be meaningful in the long term and resilient to changes in national policy and legislation.

The work undertaken by CLES for the Corporate Procurement Team was commissioned prior to the development of the Living Wage Task and Finish Group. However, the objectives and findings of the research compliment the objectives of the Task and Finish Group; notably around the practicalities of the Living Wage for the supply chain (objective 1 above), the practice of other authorities (objective 2 above), and the social and economic case for introducing a Living Wage (objective 4 above).

1.2.2 Research objectives

This work undertaken by CLES has therefore particularly sought to:

- Explore the extent to which suppliers to Manchester City Council are already paying the Living Wage;
- Explore what suppliers to Manchester City Council perceived to be the key benefits and challenges associated with paying the Living Wage;
- Explore what Manchester City Council needs to do in the future to encourage more suppliers to pay the Living Wage;
- Explore the practice of other local authorities around paying the Living Wage directly and in using the process of procurement to encourage their suppliers to do so;
- To start to think about the pro's and con's (including economic cost-benefits) of contractors, sub-contractors and all businesses within Manchester adopting the Living Wage.

1.2.3 Research methods

CLES has undertaken two key methodological activities to inform this work:

Supplier engagement

The first part of the work was to engage with current suppliers to Manchester City Council. This was undertaken in two ways. First, we issued a survey to a sample of current suppliers. This sample was the top 375 suppliers to Manchester City Council (by value) and included both capital and revenue side suppliers. The survey was sent electronically to each of the suppliers. A copy of the survey questions is detailed in Appendix 1. Secondly, as a way of follow up on the survey findings, CLES also undertook a mix of face-to-face and telephone interviews with these suppliers (interview pro forma detailed in Appendix 2). Organisations were asked in the survey as to whether they would be prepared to speak to us further and 14 interviews were undertaken.

Other authority engagement

The second part of the work was to engage with other local authorities about how they were using procurement processes to encourage their suppliers to pay a Living Wage. This was undertaken through a call for practice to the CLES membership base. The call for practice was sent electronically with a copy of the lines of inquiry detailed in Appendix 3.

The two methodological activities compliment work already undertaken in-house by the Corporate Procurement team at Manchester City Council and is further supplemented by the development of some emerging metrics around the costs and benefits of universal adoption of the Living Wage across all businesses in the City.

1.3 About this report

This report details the findings of the work. Section 2 details the supplier perspective of the Living Wage and particularly their thoughts on utilising procurement to 'encourage' adoption of the Living Wage. Section 3 details the practices of other local authorities around embedding the Living Wage into procurement processes and practices. Section 4 discusses the pro's and con's of adopting the Living Wage universally across Manchester City Council's contractors and sub-contractors and businesses in the City. Section 5 details conclusions and a suggested Manchester model for embedding Living Wage principles into procurement processes.

This report should provide part of the evidence base for wider work being undertaken by Manchester City Council around the Living Wage and inform the future activities of the Living Wage Task and Finish Group.

2 THE PERSPECTIVE OF MANCHESTER CITY COUNCIL'S SUPPLY CHAIN

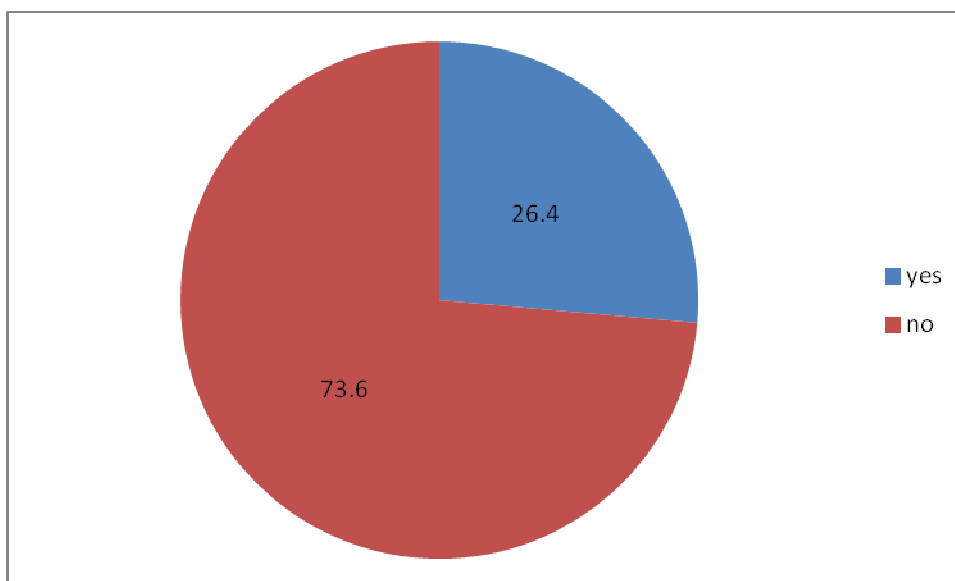
This section of the report details the findings of the survey of suppliers and subsequent follow up interviews. The key findings of the survey are split into themes with analysis interspersed with thoughts from the interviews. The survey was sent to 375 suppliers, with the emphasis predominantly being upon organisations with whom the Council spent more than £100,000 in financial year 2013/14 with 53 providing a response (a rate of 14.1%). 14 of these suppliers participated in the further interview.

2.1 Analysis of survey findings

2.1.1 Suppliers paying Living Wage and longevity of payments

Suppliers were asked whether they currently paid the Living Wage to all their employees and if they did the length of time they had been doing so. Figure 1 details that 26.4% of suppliers to Manchester City Council currently paid all staff the Living Wage.

Figure 1: Percentage of suppliers currently paying Living Wage



There are interesting variations in the extent to which organisations in different sectors pay the Living Wage. 21% of the social care providers responding to the survey paid the Living Wage. All the suppliers in the construction and housing, environmental services, professional services, and taxi services sector paid all their employees a Living Wage. It should however be noted that the suppliers responding to the survey were heavily skewed by social care providers.

Of the suppliers which did pay their employees the Living Wage, the largest proportion (45.5%) had been doing so for around two years. This is reflective of when the Living Wage has started to gain greater exposure, the Social Value Act, and the end of the recession and start of economic recovery. Some organisations had been paying a Living Wage to all their employees since the inception of their organisation; suggesting that addressing low pay and in-work poverty is embedded in the ethos of the some organisations.

2.1.2 The Living Wage aides loyalty and quality

Suppliers (which did pay the Living Wage) were asked what they felt to be the key benefits of paying the Living Wage to their organisation. We found predominantly that benefits related to employees and in particular it aids loyalty and retention of staff. The key benefits identified were:

- It keeps staff loyal and focused on the job;

'it provides us with the knowledge that employees are not focusing on domestic financial concerns whilst at work'.

Case Study

A housing provider has taken a “moral decision” to pay all their staff the Living Wage, and have done so since 2011. The only staff they do not pay the living wage to are apprentices. The reasoning behind this is that they cannot be guaranteed a job at the end of their apprenticeships, and it may be very difficult for them to adjust to being paid an above-average hourly rate only for it to drop back down to the average rate once they have finished.

- It aides retention of staff;

'they feel valued as employees and we have 100% staff retention and 95% foster care retention in our region'.

Case Study

A fostering agency pays all of their direct employees above the Living Wage. They view it as important as it is part of their ethos – for instance they changed their office cleaning provider when they asked them whether they pay their staff the Living Wage and did not get a straight answer. They also acknowledge the Living Wage increases staff loyalty and hence retention. They note that the implementation of the Living Wage is hard with respect to foster carers, as it is a 24/7 job and so they are unable to pay an hourly rate. However foster carers are paid the maximum payment of £427 per week, which in itself is designed to give the children a good quality of life, alongside a holiday allowance of £300 and respite care if needed.

- It means a better quality of staff and a happier workforce;

Case Study

A construction company acknowledged the increased motivation of staff resulting from being paid the Living Wage, but highlighted the way in which they operate their supply chain as a barrier which would make the implementation of the Living Wage universally challenging, in the sense that some of their staff are paid on piece work, whereas others are on hourly rates. Likewise they often subcontract building assembly work prior to their own employee’s work, so any implementation would have to factor this in too. They also had an issue with the fact that the living wage does not include the cost of travelling, which is sometimes paid by the employer, and so may not accurately reflect the true cost of employing someone.

- It reduces dependency amongst the staff base on in-work benefits.

'the key benefits were to our lowest earners; it reduced their dependency on in-work benefits, and improved their family life and well-being'.

2.1.3 The Living Wage can lead to competitive disadvantage

Suppliers (which did pay the Living Wage) were asked what they felt were the key challenges associated with paying the Living Wage. We found that predominantly the challenges identified were around competitive disadvantage in relation to other similar organisations not paying the Living Wage and a concern that organisational commitments were not being backed up by sustainable contract values from Councils. The key challenges identified were:

- A competitive disadvantage compared to businesses not paying the Living Wage;
- Living Wage commitments not being matched with uplifts in contract values from local authorities;

'we believe that the skills levels of our staff merit in excess of living wage but decreasing contract values resulting from budget cuts and no inflationary uplift over contract period makes this extremely challenging'.

- ❑ Policy affected by the way in which some businesses operate such as reliance on spot purchasing.

'our finances are organised on a spot purchases basis, therefore when placement numbers fall there is a high financial commitment to meet'.

Case Study

A social care organisation agreed that the Living Wage was a good idea and would be something they would want to implement, but they have certain reservations giving as to why they are not currently paying it. Lack of affordability is highlighted, as is the unconventional way their organisation charges for its services. They charge on a 'minute-by-minute' basis and are unsure as to how they would fit the Living Wage within this payment framework. Moreover they are unsure as to what the true costs of paying the Living Wage would be, as additional costs such as pensions and training costs needs to be factored in.

2.1.4 Some evidence of policy disseminating through the supply chain

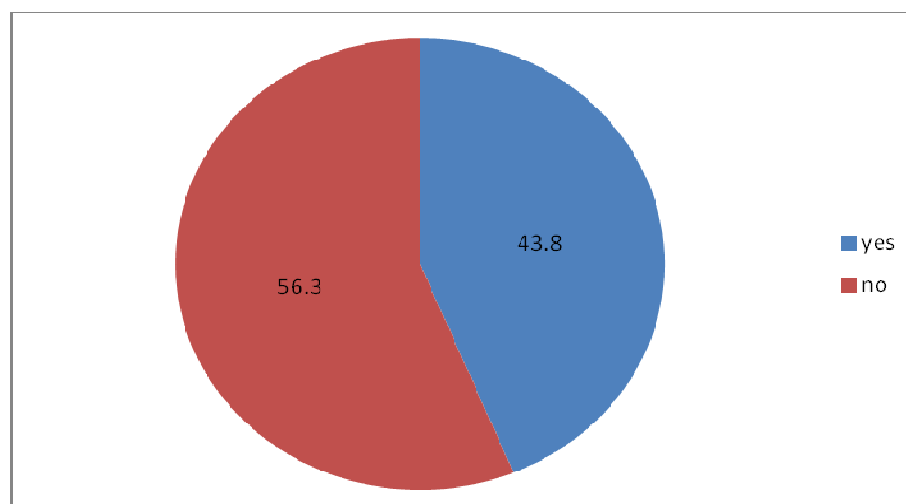
Suppliers (which did pay the Living Wage) were asked whether they were actively encouraging their own suppliers to pay the Living Wage. 50% of organisations were doing so, suggesting some evidence of policy disseminating through the supply chain and a commitment to extend Council priorities to a wider audience. The key means of encouraging the wider supply chain were through:

- ❑ Having policies where they seek to utilise only small and local suppliers, with a perception that these types of organisations are more likely to pay the Living Wage;
- ❑ Passing on their ethos and beliefs to their supply chain;
- ❑ Promoting transparency of policies through to the supply chain.

2.1.5 An intention to pay the Living Wage in the future but a series of barriers

The 73.6% of suppliers which identified that they currently did not pay the Living Wage, were asked whether they intended to do so in the future. Of those suppliers which are not paying the Living Wage, and as detailed in figure 2, 43.8% intend to do so in the future. Encouragingly there is commitment across sectors to pay the Living Wage.

Figure 2: Percentage of suppliers intending to pay Living Wage in future



Suppliers however felt there were a number of barriers which needed addressing before paying the Living Wage to all their employees. These were predominantly around the costs associated with it to enable them to do so. The key barriers currently preventing organisations paying the Living Wage include:

- ❑ Lack of resource and affordability in relation to cost;

'business cannot afford this additional cost'.

Case Study

A security organisation was enthusiastic about the idea of paying the Living Wage, citing the benefits which arise from increased staff loyalty. However, because the profit margins in their industry are so small and have been decreasing for some time, having costed the amount required to implement the Living Wage they have concluded that they are unable to implement it for the three remaining years of the contract they have with Manchester City Council. They are cautious about the impact implementing the Living Wage will have on their firm's competitive advantage – if the Living Wage becomes the norm these increased costs will have to be passed onto customers and this may impact on the competitive 'edge' the organisation has as an employer.

- ❑ Decreasing local authority spend and contract values;

'the purchasers of our services are mostly public sector organisations. These organisations have consistently and sometimes aggressively driven down rates for social care services during the last few years'.

- ❑ Fee rates in the social care sector not enabling margins to be made;

'whilst we would like to pay all our staff the Living Wage or more, the fees we receive in the care home sector dictate what we can and cannot do'.

Case Study

A care home stated that although the Living Wage is very important, the staff in their industry have always been poorly paid (even the senior staff are not currently paid the Living Wage), and given that the cost of operating the care home has increased year-on-year for the past four years whilst Manchester City Council's contract has remained stagnant, the firm does not have the financial legroom to support the increased staff costs associated with implementing the Living Wage.

2.1.6 A need for leadership in the procurement process

Suppliers which did not currently pay the Living Wage were asked whether they would be more inclined to do so if they were encouraged by local authorities during tendering exercises. 59.3% stated that they would. This suggests that the will is there within the supply chain; however there would need to be leadership from procurement teams and a change in culture around the following:

- ❑ It would need to be matched with a change in local authority practice around fee rates, notably in social care;
- ❑ It would need to be matched with a move away from cost being the primary factor for local authorities in procurement.

3 THE PRACTICE OF OTHER LOCAL AUTHORITIES

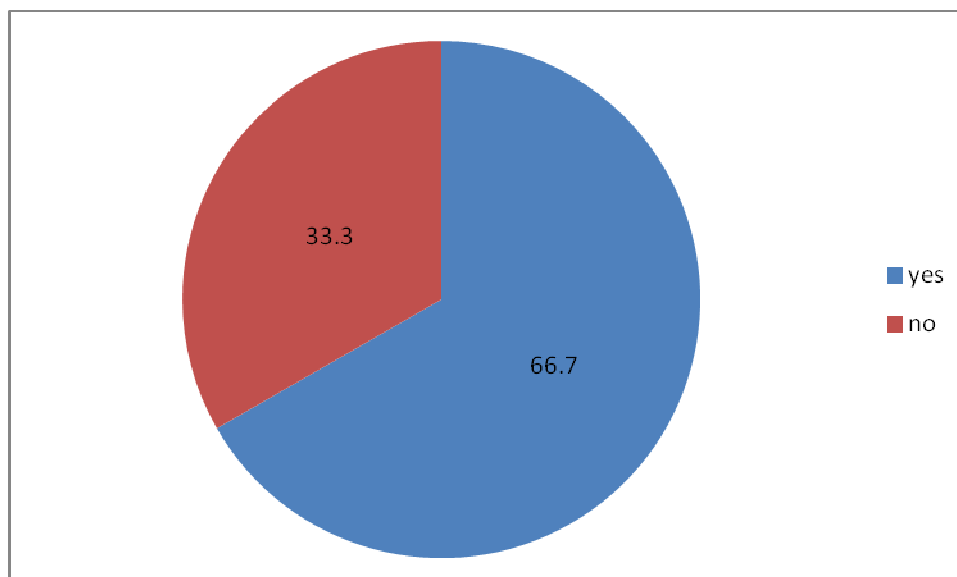
This section of the report details the findings of the call for practice of CLES member authorities. The call for practice sought to understand the extent to which other authorities were implementing the Living Wage themselves and if they have any processes in place for embedding it into procurement processes and practices. A total of 32 local authorities provided responses to the call for practice. Again key findings are interspersed with case studies, particularly in terms of how Living Wage considerations are embedded into procurement processes.

3.1 Findings of call for practice

3.1.1 Two thirds of authorities paying the Living Wage

The call for practice asked authorities whether they were paying the Living Wage themselves and the length of time they had been paying it for. Figure 3 suggests that 66.7% of authorities were paying the Living Wage, with 81.8% of these suggesting that they had been paying it for around two years. Again there is a correlation between this longevity and the introduction of the Social Value Act.

Figure 3: Percentage of authorities paying the Living Wage



There are interesting variations in the adoption of the Living Wage and types of authority and the political control of the authority. Metropolitan authorities are more likely to pay their employees the Living Wage, with 77.8% of those responding to the call for practice doing so. Only 33.3% of district authorities paid their employees the Living Wage. Labour controlled authorities are more likely to pay their direct staff the Living Wage, with 86% doing so. This compares to 50% in Conservative controlled Councils.

3.1.2 Authorities generally unsure about costs of implementation

The call for practice asked authorities how much adopting the Living Wage was costing them. Few authorities fully answered the question. This potentially suggests two things. First, authorities have undertaken little analysis of the potential costs and benefits of adopting the Living Wage. Second, adoption of the Living Wage is not necessarily motivated by resource but more about addressing in-work poverty and addressing fairness and social considerations. Of those which did respond to the question, there is clearly a correlation between size of authority workforce and the cost of the Living Wage. The highest annual cost of adoption was around £1million, with the lowest being around £100,000 per annum.

Of those authorities which have implemented the Living Wage and know how much it costs per annum, the majority are covering the costs as part of the annual budget setting process, with any gaps covered by departmental budgets. Some authorities have set up specialist contingency funds to cover the costs of adopting the Living Wage.

3.1.3 Some evidence of supplier encouragement

The call for practice asked whether local authorities (which have adopted the Living Wage) were utilising the process of procurement to encourage their contractors and suppliers to pay their employees the Living Wage. 60% of those authorities paying a Living Wage are also encouraging their contractors and suppliers to pay a Living Wage. The call for practice also asked authorities to identify what they felt the key barriers for suppliers in implementing the Living Wage were. The barriers largely tally with those offered by suppliers to Manchester City Council earlier on and can be themed as follows:

- ❑ Concerns over competitive disadvantage with larger firms from other parts of the country;

'many of our contractors/suppliers are already paying the Living Wage. Many of those that do not are working with other local authorities in the region who do not pay the Living Wage. There is probably a fear of being competitively disadvantaged rather than seeing the potential benefits associated with paying the Living Wage.'
- ❑ Cost which would drive contract costs to unsustainable levels for the services;

'concern from providers that this will make them less competitive and lose tenders, and custom and practice in some sectors where the market norm is to pay the minimum wage only.'
- ❑ Impact on bottom line;

'this is in the main cost. We are in the main in a competitive market within the public sector for tendering and we do consider cost as well as quality within contracts; therefore tenderers are trying to be more competitive to secure business.'

Bearing in mind that there are legal issues associated with expecting suppliers to pay the Living Wage, we asked a question in the survey around how authorities were encouraging their suppliers to do so. We found this was through both formal and informal mechanisms:

- ❑ Through education, encouragement and engagement as opposed to enforcement;

'EU regulations cause a real problem for enforcement.'

Brighton and Hove Council

This Council approaches implementing the Living Wage on a case-by-case basis. As the council already knows its suppliers/providers wage levels, if the contractor is already paying above the Living Wage there is no need to incorporate it into the process. They note that the response of existing suppliers who pay the Living Wage has been positive.

- ❑ Through including questions in tender documentation and compulsory scoring;

Norwich City Council

The Council notes that its compulsory approach to paying the Living Wage has resulted in some "grumbling" from suppliers. For example, due to suppliers pay structures the implementation of the Living Wage has led to compulsory pay increases for staff not affected by the Living Wage. Additionally suppliers had to be reminded that apprentices also had to be paid the Living Wage. Despite these issues, however, the Council reports that the net result for both the Council and customers has been an increase in performance and job satisfaction.

Southwark Council

This Council's compulsory implementation of the Living Wage has resulted in an increase, both in terms of the council's social responsibility but also in the quality of services provided. However they state the fact that because areas such as Facilities Management are bundled together,

SMEs and voluntary organisations are only able to find work in sub-contracting.

- ❑ As part of the social value agenda;

As part of our Social Value agenda we do have a standard bank of questions that category leads can choose to insert into tender documentation’.

- ❑ Through suppliers charters.

’Through a statement in our suppliers charter which is issued with all procurement documentation at the commencement of a tender/quotation exercise’.

Birmingham City Council

Birmingham City Council’s policy around the Living Wage is embedded in their Business Charter for Social Responsibility. The Charter is a guiding set of principles to which it adheres to and which it encourages its contracted suppliers, the wider business community, other public sector bodies, and third sector organisations to adopt. Charter signatories are required to consider and describe how they can improve the economic, social and environmental well-being of Birmingham that result from their activities. The Charter is mandatory for suppliers to Birmingham City Council with individual annual contracts over £200,000 and aggregated annual contracts over £500,000. Good Employer is one of the themes of the Charter with signatories mandated to adopt the Birmingham Living Wage.

3.1.4 Clauses part of the way of encouraging Living Wage

The call for practice asked authorities whether they had inserted clauses into tender criteria around the Living Wage in order to encourage suppliers to follow their lead. 50% of those authorities already paying the Living Wage have inserted clauses into their tender criteria encouraging contractors and suppliers to pay the Living Wage. It is important to note that authorities reflected that stipulated clauses were not as effective as encouragement of the supply chain. ‘We are only encouraging the implementation of the Living Wage, we have not made this mandatory’. Indeed authorities were considering Living Wage encouragement on a service area by service area basis; using statements in ITTs outlining their principles around Living Wage as opposed to direct clauses.

Islington Council

Islington Council has developed a compulsory Living Wage policy from the recommendations of its Fairness Commission. The requirement for potential suppliers to pay the Living Wage is detailed in tender documentation and enforced through the inserting of Living Wage criteria into contract criteria. Importantly, Islington Council is monitoring adherence to the payment of the Living Wage through contract management. A condition of contract is that the Council can monitor suppliers at any time and ask them to provide evidence at contract review meetings.

Oldham Council

This Council chose to focus on quality when choosing contracts, as opposed to price or commitment to the Living Wage. They noted suppliers hesitancy about the idea of paying the Living Wage, yet every single supplier still applied to become providers. Small and Medium Enterprises (SMEs) were noted to have found the process more difficult, which led to them achieving lower scores (even if they were not low enough to be eliminated).

3.1.5 Non Living Wage authorities unlikely to become so in the future.

33.3% of the authorities responding to the call stated that they were not currently Living Wage employers themselves. Interestingly, only 20% of these suggested that they intended to become a Living Wage employer in the future. The key barriers identified were:

❑ Cost and affordability;

❑ Risk particularly in relation to social care;

'there are high risk and cost implications, especially around the care industry.'

❑ Reservations regarding the suitability of Citizens UK as an accountable body;

'the Living Wage Foundation are dictating the rate of pay on an annual basis with no visible democratic process.'

❑ Political opposition to it;

'the Leader of the Council reportedly opposed to making a commitment which may prove a huge uncontrollable financial burden as the rate for the Living Wage is set externally to the Council.'

There is however an expectation on the part of authorities responding to the call that their suppliers should be encouraged to pay the Living Wage. Indeed, 75% of authorities felt this should be the case.

4 THE ECONOMIC AND SOCIAL CASE FOR INTRODUCING A LIVING WAGE FOR CONTRACTORS, SUB-CONTRACTORS AND BUSINESS

This section of the report seeks to support the wider activities of Manchester City Council's Task and Finish Group by exploring the pro's and con's of the Living Wage in more detail. Using evidence drawn from the survey, the call for practice, CLES' work elsewhere, and other literature, we identify pro's and con's of universally adopting the Living Wage across Manchester City Council's contractors and sub-contractors and also across businesses in the City. We also offer thoughts on the potential cost-benefits of such universal adoption. The identified pro's and con's are for the Treasury, for Workers, and for business. This below should assist in informing the economic and social case of the Task and Finish Group.

4.1 The pro's and con's for the Treasury and economy of universal adoption of the Living Wage

4.1.1 Pro's for the Treasury and economy

Increased revenue and lower costs

The Resolution Foundation¹ in their report on the Living Wage, states the biggest beneficiary of the universal implementation of the Living Wage would be HM Treasury, as not only would income from tax receipts and national insurance contributions increase, but spending on tax credits and in-work benefit payments which are currently paid to the low-paid would fall. The Resolution Foundation suggest a gross saving for the exchequer of £3.6billion; with the Living Wage Commission² in their report suggesting £4.2billion. The workforce wage increase that would occur from the universal adoption of the living wage could result in an increase in the level of workers' disposable income, which in turn will benefit the local economy.

4.1.2 Con's for the Treasury and economy

Lower demand for labour

The Resolution Foundation suggests that the benefits resulting from the universal adoption of the Living Wage would be offset by an overall decrease in demand for labour of 160,000 jobs. They note, however, that this figure should be treated with caution, as the labour market model used to reach this figure often overstates labour demand effects (for instance a similar model predicted a fall in labour demand from the creation of the national minimum wage, which research has shown not to have occurred). If labour demand did fall, however, not only would potential tax revenue be lost, but the government may incur additional costs from out-of-work benefits such as Job Seekers Allowance.

Additionally evidence from the United States³ suggests that the Living Wage has in some cases led to reductions in profits, which has knock-on consequences across the economy.

4.2 The pro's and con's for workers of universal adoption of the Living Wage

4.2.1 Pro's for workers

Rise in earnings

The Resolution Foundation estimates that 5 million people in the UK would see wages rise as a result of universal adoption of the Living Wage. This would see the gross earnings of the workforce rise by £6.5bn, an average of around £850 per household. Being paid a living wage also tends to make workers happier, as they do not have to think about domestic financial concerns whilst at work.

¹ Resolution Foundation and IPPR (2013) *Beyond the Bottom Line: the challenges and opportunities of the Living Wage*.

² Living Wage Commission (2014) *Working for poverty: the scale of the problem of low pay and working poverty in the UK*.

³ Seattle Income Inequality Advisory Committee (2014) *Local minimum wage laws: impacts on workers, families and businesses*

4.2.2 Con's for workers

Not assisting the poorest households the most

The universal adoption of the Living Wage may be unsuccessful if its aim is to raise the income of the poorest households. This is because, as noted in research by both the Resolution Foundation and the Living Wage Foundation, many low earners live with others who are not necessarily low paid, meaning that households around the middle of the income distribution would gain disproportionately from the living wage. There is also evidence that suggests that low paid workers who gain a living wage lose out on other non-wage benefits such as overtime rates, sick pay, and pensions as businesses look to recover increased wage costs.

4.3 The pro's and con's for business of universal adoption of the Living Wage

4.3.1 Pro's for business

A range of staffing benefits

The payment of the Living Wage brings a range of benefits to businesses in terms of their workforces. Fair pay is a key factor in staff loyalty and as such paying a Living Wage that is reflective of quality of life considerations keeps staff focused on the job and happier within work. For example, it means that employees are not focusing on domestic financial concerns whilst at work. Paying the Living Wage also enables businesses to retain staff as their wages will be more attractive than an organisation which does not pay the Living Wage. Relatedly, paying the Living Wage means businesses are able to attract a better quality of employees in the first place.

Both the Living Wage Commission and the Economic Policy Institute⁴ state that adoption of the Living Wage leads to a host of 'cost-saving opportunities' for businesses resulting from decreased staff turnover and absenteeism, along with increased stability, motivation and commitment and business reputation. There is also evidence to suggest there is a link between businesses paying the Living Wage and increased productivity. The Resolution Foundation state that businesses adapt to the rising costs associated with Living Wage by rising productivity (as with introduction of the National Minimum Wage) by either increased employee satisfaction or through investment in training.

4.3.2 Con's for business

It can lead to competitive disadvantage

For businesses which are engaged in public sector contracts and procurement generally, paying the Living Wage can mean a competitive disadvantage when compared to organisations which do not pay the Living Wage. Those which do not pay the Living Wage are likely to be able to cost proposals for contracts cheaper. There is therefore a need for bodies which push Living Wage principles to reflect this in their procurement processes.

It is not being matched with resource increases

Again, related to public procurement paying the Living Wage as part of a contract or voluntary arrangement with a local authority does not necessarily lead to uplifts in contract values. In particular, social care contracts have experienced stagnant or decreasing contract values over the last few years as a result of austerity measures. This means there is potentially no real incentive for existing and potential suppliers to adopt the Living Wage. Indeed the lack of inflationary uplift make delivery of services increasingly difficult.

A whole host of barriers around cost

The evidence from this work with Manchester City Council, alongside research from the Living Wage Commission and the Resolution Foundation suggests that suppliers face a host of cost related barriers to adopting the Living Wage, dependent on sector and business size. In some sectors the increased costs associated with the Living Wage are affordable. The highest increased costs are for general retailers, food and drug retailers and bars and restaurants (between 4.7-6.2% increase). Businesses in sectors such as security, where profit margins are small, often lack the resource to afford the additional costs associated with Living Wage. Similarly in the care sector the fee rates for contracts in the public sector do not enable sufficient margins to be made to cover the costs

⁴ Economic Policy Institute (no date) *The economic impact of local living wages.*

associated with universal adoption of the Living Wage. For smaller firms, the higher costs could hinder business development and hence growth.

There is also evidence to suggest that if firms do not make sufficient productivity gains from adopting the Living Wage they will increase prices. Evidence states that 30% of firms affected by the introduction of the National Minimum Wage significantly raised prices. If firms do not raise prices, firms may reduce levels of profit.

Particular sectors would be adversely affected by the introduction of the Living Wage, notably in the retail and hospitality trade. In the UK, some businesses have adapted to paying the Living Wage by cutting employment or hours. However, the majority have found other ways of managing costs. Indeed, evidence from the Economic Policy Institute and the Seattle Income Inequality Advisory Committee in the United States suggest that adoption of a locally defined Living Wage has had little or no adverse impact on either employment or working hours; with some finding increases due to increased incentives to work.

4.4 Potential costs and benefits of universal adoption for Manchester

We can use some national data sources and the findings of other studies to make an estimate of the costs and benefits of universally adopting the Living Wage across all businesses in Manchester (it should be noted that there may be a wider set of benefits that could be quantified beyond wages and spend including output of businesses – the benefit figure is therefore likely to be conservative). The figures should form part of the wider development of the economic and social case being undertaken by Manchester City Council's Living Wage Task and Finish Group.

4.4.1 Costs of universal adoption for Manchester

Looking specifically at employment in Manchester, we can estimate the potential costs of universal adoption of the Living Wage across all jobs.

- ❑ 318,300 people are currently in jobs based in the Manchester City Council boundary. 220,100 are full time and 98,200 are part-time;
- ❑ We estimate (based on national averages) that 10% of full time workers in Manchester are not paid the Living Wage (31,830 people) and that 40% of part time workers in Manchester are not paid the Living Wage (39,280 people);
- ❑ Full time employees in Manchester work an average of 37.5 hours per week, with part time employees working an average of 18 hours per week.
- ❑ The gap between the National Minimum Wage (£6.31 per hour) and the Living Wage (£7.65 per hour) is £1.34.
- ❑ We can use all the above data to estimate the gross cost of universal adoption of the Living Wage. We estimate that full time workers in Manchester would be paid an additional £83,171,790 per annum; with part time workers paid an additional £49,266,547 per annum.
- ❑ This means the total potential cost of universal implementation of the Living Wage will be **£132,438,337**.

4.4.2 Benefits of universal adoption for Manchester

Looking specifically at employment in Manchester, we can estimate the potential benefits of universal adoption of the Living Wage across all jobs.

- ❑ Treasury gains – tax revenue on additional income:
 - As those on minimum wage (£13,125 pro rata) already earn above the tax threshold, we estimate that any additional income would be taxed at 33% (including tax and national insurance contributions), so for £83,171,790 of extra income the Treasury would gain approximately **£27,446,691**;

- For those working part time, they will not earn enough additional income to reach the tax threshold, so the Treasury will not gain any additional revenue from these increases in income.
- Treasury savings – savings on in-work tax credits:
 - 52,200 people in Manchester are currently in receipt of child/working tax credits. It is estimated that a shift from National Minimum Wage to a Living Wage would reduce benefit claims by an average of £112 per month;
 - Figures show that Manchester’s resident population is 21% lower than Manchester’s workday population – if we assume the same proportion of those claiming in-work benefit live outside the local authority area as do the rest of the population, we should reduce the 52,200 figure to 41,238.
 - Using these figures as a proxy we therefore estimate a saving for the Treasury from Manchester of **£55,423,872** per annum
- Local economy boost (multiplier effect):
 - Work undertaken by CLES around the multiplier effect of public spending suggests that local employees will re-spend 52.5p of every £1 which they earn back in the area in which they live and work. We must also factor in that 21% of those who work in Manchester do not live there, so their increased income may not flow back into the local economy.
 - Using this as a basis, we therefore estimate that there is a potential £55,725,099 (net full-time income boost) + £49,266,547 (untaxed part-time income boost) *0.79 (21% living outside the Manchester local authority area) = £82,943,400 *0.525 (52.5p spend in local economy on every £1 of additional income) = **£43,545,285** boost to the local economy.
 - For those living outside of Manchester, our work suggests they will re-spend 33p of every £1 which they earn back in the area in which they work. Using the logic of the bullet above this amounts to **£7,275,921**.
- This means a total potential (conservative) benefit of **£133,691,999**.

5 CONCLUSION

This work has sought to identify the extent to which suppliers to Manchester City Council currently pay their employees a Living Wage and the perceived benefits and challenges associated with the Living Wage. Focusing on procurement processes, the work has also sought to explore how other local authorities are seeking to encourage their suppliers to adopt Living Wage principles and again the associated benefits and challenges. Finally, it has sought to identify the pro's and con's of universal adoption of the Living Wage across businesses in the City, and make estimates as to the costs and benefits. This final section therefore identifies some key concluding points across various elements of the work. This should complement the wider work already undertaken by Manchester City Council around the costs of implementing the Living Wage and the legalities of embedding it within commissioning and procurement processes; and in turn supplement the activities of the Council's Living Wage Task and Finish Group.

The key conclusions are:

- ❑ A small proportion of suppliers to Manchester City Council currently pay the Living Wage;
- ❑ Living Wage principles have increased in importance as a result of the Social Value Act;
- ❑ The payment of Living Wage is inherently linked to organisational ethos with some suppliers more in-tune to addressing social exclusion and poverty;
- ❑ Suppliers generally agree with the principles of the Living Wage but are concerned about implementation.
- ❑ Living Wage cannot be applied using a 'one-size-fits-all' approach across all types of supply organisations. The care sector in particular operate under models which are not conducive to Living Wage style payment schedules;
- ❑ Suppliers commitments to paying the Living Wage is being compromised by budget cuts and non-inflationary changes in local authority contract values;
- ❑ Local authorities are increasingly paying the Living Wage themselves but there are variances by types of authority and political control;
- ❑ Authorities are **encouraging** their suppliers to pay the Living Wage rather than stipulating they have to;
- ❑ Encouragement is being undertaken through: highlighting principles in tender documentation; through standard yes/no questions; and through suppliers charters;
- ❑ Adoption of the Living Wage is being affected by the non-democratic process adopted by the Living Wage Foundation to set rates;
- ❑ There are an array of pro's and con's of universally adopting the Living Wage across all contractors, sub-contractors and businesses across Manchester. These will be felt by the Treasury, by the businesses themselves and their workers.

These conclusions tell us that a compulsory requirement through procurement processes for all suppliers to Manchester City Council to pay the Living Wage is not valid. Any approach or motion which Manchester City Council adopts through procurement processes around the Living Wage must be reflective of the following principles:

- ❑ It must be encouraged rather than required;
- ❑ It must be considered on a case by case basis rather than universal;
- ❑ It must be signposted in tender documentation rather than stipulated.

CLES therefore recommends that Manchester adopts a similar model to that of Birmingham with a Business Charter for Social Responsibility developed and Living Wage (above certain contract values) being part of a myriad of ways in which the authority can enable economic, social and environmental well-being through procurement.

APPENDIX 1
Survey of Suppliers

SURVEY OF SUPPLIERS

- 1) Please complete the following details:
- Name
 - Organisation
 - Email Address
- 2) Does your organisation currently pay all employees a Living Wage of £7.65 per hour?
- Yes
 - No
- 3) If yes, approximately how long have you been a Living Wage Employer?
- 4) What do you think are the key benefits to organisation of paying employees a Living Wage?
- 5) What do you think are the key challenges to your organisation of paying employees a Living Wage?
- 6) Are you encouraging your sub-contractors and suppliers to pay their employees a Living Wage? If yes, how are you encouraging them?
- Yes
 - No
 - Comment
- 7) If no, do you intend to pay your employees a Living Wage in the future?
- Yes
 - No
- 8) What are the key barriers currently preventing your organisation from paying employees a Living Wage?
- 9) Would you be more inclined to pay your employees a Living Wage if you were encouraged to do so by local authorities during tendering? Please explain your answer
- Yes
 - No
 - Comment
- 10) CLES will be looking to discuss the impact of Living Wage upon suppliers to Manchester City Council in more detail over the coming month. Would you be prepared to be consulted further? If yes please provide your telephone number and email address.
- Yes
 - No
 - Comment
- 11) What type of good or service does your organisation provide to Manchester City Council?
- 12) Do you have any further comments to make?

APPENDIX 2

Interviews

INTERVIEWS

- 1) What are your overarching thoughts on the Living Wage?
- 2) What do you generally think are the main benefits associated with the Living Wage?
- 3) What do you generally think are the main challenges associated with the Living Wage?
- 4) What do you think public authorities are currently looking for from the supply chain in tendering?
- 5) What are your thoughts upon the added/social value asks of public authorities currently?
- 6) Are they affecting your ability to bid cost efficiently and effectively?
- 7) What impact do you think generally adopting the Living Wage would have on your organisation?
- 8) Specifically what do you think the impact will be upon:
 - a. Productivity
 - b. Costs
 - c. Morale
 - d. Ability to create and sustain jobs and offer apprenticeships
 - e. Surrounding local economies
- 9) What wider activities are you undertaking around social value and corporate social responsibility?
- 10) Why do you undertake these activities?
- 11) What is your organisation doing in relation to environmental management?
- 12) What proportion of your workforce are temporary or on zero hour contracts?

APPENDIX 3
Call for Practice

CALL FOR PRACTICE

- 1) Please complete the following details:
 - Name
 - Organisation
 - Email Address
- 2) Does your authority pay a Living Wage to its direct employees?
 - Yes
 - No
- 3) If yes, approximately how long have you been a Living Wage Employer?
- 4) Approximately how much per annum is adopting Living Wage principles costing your authority?
- 5) How are you covering the additional costs associated with paying the Living Wage?
- 6) Have neighbouring authorities in your locality implemented the Living Wage? If no, do you think your adoption of the living wage has had an impact on the economy of surrounding areas? Please explain your answer
 - Yes
 - No
 - Comment
- 7) Are you encouraging your contractors and suppliers to pay their employees a Living Wage
 - Yes
 - No
- 8) What do you think are the biggest barriers to contractors and suppliers paying their employees a Living Wage?
- 9) How are you encouraging your contractors and suppliers to pay their employees a Living Wage?
- 10) Have you inserted any clauses into your tender criteria to encourage your contractors and suppliers to pay their employees a Living Wage? If yes, please comment on how these have been implemented.
 - Yes
 - No
 - Comment
- 11) If no, do you intend to become a Living Wage employer?
 - Yes
 - No
- 12) Do you think authorities should be encouraging their contractors and suppliers to pay their employees a Living Wage? Please comment on your answer.
 - Yes
 - No
 - Comment
- 13) Do you have any further comments to make?