

**Brighton & Hove**

**Living Wage Commission**

**2011/12**

**Final Report, March 2012**

## 1. Executive Summary

A living wage is a minimum hourly pay rate that takes into account certain basic costs of living. The concept of a living wage is a voluntary commitment by employers and is separate from the National Minimum Wage which employers are obliged to pay by law. The Living Wage Foundation<sup>1</sup> leads the campaign for a living wage in the UK.

The Brighton & Hove Living Wage Commission was established in October 2011 to explore the potential benefits, challenges and opportunities of introducing a living wage for the city and to recommend an appropriate local living wage rate.

Over a six month period the Commission heard and gathered a range of evidence about in-work poverty in the city; pay rates and structures in the public, private and third sectors; opportunities and barriers in public procurement; and willingness and barriers in the private sector to support a living wage for the city.

### The Key Findings:

- In line with recommendations from the Living Wage Foundation and the independent findings of the Commission's work the city adopts the national living wage figure of £7.20 as the living wage for Brighton & Hove
- Public sector organisations in the city are already in a relatively good position to meet this rate
- The private sector position is not as favourable as a whole, but there is significant variation in wage distribution between different parts of the sector
- There is good support for a living wage among the business community, but with a need for practical help and advice to turn business support into higher wages
- There are specific issues and concerns about the Living Wage in businesses that are key to the city's employment and economy, including retail, hospitality and wider tourism sectors, that require further work
- The third sector, in general, pays the living wage with the exception of organisations that are competing for contracts directly with the private sector, i.e. transport, carers
- Public sector procurement presents a challenge but there are opportunities to address this in a phased way
- Making a living wage a reality needs to be directly linked to other activity to stimulate the local economy
- That the figure of £7.20 although challenging for many employers should be seen as a minimum living wage level, and that this level of pay is a first step towards a potentially higher figure that fully reflects the costs of living in Brighton & Hove.

### Recommendations

1. Adopt the national living wage figure of £7.20 as a minimum living wage for Brighton & Hove.
2. A campaign be developed to raise awareness and promote the benefits of a living wage for businesses, including providing practical business support, developing a local 'kitemark' scheme and linking in with the national living wage campaign and the accreditation scheme. The campaign to include support and further work with retail, hospitality and wider tourism sectors.

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<sup>1</sup> <http://www.livingwage.org.uk/>

3. The City's overarching cross sector working forums, the Brighton & Hove Strategic Partnership and the Public Service Board to formally endorse £7.20 as a living wage for the city, to take responsibility for overseeing the campaign and for the long-term promotion and development of a living wage for the city. This work to include revising the success of the campaign over a two year period and agreeing further changes to the living wage level as appropriate.
4. Brighton & Hove City Council, within its procurement process, to trial requesting contractors to submit a living wage and a non living wage bid as mandatory. With partners the council will share learning and help develop approaches to include the Living Wage in the procurement work of other public bodies in the city.
5. Brighton & Hove City Council to lead by example in the public sector and, as part of this, explore the possibility of gaining formal accreditation as a Living Wage employer from the Living Wage Foundation.
6. Community & Voluntary Sector Forum to lead by example in the third sector and, as part of this, explore the possibility of gaining formal accreditation as a Living Wage Employer from the Living Wage Foundation.
7. Embed the principle and promotion of the living wage in all new city strategic plans, strategies and programmes, in particular the city's new economic development strategy.

## **2. Introduction**

The Brighton & Hove Living Wage Commission was established to explore the potential benefits, challenges and opportunities of introducing a living wage for a number of reasons:

- The level of in-work poverty in the city
- The high cost of living, and continuing price of inflation in housing, fuel and food
- The prevalence of low wages in strategically important sectors including retail; tourism; and for some public / other key sector workers

The key tasks of the Commission were as follows:

- To report on a city position on adopting a living wage
- To recommend a living wage (hourly rate) for the city of Brighton & Hove
- To suggest how employers could be supported to implement a living wage for directly employed staff and to review their procurement, contract and best value policies to ensure that as far as possible, within the law, the living wage is paid to all contracted staff; identifying specific sectoral issues and requirements
- To ensure that pursuing a living wage helps tackle inequality while protecting and promoting the competitiveness and effectiveness of businesses and organisations

The Commission comprised:

- Brighton & Hove City Council; Leader, Cabinet Member for Finance & Central Services, Labour & Co-op Group representative, Conservative Group representative
- City Council Chief Executive and Strategic Director for Resources
- Business representative; Chamber of Commerce, Economic Partnership
- CVSF representative and CEO CVSF
- Trade Unions representatives; Unison, GMB, Unite
- NHS Brighton & Hove
- Sussex Police
- University of Brighton
- The Living Wage Foundation
- Brighton & Hove Hotel Association
- Brighton & Hove Albion Football Club

Over a period of 6 months (October 2011 to March 2012) the Commission heard and gathered evidence on a number of issues surrounding the living wage:

- Research on an appropriate living wage figure for Brighton & Hove
- Out of work and in-work households in poverty in the city
- Current pay levels in public, private and third sector
- Possibilities through public procurement
- Private sector business feedback

Full details of the Commission, including minutes of meetings and evidence presented, are available online at Brighton & Hove City Council's website <http://www.brighton-hove.gov.uk/index.cfm?request=b1162204>

### **3. Understanding the costs and benefits of a Living Wage**

A successful living wage must balance the (real and perceived) costs and benefits to businesses, recipients and the wider economy. Achieving the biggest gain for all parties is not necessarily straightforward. If a suggested living wage is too high certain business sectors and types will not take part. If it is not sufficient then it will not help to mitigate in-work poverty and high living costs.

Studies detailing the impact of living wage schemes have shown that there can be a large benefit to organisations who pay a living wage in terms of improved staff retention and therefore decreased recruitment and training costs.

A living wage can improve the quality of employment for the individual and, by so doing, increase that individual's relative productivity for the firm. KPMG, who pay a living wage to all staff including contracted staff, report not only an increase in retention but also a more positive attitude among employees which in turn benefits the company's image.

There is also a large body of theory and evidence which suggests that individuals work harder when paid more, improving the absolute productivity of employees. An 'efficiency wage' pays above the market level (or a 'reservation' wage) to attract better employees

who are more productive, whilst also incentivising them to remain in the job and not leave to join another firm who pay only a market rate.

This can be likened to the relationship and attractiveness between working for a company which pays a living wage or one that pays only the National Minimum Wage.

The financial cost of introducing a living wage falls solely on the employer paying a higher wage. This cost is quantifiable as the extra wages paid to employees in order to meet the living wage. However, one of the main issues in determining the cost-benefit to an employer of paying a living wage is that the benefits may be more qualitative, social, and uncertain and therefore not directly comparable with the cost.

Because of this difficulty in quantifying absolute benefits, paying a living wage could arguably be considered a moral decision for a company first and foremost, paying a wage that will be primarily of greatest benefit to employees, but also with some reasoned benefits for the employer based on experience of the living wage elsewhere.

This position would lead to one of the primary concerns or risks raised about a living wage; that employers might find ways to implement the living wage without incurring an increase in staff costs. For instance, by reducing the overall size of the workforce to increase individuals' salaries while at the same time increasing their personal workload.

Another concern would be about the overall effectiveness of a living wage campaign in an area. For varied reasons some employers may be reluctant pay a living wage, be it smaller profit margins, changes in the economy, or competitiveness to supply services and contracts at the lowest possible cost. As is true of Brighton & Hove, some of the lowest wage sectors are also most vital to a local economy.

In response, the view of the Living Wage Foundation and others who have implemented a living wage, is that it is ultimately a voluntary code and one that it is up to individual employers to choose whether or not they are able to sign up to. However, over a significant period of time a growing number of businesses and organisations across the UK are becoming Living Wage employers.

The attractiveness of a paying living wage for businesses, and therefore the likely take up of a living wage by as many businesses as possible in an area, will depend critically on two factors.

Firstly, what the actual cost of implementing the living wage is going to be. This is the difference between the current level of wages being paid and the level at which the living wage is set. This will vary between businesses, and is a fixed cost given any current number of employees. This fixed cost will be proportionately lower for companies with higher profit turnovers and / or lower labour to capital ratios.

Secondly, the perceived balance between the cost of paying a higher, living wage and the benefit to the business in terms of staff retention and / or lower absenteeism and training costs. If the cost of training is high relative to overall wages, due for example to high staff turnover / absenteeism, an employer may get relatively large benefits from paying a living wage.

#### 4. A Living Wage Figure for Brighton & Hove

The Commission asked Mr. Donald Hirsch<sup>2</sup> to calculate an hourly living wage rate for Brighton & Hove based on the same formula used for the national Living Wage figure, which currently stands at £7.20. The national Living Wage is not a fixed figure and will fluctuate over time with changes in the price of goods and inflation.

The national figure is based on the average prices of a minimum acceptable basket of goods (determined by members of the public), the cost of housing for families and those without children, and childcare costs. London is excluded from the national figure and has its own, higher Living Wage of £8.30 which is recalculated annually by the GLA.

Brighton & Hove experiences higher living costs compared to many other parts of the UK, especially with regard to housing costs, and some key sectors of the local economy are based on low wage employment. Lower-paid employees in the city therefore face even greater pressure to meet living costs on current wages than those in other parts of the country.

Shelter's index of housing affordability reflects this position, showing that the ratio of housing costs to pay is 50% higher in Brighton & Hove than the UK average and substantially higher even than in some London boroughs.

The living wage figure calculated for Brighton & Hove has therefore come out higher than the national rate at either £7.47 or £8.31 depending on the assumptions made about accommodation. The £8.31 figure is generated using the assumption of a single person living in self contained accommodation<sup>3</sup>. A more modest accommodation assumption of a single person renting a room in a shared house<sup>4</sup> produces the figure of £7.47.

Though this might suggest that a unique figure is needed for Brighton & Hove, other considerations need to be taken into account. To introduce a higher living wage rate in a single area could be prohibitive to its initial success, particularly given the current economic climate and in a city where there is an overall lower wage base.

The Living Wage Foundation supports the merits of a single national rate for the living wage, despite such regional variation. This is primarily due to clarity and consistency of a single campaign for public and employers. Furthermore, a number of large employers in a local area (for example supermarkets or other large retailers) employ people nationally and may be reluctant to sign up to different local campaigns.

It is considered therefore, with the support of the independent consultant and the Living Wage Foundation, that the current national figure of £7.20 should at this time be adopted as a minimum living wage for Brighton & Hove. This level should be seen as a minimum living wage level and a first step towards a potentially higher figure that fully reflects the costs of living in Brighton and Hove.

The figure of £7.20 will be challenging for many employers but it is hoped that following the increases in the national minimum wage this will be more manageable, as the gap would be less than a pound.

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<sup>2</sup> Donald Hirsch is an independent consultant working at Loughborough University responsible for calculating the minimum income standard for the UK on which the national living wage is based

<sup>3</sup> This is the same accommodation assumption used for calculating the national living wage figure.

<sup>4</sup> This is the same accommodation assumption used for calculating the London living wage figure.

The Living Wage Foundation's accreditation framework does not currently cover apprenticeships and interns. In addition, unlike the National Minimum Wage, the Living Wage does not take age into account.

It was decided by the Commission that for purposes of clarity and consistency with the national Living Wage approach, apprentices and interns would not be included at this stage in a local Living Wage campaign and there would be no differentiation in pay depending on age. The Commission does however, strongly support fair and equitable remuneration for interns and apprenticeships.

## **5. Sector Wage Markets and the Living Wage**

The broad distribution of pay in Brighton & Hove has been analysed using data from the national Annual Survey of Hours and Earnings. This national, large sample survey collects information on wages from approximately 1000 workers in Brighton & Hove. Of these, 18% of people across all employment sectors earn below the national Living Wage figure, £7.20 an hour.

Relatively few public sector jobs in the city are paid below £7.20, but over one in four private sector jobs are paid below £7.20. This is slightly better than the national picture for the public sector but slightly worse for the private sector (nationally 8% and 26% respectively, compared to 5% and 29% in Brighton and Hove<sup>5</sup>).

The majority of the main coordinating bodies and well known charities in the community and voluntary sector also pay above £7.20. However, there is more of an issue with low pay in those third sector organisations who provide large contracts for public sector organisations.

In the tourism and retail sectors, both of which are major contributors to the city's economy, half of all jobs are paid below £7.20. The majority of jobs in unskilled ('elementary') occupations and in sales and customer services occupations, of which there are many in the city, are also below £7.20.

The considerable number of low-paid jobs in Brighton & Hove reflects the fact that the local labour market has 'hollowed out' more than elsewhere in the UK. Recently there has been a decline in certain medium paid jobs such as administrative and secretarial work, and growth in both the lower and higher ends of the pay spectrum.

The principle of a Living Wage for Brighton & Hove therefore would aim to counter the impact of low wages on the disproportionate number of people at the lower end of the employment market in a city where living costs are also disproportionately high.

## **6. Business Feedback**

The Commission recognised the challenge of a Living Wage for private businesses in the current economic climate, and therefore sought the views of different business sectors throughout the city.

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<sup>5</sup> Source: [Resolution Foundation](#)

Various approaches were taken to elicit the views of businesses:

- Direct feedback via members of the Commission that represent the business community, including representatives of the Economic Partnership, the Hotel Association, the Chamber of Commerce
- An on-line survey promoted through a range of means
- A 'Business Breakfast' on 07 February 2012 hosted by Julia Chanteray and Cllr. Bill Randall, Leader of Brighton & Hove City Council with key business stakeholders in the city
- A Chamber of Commerce 'Big Debate' on 28 February 2012, at which the membership debated the motion that, 'this house believes a voluntary living wage of £7.20 p/hr would be good for business in Brighton and Hove'.

From the responses to the above, a number of key points have been identified as follows:

**Pros:**

- Moral responsibility to help lift some of the 22% of children in Brighton & Hove out of poverty and out of the 'benefits trap'
- Opportunity to up-skill workforce through increase in staff retention, loyalty and motivation
- Identifies Brighton & Hove as a leading city that treats people fairly
- Brand can be used to attract, motivate and retain people and companies within the city by offering more competitive wages at the lower level
- Improved health and lower crime rates
- More 'sticky money' – the money employees at the lower end of the pay spectrum would receive was more likely to stay and be spent in the local economy
- Opportunity to support small and medium businesses to maximise their profits to meet the cost of introducing a living wage
- Ethical business choices are a good marketing tool
- Poorly paid, unmotivated front-line staff costs businesses money
- Greater equality by reducing the gap between lowest and highest paid workers

**Cons:**

- Unachievable in the present financial climate, for example, many small business owners already using their capital to pay themselves a salary, so an increase in the wage bill is unsustainable
- Risk that a living wage will potentially reduce the number of jobs companies can offer
- Risk of 'eroding' the salaries of higher paid staff
- Reduce money available for non-core staff activities
- Reduce number of apprenticeships offered in the city if business thought they had to pay an apprentice the same as a graduate
- Stigmatise companies who cannot afford to pay a living wage
- Produce an uneven playing field if larger companies don't 'buy in' to the scheme and they are able to offer more competitive rates for example, cost of room in a hotel
- Unnecessary expense, many businesses can get the staff they need at current market rates below the living wage.

- Doesn't recognise the additional benefits that employers provide that supplement low wages. These can range from staff receiving the automatic service charges on meals in restaurants, meals for hotel staff, health care and pension contributions from larger employers.

On balance, the level of support among business for a living wage in the city was greater than the opposition. This was overwhelmingly the case in the final 'vote' in favour of a living wage at the Chamber of Commerce debate.

However, it is recognised that there is a need for practical help and advice for businesses if this support for a living wage is to translate into a real increase in low-end salaries. This is particularly the case for small and medium enterprises, and some other sectors with lower profit margins. Furthermore, that a flexible approach to apprenticeships and interns should be maintained to make sure that the number of these opportunities is not diminished.

## **7. Community and Voluntary Sector Feedback**

The Community & Voluntary Sector Forum carried out a short survey of the larger organisations within its membership. Overall, the pay position was favourable with the majority of staff in the larger organisations paid the living wage or above. Those organisations that didn't pay the living wage were those deemed to be in more direct competition with the private sector, for example providing transport or caring services.

Two key issues for the Sector were being able to quantify the added value that a community and voluntary organisation can offer when delivering a public service contract, which would offset the potentially higher cost of paying a living wage. Secondly, annual funding arrangements which made long term strategic business planning, including whether or not to pay a living wage, very difficult.

## **8. Public Sector Procurement**

Whilst the lower end of public sector pay in the city is, on the whole, in line with the national living wage there is a significant issue of low wages for staff employed by contractors to public sector organisations, for example cleaning staff. However with significant year-on-year funding reductions the public sector faces a significant challenge in securing value for money contracts that pay reasonable wages without risking service quality through contractors making 'savings' elsewhere in the contract. Moreover it is unlawful for public bodies to make it a mandatory requirement for a supplier to agree to pay a living wage.

Nevertheless, due consideration can be given at tender evaluation stage to suppliers' attitudes to fair employment clauses, including a living wage, within the parameters of the public organisation's duty to tax payers and obtaining best value. Thus, there is scope for taking a phased approach to reviewing minimum salaries within public sector contracts as and when contracts come up for renewal and for requesting as mandatory that suppliers submit two bids, one paying a living wage and one not paying a living wage. This approach is being implemented in some other local authority areas, Lewisham Borough Council being a leading example.

The Commission considers further work on procurement will be essential in order to successfully take forward the Living Wage in Brighton & Hove. In line with the suggested ongoing development arrangements set out in section 10 below, the Public Service Board will be asked to facilitate opportunities to share learning and help develop approaches that support the Living Wage. As part of this work the Board will be asked to establish arrangements to track and monitor the successful inclusion of the Living Wage in procurement activity.

## **9. Living in Poverty in Brighton & Hove**

The Brighton & Hove child poverty needs assessment<sup>6</sup> shows that 22% of all children and young people in the city, which equates to ten and a half thousand children and young people, are living in families whose income falls below the official poverty threshold.

Roughly one quarter of these children in poverty live in families where one or more parents work. This is roughly in line with the national picture, and is calculated from data supplied by HMRC on benefit claims submitted by working parents.

It can be assumed that the actual picture of working poverty in the city is greater, due to some parents not claiming working benefits to which they are entitled. To what extent this is the case is difficult to say; one study in 2010 estimated working poverty in the UK to have overtaken out of work poverty.

East Brighton and Moulsecoomb & Bevendean experience the greatest concentration of family poverty, whether or not parents are working. However figures show that there are other wards in the city, such as Patcham and Goldsmid, where out of work poverty is relatively low but, by contrast, working poverty is a higher percentage of total poverty.

The local child poverty strategy found that low wages, high living costs and the high cost of private sector housing are considered the biggest drivers of poverty in the city. There is a clear message from professionals and families that the city is becoming an increasingly unaffordable place for many.

The large majority of children living in poverty in Brighton & Hove live in lone parent families. For these families in particular there are major barriers to entering into employment, such as low paid and non-secure jobs, inflexibility of working hours and the cost of childcare among other factors.

For some parents, particularly those looking to return to work after raising children, the overall loss in benefits on entering employment can make it more difficult to meet living costs. Once the current changes to benefit entitlement are introduced there is concern that while more people will have to enter work, where jobs are available, working poverty will inevitably increase as a result.

In Brighton & Hove it is increasingly difficult for parents to compete with single young people in the low pay sector in a city with high housing costs and high costs of living. As a result, more families may make the difficult decision to leave their home in order to achieve a minimum standard of living elsewhere.

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<sup>6</sup> Brighton & Hove Child Poverty Needs Assessment available through Brighton and Hove's (on-line) Information Service (BHLIS) at <http://www.bhlis.org/>

If this does become the case there is the potential to reduce the local workforce in a range of services, such as health and care sectors, which are traditionally populated by part time working mothers.

## **10. Developing and Monitoring Brighton & Hove's Living Wage**

Experience nationally and in other areas around the country is that a focused campaign is required in order to progress the successful take up of a Living Wage. It is therefore proposed that a local campaign is developed to raise awareness and promote the benefits of a living wage.

The campaign will need to include the provision of practical business assistance, including support and further work with the retail, hospitality and wider tourism sectors. Other elements could include the development a local 'kitemark' scheme and potential opportunities to link in with the national living wage campaign and accreditation scheme. The use of case studies and local successes such as the Ammex Stadium and its hospitality work would also be important.

Ongoing leadership and partnership coordination will be required in order to support the campaign and the future development of Brighton & Hove's Living wage. The City's overarching joint working forum is Brighton & Hove's Strategic Partnership, which is attended by representatives from the public, private and community and voluntary sector. Subject to formal agreement the Partnership and its executive arm, the Public Service Board, are well placed to provide this leadership and long term development function. This work would need to include revising the success of the campaign over a two year period and agreeing, at a city partnership level, further changes to the living wage level as appropriate.

As set out in section 8 above, the Public Service Board is well placed to facilitate opportunities to share learning and help develop approaches that support the Living Wage through procurement. As part of this work the Board will be asked to establish monitoring arrangements to track and monitor the successful inclusion of the Living Wage in procurement activity.

## **11. Conclusions and Recommendations**

The following recommendations form the conclusions of the Commission based on the evidence presented:

1. Adopt the national living wage figure of £7.20 as a minimum living wage for Brighton & Hove.
2. A campaign be developed to raise awareness and promote the benefits of a living wage for businesses, including providing practical business support, developing a local 'kitemark' scheme and linking in with the national living wage campaign and the accreditation scheme. The campaign to include support and further work with retail, hospitality and wider tourism sectors.
3. The City's overarching cross sector working forums, the Brighton & Hove Strategic Partnership and the Public Service Board to formally endorse £7.20 as a living wage for the city, to take responsibility for overseeing the campaign and for the long-term

promotion and development of a living wage for the city. This work to include revising the success of the campaign over a two year period and agreeing further changes to the living wage level as appropriate.

4. Brighton & Hove City Council, within its procurement process, to trial requesting contractors to submit a living wage and a non living wage bid as mandatory. With partners the council will share learning and help develop approaches to include the Living Wage in the procurement work of other public bodies in the city.
5. Brighton & Hove City Council to lead by example in the public sector and, as part of this, explore the possibility of gaining formal accreditation as a Living Wage employer from the Living Wage Foundation.
6. Community & Voluntary Sector Forum to lead by example in the third sector and, as part of this, explore the possibility of gaining formal accreditation as a Living Wage Employer from the Living Wage Foundation.
7. Embed the principle and promotion of the living wage in all new city strategic plans, strategies and programmes, in particular the city's new economic development strategy.

## **12. Further Information**

Full details of the Commission, including minutes of meetings and evidence presented, are available online at Brighton & Hove City Council's website <http://www.brighton-hove.gov.uk/index.cfm?request=b1162204>

If you wish to talk to someone about the Brighton & Hove Living Wage Commission please call Brighton & Hove City Council on (01273) 293944 or email [centralpolicy@brighton-hove.gov.uk](mailto:centralpolicy@brighton-hove.gov.uk)