
Living wage - Considerations for Auckland Council

File No.: CP2013/22425

Purpose

1. The purpose of this report is to provide the Auckland Plan Committee (the "Committee") with updated information about the living wage; the potential impacts of introducing a living wage for the Auckland Council group and possible implications for the wider Auckland economy.

Executive Summary

2. This report has been prepared in response to the Committee's directive in March 2013 to undertake further work on the implications of introducing a living wage for Auckland Council and any implications for the wider Auckland economy. The report is based on a broad range of empirical and anecdotal evidence, including an international literature review, community feedback on the *Thriving Communities* discussion document, resolutions from local boards and advisory panels, a meeting with some affected council staff and discussions with the Greater London Authority (GLA) and other New Zealand councils.
3. The bench mark used for analysis of New Zealand evidence is the national living wage rate of \$18.40 per hour (ph), calculated by the Family Centre Social Policy Research Unit (December 2012).
4. The key conclusions from this evidence base are:
 - The literature provides evidence of both positive and negative effects of the living wage, but is inconclusive on some points. This mixture of effects, along with the challenges of applying research conducted in the USA and UK to an Auckland context, makes it difficult to assess, on the basis of the literature, whether the introduction of the living wage in Auckland would have a net positive or negative effect.
 - There are more consistent findings on the relatively small cost impact on many firms – a 1-2% increase in total costs for the average firm. However, there would be a much larger impact on businesses with high proportions of low-wage workers. There is also evidence of some benefits from lower worker turnover and absenteeism, and improvements in the quality of job applicants.
 - In terms of benefits to workers, evidence from the literature suggests living wage policies can result in a small reduction in poverty and improvements in wellbeing for some affected workers. These effects need to be weighed against some evidence of the potential for a loss in hours of work or the opportunity for overtime; and the strong evidence that opportunities for younger, less experienced and less qualified workers may be reduced, as living wage rate jobs become more attractive to more skilled workers.
 - As living wage policies are voluntary, rates are set locally and have only recently been adopted in New Zealand; there is insufficient empirical evidence to draw any firm conclusions about the likely impacts of a wide take-up of the living wage on the Auckland economy.
 - The living wage is not an effective, general tool for alleviating poverty because large proportions of poor households do not contain working members and large proportions of minimum wage workers do not live in poor households.
 - Anecdotal evidence, case studies of affected workers and some empirical research, indicate that the living wage can make a real difference to the daily lives and the choices of some low income workers.
5. Data from the Household Economic Survey (June 2012) on low-paid workers in Auckland, gives an indication of the types of workers who would benefit if council introduced a living

wage policy. In Auckland, certain demographic groups are notably over-represented among those who earn less than \$18.40ph – those aged between 15 and 24, of Pacific and Asian ethnicity, and working as a labourer or in service or sales. Just over half of those who earn below \$18.40ph are women (53.1%) and half are European (49.7%).

6. Officers estimate it would cost the Auckland Council group \$3.75 million in increased operating expenditure if a living wage was implemented for directly employed council and CCO staff from the year 2014/15. Note: this figure is different from the \$2.5m estimate in the report to the Committee in March because Auckland Transport and Watercare staff are included; it includes costs such as, KiwiSaver, ACC, Fringe Benefit Tax and training; and also include maintaining wage differentials (at 10%).
7. In total, about 2,306 staff would be immediately affected, as follows:
 - Around 1,623 staff would be directly affected at a cost of \$2.9 million. The average hourly rate of these staff is currently \$15.80.
 - A further 683 staff would be indirectly affected at a cost of \$836,000. These are staff whose base salaries would also have to increase in order to maintain a reasonable differential between staff in supervisory or higher evaluated positions.
8. Officers have made a preliminary, high-level investigation of Auckland Council procurement contracts. However, officers have been unable to ascertain the pay contracts currently in place and recommend that, at this stage, procurement contracts are not included in consideration of a living wage for Auckland Council.
9. Should the incoming council decide to introduce a living wage policy, there are a range of options for managing the additional costs. These may require additional rates income or require council to choose to reduce services in some areas to provide compensating savings.

Recommendation/s

That the Auckland Plan Committee:

- a) Receive the report.
- b) Consider the updated information presented in this report.
- c) Request the Chief Executive to provide a report on the living wage to the incoming council, including the potential benefits and costs and options for funding if council is of a mind to investigate further.

Discussion

10. In March 2013, the Auckland Plan Committee considered an initial report on the living wage and issues for Auckland Council (CP2013/03860).
11. The Committee resolved to:

Direct officers to undertake further work on the implications of introducing a living wage for Auckland Council and any implications for the wider Auckland economy, and that this be incorporated into the analysis of submissions to council's discussion document "Thriving Communities" (Community Development Action Plan) and in response to resolutions from local boards on the living wage. (APC/2013/22)
12. This report is informed by evidence gathered over the last ten months, including:
 - Empirical research and an international literature review
 - Feedback on the *Thriving Communities* discussion document
 - Resolutions from local boards

- Recommendations from advisory panels
- Mayoral meeting and officer meeting with Living Wage Aotearoa New Zealand
- Meeting with and written evidence from affected Auckland Council staff, organised by the PSA
- Conversations with the Greater London Authority (GLA), Professor Jane Wills (London), Living wage for Families (Canada), the Chief Executive of The Warehouse, and officers from Hamilton, Wellington and Christchurch city councils.

The living wage – key points

13. The living wage is an hourly rate of pay described as *“necessary to provide workers and their families with the basic necessities of life...to live in dignity and to participate as active citizens in society”* (Living Wage Aotearoa New Zealand).
14. Rates are calculated on actual living costs relative to the specific geographical area (e.g. housing costs). They also factor in government assistance designed to mitigate the impact of low pay and any reductions or increases in costs, or in government transfers, can increase or reduce the rate. Therefore, living wage rates vary between different regions and countries.
15. Living wage campaigns are usually initiated by grass-roots campaigns of community groups, faith organisations and unions. The stated drivers of these campaigns are “poverty alleviation”, “reducing inequality”, “social justice”, and “fairness” i.e. working should be a route out of poverty, not keep you poor.
16. The living wage is an entirely voluntary initiative and provides a benchmark for those employers who see a business case for adopting it. In this respect, the Living wage is seen to be akin to the fair-trade and anti-child labour accreditation sought by many businesses.
17. The universal and statutory application of the minimum wage is fundamentally different from the living wage. No living wage policy has achieved the level of coverage of minimum wage laws. Therefore, impacts (either theoretical or observed) of the minimum wage are of limited relevance, given that these are attributed to its universal application.
18. Living wage employers include a wide range of businesses, education institutions, voluntary and community organisations and public bodies. There are over 140 local government authorities across North America and the United Kingdom with living wage policies. These councils seek to show leadership and encourage other local employers to take up the living wage.
19. One of the most high-profile is the Mayor of London’s living wage policy. London employers range from the Stock Exchange, health and education bodies, to the Intercontinental Hotel Group. Since 2005, almost 12,000 Londoners have benefitted, including 3,400 contracted staff through GLA group procurements (Mayor of London, 2012).
20. The living wage is not a substitute for the range of measures required to address chronic, systemic issues such as youth unemployment and low skills. There is consensus that no single action, on its own, will significantly reduce poverty. Because the living wage is a voluntary measure, coverage will always be limited, and the policy is therefore not designed to have significant broad-based effects on poverty in a city. However, anecdotal and empirical evidence suggests that the living wage benefits some employees for whom even a modest increase in income has an impact.
21. Living wages complement, rather than replace, tax credits and other forms of central government support. This is explicitly recognised in the way they are calculated. In the UK, research estimates that central government (Treasury) collects significant financial gains from the living wage in higher income tax payments, higher national insurance contributions and reduced spending on in-work benefits (Lawton and Pennycook, 2013). Proponents of the living wage suggest that, through these financial gains to central government, the burden of poverty compensation is shifted from the taxpayer to the employer.

The living wage in New Zealand

The living wage rate

22. The living wage rate for NZ (published December 2012) is based on the needs and expenses of a two-adult, two-child family (a teenager and a ten-year old), with one adult working full-time and the other adult working half-time. The rate is based on actual costs and takes into account government transfers, such as Working for Families tax credits, childcare support and the accommodation supplement. “Basic” or “modest” costings are used for each expenditure category e.g. a basic, but nutritionally adequate diet, with food items purchased at lowest cost (King and Waldegrave, 2012). The living wage rate is to be reviewed every year to take into account any change related to tax rates and income support entitlements.
23. The two-adult, two-children household unit was adopted because, from a demographic perspective, it is the minimum average sized “family” required to ensure population replacement. Two incomes were assumed because this is the norm for household units of this nature (Statistics New Zealand Household Labour Force Survey, 2012). It is acknowledged that costs and impacts will vary with household composition.
24. The 2013 national living wage rate is \$18.40ph. This is 13% below the median hourly wage/salary for a worker in New Zealand of \$20.86ph (New Zealand Income Survey: June 2012), and 34% more than the current minimum wage (\$13.75ph).
25. A specific rate for Auckland has been calculated as \$24.11ph. The \$5.71 difference between the national and Auckland rates reflects the significantly higher costs of rental housing in Auckland – \$438 per week in decile 1-5 areas, compared to the national average of \$275 per week. However, as \$24.11ph is above the national median hourly rate, the researchers of the NZ living wage rate do not suggest that this rate be applied by Auckland employers. Therefore, only the national rate – \$18.40ph – has been considered in this report.

Living wage employers

26. In April 2013, the first Auckland business, *Tonzu*, pledged to pay a living wage. In May, *The Warehouse* announced a career retailer wage benchmarked against the living wage. It will be available to all staff with 5,000 hours of service who have undertaken specific training. It will be rolled out from August 2013 to August 2014. Key drivers of the decision were: the personal values of the Chief Executive, Mark Powell, and founder and director, Sir Stephen Tindall; their concerns about the growing wage inequality in NZ; a desire to show leadership; and the business advantage of being the first large retailer to capitalise on the reputational benefits of brand alignment with the living wage.
27. In May, Hamilton City Council’s Strategy and Policy Committee received a report advising that implementing the living wage for permanent staff would affect 80 employees at a cost of \$168,000. The council voted to apply the living wage to “all” staff. This resolution captured a large number of casual, apprentice and temporary staff who was not included in the initial calculation. In the subsequent report to the council in June, the number of affected staff had risen to 144 at a cost of \$612,000 and the council voted against paying a living wage.
28. In June, the Wellington City Council resolved in principle, to become a living wage employer (including procurement) and an implementation report is due in November.

Living wage workers in Auckland

29. Data from the Household Economic Survey (HES; 2012), provides information on low-paid workers in Auckland. This gives an indication of the profile of council workers who would be affected – if the assumption is made that demographic profile of Auckland Council staff is not dissimilar to the overall Auckland workforce. (See *Attachment A, Table 1*)
30. In sum, Auckland workers earning below \$18.40ph are more likely to be aged between 15 and 24; of Pacific or Asian ethnicity, and to be working as a labourer, in service or sales. Just over half of those who earn below \$18.40ph are women (53.1%) and half are European (49.7%).

31. Further breakdown of the data shows the extent to which low pay is prevalent in certain demographic groups:
- 41% of Māori, 56% of Pasifika, 47% of Asian and 42% of Middle Eastern, Latin American and African (MELAA) and “other” ethnic group salary/wage earners in Auckland earn less than \$18.40ph. This is compared with just over a quarter of European workers.
 - As expected, a high proportion of young people (up to 24 yrs) earn less than \$18.40ph. However, almost one in three workers aged 25-44 and a quarter of those aged 45+ years earn less than \$18.40ph. This indicates that some people are in low-paid employment for most or all of their working lives.
 - Overall, HES data for Auckland shows only a slightly greater proportion of women than men earn less than \$18.40ph. However, national data from the New Zealand Income Survey (2012) shows that low wage work is particularly prevalent among women from some ethnic groups and that median hourly earnings of women are considerably less than men’s within the same ethnic group. The median hourly earnings for Māori, Asian and other ethnicity women is \$18.00, and \$16.80 for Pasifika women. This is compared to a median hourly rate of \$20.31 for European women and \$18.80 for MELAA women.
32. An important issue when considering the potential effects of the living wage in alleviating poverty is the extent to which low-wage workers are located in low-income households. Just over half (55%) of Auckland workers who earn less than \$18.40ph live in households with a weekly income of \$1,350 or more. Although this suggests that most living wage workers are not living in the lowest income households, the threshold of \$1,350 per week is well below the median household income, with almost three quarters of all salary/wage earners in Auckland living in households with a weekly income of \$1,350 or greater.

Specific considerations for Auckland Council

Auckland Plan

33. The living wage is not explicitly mentioned in the Auckland Plan, or local board plans. As discussed above (paras 19-20) the living wage is only one of a suite of measures required to address systemic low pay and poverty, and there is evidence of both positive and negative impacts on younger and/or lower skilled workers. However, a living wage potentially, could contribute to achieving some of the transformational shifts and goals of the Auckland Plan; for example:

| | |
|--------------------------------|--|
| Principles | <ul style="list-style-type: none"> • Act fairly |
| Outcomes | <ul style="list-style-type: none"> • A fair, safe and healthy Auckland • An Auckland of prosperity and opportunity |
| Transformational shifts | <ul style="list-style-type: none"> • Dramatically accelerate the prospects of Auckland’s children and young people • Substantially raise living standards for all Aucklanders and focus on those most in need • Significantly lift Māori social and economic wellbeing |
| Strategic directions | <ul style="list-style-type: none"> • Create a strong, inclusive and equitable society that ensures opportunity for all Aucklanders • Promote inclusion, reduce discrimination and remove barriers to opportunity and participation, particularly for disadvantaged groups • Develop an economy that delivers opportunity and prosperity for all Aucklanders and New Zealand • House all Aucklanders in secure, healthy homes they can afford |

34. The *Thriving Communities* Community and Social Development Action Plan – adopted by the Committee in June – includes a focus area to “maximise council’s positive socio-economic impacts”, and an action on investigating the living wage.

Local boards and advisory panels (See Attachment B)

35. Fourteen local boards received presentations from the living wage Campaign: nine passed resolutions in support; three thanked the campaign for presentations and made no other resolutions, and two wanted more information or to workshop the issue.
36. The Ethnic Peoples Advisory Panel, Pacific Peoples Advisory Panel and Disability Strategic Advisory Group have made similar recommendations. After a presentation at the June meeting, the Business Advisory Panel recommended that council does not adopt the living wage. The panel also recommended that if the living wage was adopted, any additional costs should be funded through reprioritisation of current expenditure, not an increase in rates.

Affected council staff

37. Through the PSA, officers met with a small group of Auckland Council staff earning less than \$18.40ph. The purpose of the meeting was for these staff to give their personal perspectives on the living wage. The main points made by the staff at the meeting and in subsequent written feedback, were:
 - a) The negative impact on their ability to make choices and having to make difficult trade-offs. It was stressful and time consuming dealing with the daily difficulties of paying for food, housing costs, child care and transport. Trade-offs included not seeing a doctor or dentist, going on holiday, or having full insurance. One participant was delaying having children; home ownership was out of the question.
“A little more flexibility in the wages would reduce the tension whenever a bill comes up or what if an unexpected cost comes up”.
 - b) Feeling under-valued by the council. This group of staff worked directly with the public in a highly visible and valued service; most had at least one university degree and/or were working toward tertiary qualifications. They considered that their level of personal commitment and value to council was not reflected in their salary; that council shouldn't pay less than some employers in the private sector, and council employees should not have to rely on social welfare.
 - c) Not everyone can benefit from government support like community services card and Accommodation Supplement. The household incomes of some staff were just above the threshold of entitlement for these forms of support. Those who were receiving government assistance said that being paid the living wage would *“allow people to live with dignity and for many families life will still be hard, but that extra money can relieve some of the burden”.*

Literature review

38. A review of the existing literature on the living wage was commissioned to contribute to understanding the likely effects and implications if Auckland Council were to implement a living wage policy. The review was produced by Tim Maloney, Professor of Economics at AUT, with supplementary material provided by council's Research, Investigations and Monitoring Unit (RIMU). It was peer-reviewed by Dr Alan Freeman, former Principal Economist of the GLA and two Auckland Council officers. This literature review concentrated on published empirical studies on the effects of living wage laws in the USA and UK and minimum wage statutes in New Zealand.
39. The table below summarises the key findings (the full report is available on request). The literature provides evidence of both positive and negative effects of the living wage, but is inconclusive on many points. The literature is helpful in identifying that major effects, either positive or negative, are unlikely, but should not be viewed as a detailed prediction of what would happen in Auckland due to the challenges (described in the literature review) of applying research conducted in the USA and UK to an Auckland context.

Summary of Key Findings

| TOPIC | POSITIVE | NEGATIVE | IN SUM |
|---------------------------------------|--|---|---|
| Employer costs / profitability | <p>Higher wages associated with living wages may have relatively small effects on total employer costs (30% increase in wage = 1-2% increase in total costs for average firm) because:</p> <ul style="list-style-type: none"> • in most companies, a small proportion of workers earn below the living wage; • labour costs make up one component of total production costs; • productivity may increase (little evidence); • worker turnover may decline (strong evidence); • absenteeism may be reduced (little evidence) • post-living wage implementation, new job applicants may be more experienced and skilled (strong evidence); and • the employer's reputation may be improved. | <p>These costs are likely to be to be larger for firms that have higher proportions of low-wage workers, more labour-intensive production processes and experience smaller beneficial effects from increased productivity, lower worker turnover and absenteeism, and smaller improvements in the quality of job applicants.</p> | <p>The living wage has a relatively small cost impact on many firms, but would have a much larger impact on businesses with high proportions of low-wage workers.</p> |
| Poverty | <p>Neumark, Adams and their co-authors have consistently found empirical evidence of anti-poverty effects from USA living wage laws. They found that a 30% wage increase under a broader living wage policy that applies to city government contractors and employers receiving some form of business assistance would be expected to reduce the poverty rate by 3.9%.</p> | <p>The living wage is not a 'target efficient' poverty alleviation measure because large proportions of minimum wage workers don't live in poor households, and large proportions of poor households don't contain working members. In an evaluation of the London living wage, Lawton and Pennycook (2013; 36, 40) report that only one-tenth of low earners live in poor households.</p> | <p>Although not efficient in targeting poor households, the living wage does have some effect in alleviating poverty.</p> |
| Health and wellbeing | <p>An association has been found between living wage employment and psychological wellbeing (but not physical health) in London (Wills & Linneker 2012).</p> <p>65% of surveyed workers in living wage workplaces reported experiencing some benefits in terms of their work, finance and family.</p> | <p>35% of surveyed workers in living wage workplaces reported experiencing no benefits in terms of their work, finance and family. Relatively few living wage workers in Los Angeles and San Francisco international airports reported improvements in quality of life (Reich et al., 2003, Fairris et al., 2005: 82-3). Reasons for this include the fact that workers may only work a few hours per week at a living wage job, and most of their wages are below the living wage.</p> | <p>There is little information available in the literature on the impact of a Living wage on workers' health and wellbeing. Evidence suggests the Living wage has a small impact on health and wellbeing.</p> |

| TOPIC | POSITIVE | NEGATIVE | IN SUM |
|------------------------------------|---|---|--|
| Employer location decisions | What little research there is found no significant differences in the number of firms in cities with and without living wage ordinances. | Hypothetically, living wage laws could lead existing employers to leave a city or deter other employers from relocating to that same metropolitan area. | There is insufficient evidence to be able to identify whether the living wage affects employer location decisions. |
| Labour substitution | There is strong evidence that paying a living wage results in a more experienced and skilled pool of job applicants, to the advantage of the employer. | Literature from both the UK (Wills and Linneker, 2012) and the US (Fairris and Bujanda, 2007; Reich et al., 2005) shows that new hires (following the implementation of a living wage policy) were better educated, had higher wages in previous jobs, and were more likely to be male. The implication of this is that the increased attractiveness of living wage jobs may incentivise other workers to apply for these jobs, displacing more vulnerable job-seekers. NZ Literature suggests an increased minimum wage may result in reduced employment for youth and Māori (Pacheco 2011). | The living wage may result in fewer job opportunities for the most disadvantaged workers in the community (e.g. young workers, low-skill workers). |
| Jobs and hours of work | When comparing employment levels before and after the enactment of living wage ordinances in the USA, some (not all) researchers found that employment levels did not decline after employers started paying the mandated living wage (Brenner 2005; Reich et al.2005). | Neumark, Adams and their co-authors provide some empirical evidence of reductions in employment levels or aggregate hours of work. Loss of hours of work was experienced in some case studies from London. | Evidence is limited and inconsistent, but on balance points to some reduction in the number of hours of employment and the opportunity for overtime for workers. |

Implications for the Auckland Economy

40. Should Auckland Council implement a living wage policy the potential impacts on the wider Auckland economy are as follows:

- Options to fund a living wage policy have yet to be determined (refer to para 51). However, if the living wage were to be funded through increased rates, any direct inflationary effect for Auckland households from the increased wage bill would be relatively small due to the proportional impact on council's total wage bill (refer to *Attachment A, Table 2*). Additionally, funding the living wage via a rates increase may slightly increase the economic deadweight loss on society (the costs experienced by society due to increased market inefficiency). However, this effect is also likely to be small.
- Approximately 2,300 Auckland Council staff are likely to be affected by this policy. This represents a very small proportion of Auckland's total labour force, so the direct effect on regional inflation and employment is likely to be negligible. However, if there was widespread adoption of the living wage by employers, effects may be more significant.
- A living wage for Auckland Council employees could potentially influence wages for low skilled workers more broadly across the Auckland region with more pronounced consequences for regional employment and inflation.

- The total size of the costs and benefits of Auckland Council's decision to adopt a living wage policy and its indirect effects (both positive and negative) on employment outcomes, deadweight and inflation is highly dependent on labour market conditions. The introduction of a living wage in a tight labour market situation would have more pronounced flow-on effects for wage growth and inflation than under soft labour market conditions.

Financial and resourcing implications for the Auckland Council group

Impact of the Living wage on staff budgets

41. Officers estimate it would cost the Auckland Council group \$3.75 million in increased operating expenditure if a Living wage was implemented from the year 2014/15. Note: this figure is different from the \$2.5m estimate in the report to the Committee in March because Auckland Transport and Watercare staff are included; it includes costs such as KiwiSaver, ACC, Fringe Benefit Tax and training; and also includes maintaining wage differentials (at 10%). These differences are set out in the table below:

| 12 March Living wage paper | Present paper |
|--|--|
| \$2.5 million | \$3.75 million |
| @18.40 per hour | @18.40 per hour |
| Excludes on costs | Includes on costs (Kiwisaver, ACC etc) |
| Excludes Watercare, Transport | Includes Watercare, Transport (directly affected) |
| Includes Shared Service CCOs (RFA, ATEED, WDA etc) | Includes shared service CCOs (RFA, ATEED, WDA etc) |
| Excludes differentials | Includes \$836k of differentials for increasing supervisory positions by 10% only for Auckland Council and shared service CCOs |
| | No differentials for Auckland Transport and Watercare |

42. The hourly rate of \$18.40 in 2012/13 dollars has first been used to estimate the total cost to council, and then the council forecast inflation of 1.3% for 2013/14 and 2% for 2014/15 has been incorporated to calculate the total impact of \$3.75 million for the year 2014/15. About 2,306 staff would be immediately affected, as follows:
- Around 1,623 staff would be directly affected at a cost of \$2.9 million. The average hourly rate of these staff is currently \$15.80.
 - A further 683 staff would be indirectly affected at a cost of \$836,000. These are staff whose base salaries would also have to increase in order to maintain a reasonable differential between staff in supervisory or higher evaluated positions. Human resources advises that without a differential being maintained, council risks becoming uncompetitive in the wider recruitment marketplace and these staff could not be attracted or retained.
43. The differential only calculates the immediate impact on the next affected position. And does not include any additional financial impact if there was a "domino effect" throughout the organisation.
44. *Attachment A, Table 2* provides a breakdown of staff budgets for the Auckland Council group by division and its CCOs for the year 2014/15 and the increase in costs as a result of implementing the living wage. This is a snapshot of information as of February 2013. Therefore, this will have to be updated after the remuneration review is completed, and any increases have been finalised as a result of the pay negotiations which have just been concluded. This updated information will be available by the end of September 2013.
45. *Attachment A, Table 3* gives a breakdown of staff who are below the living wage threshold by type of employment contract and gender for Auckland Council and the shared service CCOs (excluding Watercare and Auckland Transport) as of February 2013. This shows that 63% are female and 37% male; 40% casual and 35% permanent part-time.

46. *Attachment A, Table 4* provides a sample of staff that are below the living wage threshold by job title for Auckland Council and the shared service CCOs (excluding Watercare and Auckland Transport) as of February 2013. About 432 different job titles across the Auckland Council group are directly impacted, but they are concentrated in libraries, events and leisure services.

Procurement contracts

47. In the United States, most of the living wage policies do not apply directly to the employees of the city government. Most are directed at contractors (sometimes with extensions to employers receiving some form development assistance from the city). The literature review found that the results were difficult to summarise because they varied from one city to another, the data was often incomplete, and it was often difficult to directly link any change in a contract price directly to the living wage law in the area. However, the clear conclusion was that the cost implications for employers were smaller than anticipated.
48. Over the last five years, the GLA group has rolled out the living wage to cover procurements over £1 million where low pay is prevalent (cleaning, catering and soft facilities management), and where employees work wholly on GLA group activities in the Greater London Area for the duration of the contract. Increases in contract costs have not been significant and are accounted for in various ways depending on the procurement (e.g. supplier absorbed, shared between the GLA group and supplier, absorbed by GLA). GLA officers state that the market is aware of the policy and has been responsive too it.
49. Officers have investigated Auckland Council procurement contracts. A preliminary high level picture of the services which council officers think most likely would employ workers below the Living wage is shown in *Attachment A, Table 5*. This is actual council expenditures over the 2012/13 financial year.
50. Due to the commercial nature of these businesses council officers have been unable to ascertain the pay contracts currently in place in each of these private businesses. Therefore, officers recommend that, at this stage procurement contracts are not included in consideration of a living wage for Auckland Council.

Funding options and implications

51. Should the incoming council decide to introduce a living wage policy, there are a range of options for managing the additional costs. These may require additional rates income or require council to choose to reduce services in some areas to provide compensating savings. Officers recommend that the Committee request the Chief Executive to provide a report on the living wage to the incoming council, including the potential benefits and costs and options for funding if council is of a mind to investigate further.

Consideration

Local Board Views

52. In late 2012, the Living Wage Aotearoa New Zealand campaign presented to fourteen local boards. Nine local boards passed resolutions setting out their specific support for the principle of a living wage as a means to enhance community wellbeing (*Attachment B, #1*). The resolutions also requested that Auckland Council commission a report on the impact of a living wage on Auckland Council. Three boards thanked the campaign for presentations and made no other resolutions, and two wanted more information or to workshop the issue.

Māori Impact Statement

53. As Auckland Council does not collect ethnicity data of its employees, (although there are plans to do so), it is not possible to assess the potential impact on Māori staff of implementing the living wage. However, as described previously, low pay falls disproportionately on certain ethnic groups. Data from the Household Economic Survey (Income) shows that 41% of Māori earning salaries or wages in Auckland earn less than

\$18.40ph. Nationally, the median hourly earnings for Māori women is \$18.00 and \$20.00 for Māori men (Statistics New Zealand, 2012).

54. The Independent Māori Statutory Board is considering the issue of the living wage and a verbal update will be given at Committee.

Legal Considerations

Local Government Act 2002

55. The new purpose of local government (Local Government Act 2002 s.10) requires council to give effect to its purpose to:
- a) to enable democratic local decision-making and action by, and on behalf of, communities; and
 - b) to meet the current and future needs of communities for good-quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses.
56. The new purpose does not prevent the council adopting a living wage policy, where there are good policy reasons to do so. The policy objectives would need to explain clearly how a living wage would meet current and future community needs. The policy would also need to show that the way in which the living wage would be implemented, was the most cost effective way for households and businesses.
57. The term “cost-effective” is not defined, and is arguably not restricted to only financial costs/benefits. For example, the council should also consider all relevant social costs and benefits to any policy decision. In giving effect to the purpose, the council is still required to act in accordance with its statutory principles in s14 of the LGA including ensuring prudent stewardship and the efficient and effective use of its resources.
58. In addition, the council is required to carry out its statutory duty to be a good employer (Schedule 7, clause 36).

Employment issues

59. The Chief Executive is responsible for employing council staff and for setting the terms and conditions of staff employment contracts. The Committee cannot direct the Chief Executive to amend staff employment contracts to implement a living wage: s42 Local Government Act 2002.
60. It is open to council to adopt a Remuneration and Employment Policy: s36A, Schedule 7 LGA 02. This policy would set out the council’s policies on employee staffing levels and the remuneration of employees. The policy could include council’s view on paying a living wage rate to employees. Any such policy would qualify the Chief Executive’s general discretion to employ staff – in other words, the Chief Executive would have to employ staff in accordance with that policy: s42(2)(g) LGA 02.
61. Separate to the remuneration and employment policy, the Committee has the power to:
- consider whether a living wage policy is consistent with the principles of the Auckland Plan (this is noted in paragraph 33); and/or
 - note that the Chief Executive Review Subcommittee / Accountability and Performance Committee can consider introducing a “living wage” performance agreement measure for the Chief Executive: see council terms of reference.
62. Similarly, the Committee cannot direct CCO chief executives to adopt a living wage for CCO staff – this is an operational matter for CCOs (s60 LGA 02). There are separate mechanisms for the council to set shareholder objectives for CCOs (e.g. through a statement of intent).

Attachments

| No. | Title | Page |
|-----|-------------|------|
| A | Tables | |
| B | Resolutions | |

Signatories

| | |
|-------------|---|
| Authors | Raewyn Stone - Manager, Community and Cultural Strategy Tim Mycock – Manager, Remuneration Yadeed Lobo - Capital Planning Analyst |
| Authorisers | Roger Blakeley - Chief Planning Officer |

Attachment A: Tables

The table below shows the demographic profile of workers who earn less than \$18.40 per hour (column 1) and compares these workers with the overall Auckland wage/salary earning population (column 2).

Table 1: Demographics of Auckland wage/salary earners

| Demographic category | Proportion of <\$18.40ph earners who are in this demographic category (%) (column 1) | Proportion of all wage/salary earners who are in this demographic category (%) (column 2) |
|------------------------------------|---|--|
| Age | | |
| 15 - 24 | 36.0 | 16.8 |
| 25 - 44 | 38.5 | 47.1 |
| 45 + | 25.4 | 36.1 |
| Sex | | |
| Male | 46.9 | 50.5 |
| Female | 53.1 | 49.5 |
| Ethnicity | | |
| European | 49.7 | 64.9 |
| Māori | 11.2 | 9.2 |
| Pacific | 16.8 | 10.2 |
| Asian | 29.9 | 21.6 |
| MELAA/Other | 2.6 | 2.1 |
| Household Income (per week) | | |
| < \$580 | 8.3 | 3.5 |
| \$580 - \$1,349 | 36.9 | 23.1 |
| \$1,350 + | 54.8 | 73.4 |
| Occupation | | |
| Managers | 6.3 | 13.5 |
| Professionals | 10.1 | 26.8 |
| Technicians & Trades | 9.4 | 11.5 |
| Service | 19.4 | 10.6 |
| Clerks | 11.7 | 14.6 |
| Sales | 17.7 | 9.8 |
| Plant & machinery manufacturers | 9.2 | 5.6 |
| Labourers | 15.8 | 7.3 |

Source: Statistics New Zealand, Household Economic Survey (Income), June 2012 quarter

Table 2: Staff budgets and living wage impacts for Auckland Council and CCOs for FY14-15

| Division | Total staff budgets in FY14/15 dollars | Living wage impacts | |
|--|--|--------------------------------------|--------------------------|
| | | Increase in costs in FY14/15 dollars | Number of affected staff |
| Auckland Council Chief Executive | 29,599,990 | 1,464 | 3 |
| Auckland Council operations division | 243,507,521 | 1,719,387 | 1,065 |
| Auckland Council planning division | 47,262,496 | 3,256 | 5 |
| Auckland Council finance division | 102,177,566 | 119,026 | 65 |
| Auckland Council Mayoral office | 2,179,311 | 0 | 0 |
| Auckland Council governance director | 19,445,226 | 85,801 | 33 |
| Transformation | 27,571,065 | 0 | 0 |
| Auckland Council parent | 471,743,175 | 1,928,933 | 1,171 |
| Property Holdings | 4,806,223 | 0 | 0 |
| Regional Facilities Auckland Group | 32,021,035 | 748,694 | 341 |
| Auckland Council Investments Group | 53,835,867 | | 0 |
| Auckland Tourism, Events and Economic Development Group | 16,586,128 | 83,091 | 32 |
| Auckland Waterfront Development Group | 6,762,917 | 0 | 0 |
| Total shared service CCOs | 114,012,169 | 831,785 | 373 |
| Differentials for Auckland Council and shared service CCOs | | 836,035 | 683 |
| Auckland Transport * | 73,544,957 | 150,000 | 75 |
| Watercare Services Limited** | 41,387,059 | 5,076 | 4 |
| Total Auckland Council | 700,687,360 | 3,746,753 | 2,306 |

* the differential impacts for Auckland Transport were not available at the writing of the report

** Watercare Services funds its costs through its own revenue generating mechanism of water and wastewater charges. All affected Watercare employees are trainees on formal apprenticeship programs.

Table 3: Staff breakdown by employment type and gender

| Employment type | Female | Male | Total | % |
|----------------------|----------------------------|----------------------------|--------------|-------------|
| Casual | 396 | 223 | 619 | 40% |
| Fixed Term Full Time | 49 | 49 | 98 | 6% |
| Fixed Term Part Time | 49 | 32 | 81 | 5% |
| Permanent Full Time | 97 | 112 | 209 | 14% |
| Permanent Part Time | 386 | 151 | 537 | 35% |
| Total | 977 (63%) | 567 (37%) | 1,544 | 100% |

Table 4: Sample of impacted staff job titles

| Job Title | Number of staff |
|---------------------------------|-----------------|
| Library Assistant | 155 |
| Event Services Attendant | 144 |
| Shelver | 88 |
| Assistant | 45 |
| Leisure Recreation Assistant | 36 |
| Seasonal Lifeguard | 31 |
| Lifeguard Casual | 29 |
| Fitness Instructor | 26 |
| Housekeeping Attendant | 24 |
| Visitor Centre Consultant | 23 |
| Lifeguard | 23 |
| Student Ranger | 20 |
| Leisure Lifeguard | 19 |
| Aquatics Programmer | 19 |
| Catering Assistant | 17 |
| Customer Support Representative | 16 |
| Customer Service Assistant | 15 |
| Recreation Attendant | 13 |
| Learn To Swim Instructor | 13 |
| Casual Waiter | 12 |
| Programme Leader Casual | 11 |
| Activities Instructor | 11 |

Only those titles have been shown where 11 or more staff are affected.

Table 5: Procurement actual spend over FY12/13

| Segment | FY12-13 \$ value | Number of providers |
|--|-------------------------|----------------------------|
| Building and Facility Construction and Maintenance Services | 72,794,116 | 45 |
| Environmental Services | 2,593,231 | 5 |
| Farming and Fishing and Forestry and Wildlife Contracting Services | 86,787,305 | 38 |
| Industrial Cleaning Services | 74,031,410 | 18 |
| Total | 236,206,062 | 106 |

Attachment B: Resolutions

1. Local boards

| Local board | Resolutions |
|--|---|
| <p>Albert-Eden</p> <p>30 Oct 2012</p> | <p>That the Jean Brookes and Sarah Thompson be thanked for their presentation.</p> <p>That the Albert-Eden Local Board supports the principle of the living wage to support community wellbeing.</p> <p>That the Albert-Eden Local Board supports the principle that Auckland Council, its agencies and its contractors should pay employees at least a living wage.</p> <p>That the Albert-Eden Local Board recommends that the Auckland Council incorporates the living wage and job security into its procurement policy and partnerships with social and environmental agencies.</p> <p>That the Albert-Eden Local Board supports a living wage in its input to the Community Development Strategy.</p> |
| <p>Hibiscus & Bays</p> <p>12 Dec 2012</p> | <p>That Ms Newman and Ms Haulangi be thanked for their presentation.</p> |
| <p>Howick</p> <p>8 Oct 2012</p> | <p>The Chair thanked Yongrahn Park, Korean Positive Ageing Charitable Trust and Amy Hansen and Annie Newman, Living Wage Aotearoa New Zealand for addressing the board during public forum.</p> |
| <p>Kaipātiki</p> <p>26 Sept 2012</p> | <p>That the Deputation from Barbara Wyeth, Ofa, Rachel McIntosh, and Yvonne Powley regarding Living Wage Aotearoa New Zealand be received, and that Barbara Wyeth, Ofa, Rachel McIntosh, and Yvonne Powley be thanked for their attendance and their presentation.</p> <p>That the Kaipatiki Local Board commits to the principle of the living wage to support community wellbeing and recommends that council also supports this principle.</p> <p>That the Kaipatiki Local Board recommends the council pay employees a living wage.</p> <p>That the Kaipatiki Local Board recommends the Auckland Council gives due consideration to the living wage and job security into its procurement policy and partnerships with social and environmental agencies.</p> <p>That the Kaipatiki Local Board supports the concept of a living wage in its submission to the Community Development Strategy.</p> |

| | |
|--|---|
| <p>Māngere Ōtāhuhu</p> <p>31 Oct 2012</p> | <p>That the Notice of Motion: Living Wage Aotearoa New Zealand report be received.</p> <p>That the Auckland Council and the Māngere–Ōtāhuhu Local Board commit to the principle of the living wage to support community wellbeing.</p> <p>That the Māngere–Ōtāhuhu Local Board recommends that Auckland Council pay employees a living wage.</p> <p>That the Māngere–Ōtāhuhu Local Board recommends that Auckland Council incorporates the living wage and job security into its procurement policy and partnerships with social and environmental agencies.</p> <p>That this Mangere-Otahuhu Local Board supports a living wage in any submissions to the Community Development Strategy.</p> <p>That this Mangere-Otahuhu Local Board requests a report on the impact of a living wage on Auckland Council be prepared by a joint working party comprising representatives of Auckland Council, relevant Unions and Living Wage Aotearoa New Zealand.</p> |
| <p>Manurewa</p> <p>8 Nov 2012</p> | <p>That the Manurewa Local Board thanks Jill Ovens, Len Richards, Bill Marshall, Lisa Henare, and Mele Kumar, campaign volunteers for the Living Wage Aotearoa New Zealand for their presentation regarding a living wage.</p> <p>That the Manurewa Local Board notes the resolutions from the Kaipatiki Local Board meeting held on 26 September 2012 regarding Living Wage Aotearoa New Zealand.</p> <p>That the Manurewa Local Board requests a report on the average pay bands for wage or salaried staff within the following areas of council:</p> <ul style="list-style-type: none"> i) Auckland Council ii) Mayor’s Office iii) Council controlled organisations (CCOs). <p>That the Manurewa Local Board requests a workshop be held when the joint report requested by the Albert-Eden Local Board is available.</p> |
| <p>Maungakiekie- Tāmaki</p> <p>25 Sept 2012</p> | <p>That Annie Newman, campaign co-ordinator, accompanied by Initialopa Fakatele, Fili Fiu, Fala Haulangi and Rev Fakaofu Kaio, members of the Living Wage Aotearoa New Zealand campaign, be thanked for their presentation.</p> <p>That the Maungakiekie-Tamaki Local Board commit to the principle of the living wage to support community wellbeing.</p> <p>That the Maungakiekie-Tamaki Local Board recommends to the Governing Body that Auckland Council pay employees a living wage.</p> <p>That the Maungakiekie-Tamaki Local Board recommends the Auckland Council incorporates the living wage and job security into its procurement policy and partnerships with social and environmental agencies</p> <p>That the Maungakiekie-Tamaki Local Board supports a Living wage through its input to the Auckland Council Community Development Strategy.</p> |

| | |
|---|---|
| <p>Ōtara-Papatoetoe</p> <p>23 Oct 2012</p> | <p>That the Otara-Papatoetoe Local Board thank the presenters from Living Wage Aotearoa New Zealand for their presentation regarding a living wage.</p> <p>That the Otara-Papatoetoe Local Board workshop the recommendations from Living Wage Aotearoa New Zealand and report back to the November 2012 board meeting.</p> |
| <p>Papakura</p> <p>15 Nov 2012</p> | <p>That the Notice of Motion: Living Wage Aotearoa New Zealand report be received.</p> <p>That the Auckland Council and the Papakura Local Board commits to the principle of the living wage to support community wellbeing.</p> <p>That the Papakura Local Board recommends that Auckland Council pay employees a living wage.</p> <p>That the Papakura Local Board recommends that Auckland Council incorporates the living wage and job security into its procurement policy and partnerships with social and environmental agencies.</p> <p>That the Papakura Local Board supports a living wage in any submissions to the Community Development Strategy.</p> <p>That the Papakura Local Board requests a report on the impact of a living wage on Auckland Council be prepared by a joint working party comprising representatives of Auckland Council, relevant Unions and Living Wage Aotearoa New Zealand.</p> |
| <p>Puketāpapa</p> <p>29 Nov 2012</p> | <p>Commits to the principle of the living wage, to support community wellbeing, and recommends that Auckland Council also support this principle.</p> <p>Recommends the council pay employees a living wage.</p> <p>Recommends the Auckland Council incorporates the living wage and job security into its procurement policy and partnerships with social and environmental agencies.</p> <p>Supports a living wage in its submissions to the Community Development Strategy.</p> |
| <p>Rodney</p> <p>10 Dec 2012</p> | <p>Thank Annie Newman and Mike Hanne from Living Wage Aotearoa New Zealand for their presentation.</p> |
| <p>Waitākere Ranges</p> <p>28 Nov 2012</p> | <p>Commits to the principle of the living wage to support community wellbeing.</p> <p>Recommends to the Governing Body that Auckland Council pay employees a living wage.</p> <p>Recommends to the Governing Body that Auckland Council incorporates the living wage and job security into its procurement policy and partnerships with social and environmental agencies.</p> <p>Supports a living wage in its submissions to the Community Development Strategy.</p> <p>Requests the Governing Body to commission a report on the impact of a Living wage on Auckland Council, to be prepared by a joint working party comprising representatives of Auckland Council, relevant unions and Living Wage Aotearoa New Zealand.</p> |

| | |
|--|---|
| <p>Waitematā</p> <p>9 Oct 2012</p> | <p>That Hana el Ojeili, Uesifili Unasa and representatives from Living Wage Aotearoa New Zealand be thanked for their attendance and presentation.</p> <p>That the Waitemata Local Board commit to the principle of the living wage to support community wellbeing.</p> <p>That the Waitemata Local Board recommends the Auckland Council pay employees a living wage.</p> <p>That the Waitemata Local Board recommends the Auckland Council incorporates the living wage and job security into its procurement policy and partnerships with social and environmental agencies.</p> <p>That the Waitemata Local Board supports a Living wage in its submissions to the Community Development Strategy.</p> <p>That the Waitemata Local Board request Auckland Council commission a report on the impact of a living wage on Auckland Council, to be prepared by a joint working party comprising representatives of Auckland Council, relevant unions and Living Wage Aotearoa New Zealand.</p> |
| <p>Whau</p> <p>14 March 2013 & 13 June 2013</p> | <p>14 March:</p> <p>Supports the principle of a living wage.</p> <p>Supports the undertaking of further work on the implications of introducing a living wage for Auckland Council and any implications for the wider Auckland community.</p> <p>13 June:</p> <p>Receives deputation from the Service and Food Workers Union on living wage.</p> |

2. Advisory panels

Ethnic Peoples Advisory Panel – 18/10/2012

- The Panel supports the statement of Living Wage Aotearoa NZ;
- The Panel recommends the council pay employees a living wage;
- The Panel recommends that Auckland Council incorporates the living wage and job security into its procurement policy and partnerships with social and environmental agencies;
- The Panel supports a living wage in its submission to the Community Development Strategy;
- The Panel requests a report on the impact of a living wage on Auckland Council be prepared by a joint working party comprising representatives of Auckland Council, relevant Unions and Living Wage Aotearoa New Zealand.

Pacific Peoples Advisory Panel – 20/11/2012

- a) The Panel supports the statement of Living Wage Aotearoa NZ.
- b) The Panel recommends the council pay employees a living wage.
- c) This Panel recommends the Auckland Council incorporates the living wage and job security into its procurement policy and partnerships with social and environmental agencies.
- d) This Panel supports a living wage in its submissions to the Community Development Strategy.

- e) This Panel requests a report on the impact of a living wage on Auckland Council be prepared by a joint working party comprising representatives of Auckland Council, relevant Unions and Living Wage Aotearoa New Zealand.

CARRIED

Disability Strategic Advisory Group – 17/12/12

1. We call upon the government, employers and society as a whole to strive for a living wage for all households as a necessary and important step in the reduction of poverty in New Zealand, particularly within the disability communities.
2. We note the degree of disadvantage within the disabled, in the area of employment. We also note that persons with disabilities are the only people who are subject to the minimum wage exemption clause.

CARRIED

Business Advisory Panel – 10/07/2013

- a) That the Business Advisory Panel notes that the council report to the 12 March Auckland Plan Committee meeting advised that lifting the hourly rate for 1,544 council staff to \$18.40 could cost ratepayers over \$2.5 million, excluding two CCOs Auckland Transport and Watercare. Likewise, if the so-called Auckland living wage of \$24.11 was introduced affecting 3,354 staff it could cost ratepayers over \$17.3m per annum.
- b) That the Business Advisory Panel notes that the council report also concluded that 'initial analysis by finance indicates that the increase in rates needed could be 0.2% and 1.2% respectively' and that the increase on the council's salary budget would be 0.6% and 4% respectively, and notes that this forecast impact excludes staff in Auckland Transport, Watercare, and contractors, so the end cost could be higher.
- c) That the Business Advisory Panel urges councillors not to adopt a living wage policy at Auckland Council as Hamilton City Council has recently done, with the panel noting the negative impact the extra cost could have on ratepayers, the city's finances, and the council's potential ability to employ new staff and competitively remunerate, and potentially impact on Auckland's competitiveness.
- d) That the Business Advisory Panel agrees that if a living wage policy were to be implemented, any additional cost should be found through the reprioritisation of existing council operational expenditure, not through a rates increase.

CARRIED

CARRIED

CARRIED