

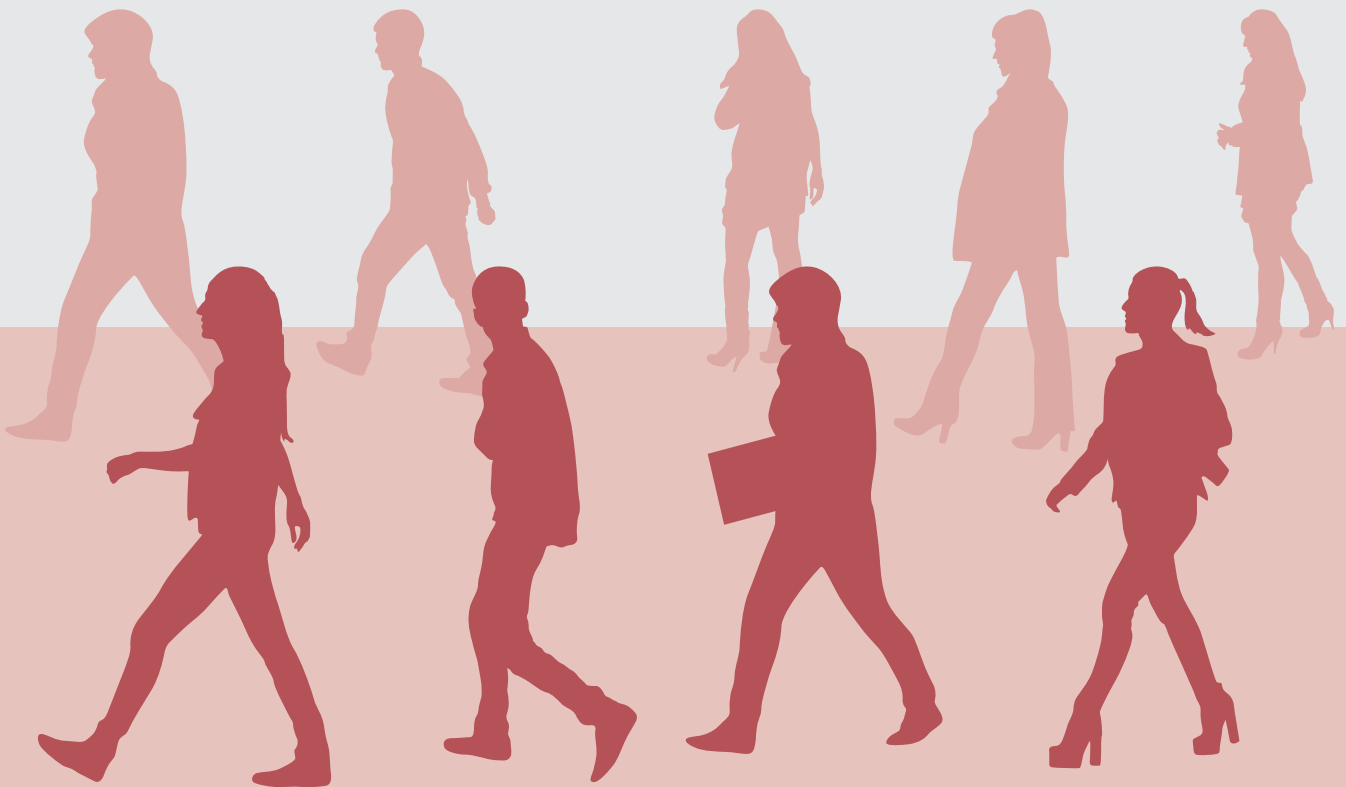


Public Health
England



UCL Institute of Health Equity

Local action on health inequalities:
**Health inequalities and
the living wage**



Health equity briefing 6: September 2014

About PHE

Public Health England exists to protect and improve the nation's health and wellbeing, and reduce health inequalities. It does this through advocacy, partnerships, world-class science, knowledge and intelligence, and the delivery of specialist public health services. PHE is an operationally autonomous executive agency of the Department of Health.

About the UCL Institute of Health Equity

The Institute is led by Professor Sir Michael Marmot and seeks to increase health equity through action on the social determinants of health, specifically in four areas: influencing global, national and local policies; advising on and learning from practice; building the evidence base; and capacity building. The Institute builds on previous work to tackle inequalities in health led by Professor Sir Michael Marmot and his team, including the 'Commission on Social Determinants of Health', 'Fair Society Healthy Lives' (The Marmot Review) and the 'Review of Social Determinants of Health and the Health Divide for the WHO European Region'. www.instituteofhealthequity.org

About this briefing

This briefing was commissioned by PHE and written by the Institute of Health Equity (IHE). It is a summary of a more detailed evidence review on the same topic and is intended primarily for directors of public health, public health teams and local authorities. This briefing and accompanying evidence reviews are part of a series commissioned by PHE to describe and demonstrate effective, practical local action on a range of social determinants of health.

Ellen Bloomer wrote this briefing for IHE.

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Health inequalities and the living wage

Summary

1. Evidence shows that insufficient income is associated with worse outcomes across virtually all domains of health, including long-term health and life expectancy.
2. The negative health effects of living on a low income can be caused by material factors (the inability to afford the items necessary for a healthy life) and/or psychosocial factors (such as 'status anxiety').
3. Adopting the living wage has been shown to improve psychological health and wellbeing among employees and increase life expectancy.
4. Local authorities can lead by example as a major employer by paying a living wage to all directly employed staff and, where appropriate, contracted staff. The rationale and benefits of the living wage will need to be explained clearly to partners.
5. Innovative approaches to implementing the living wage in procurement, including applying the Social Value Act 2012 might also be used.

Introduction

The living wage is an hourly minimum wage, optional for employers, calculated according to the basic cost of living.¹ In 2013 the London living wage was £8.80 and the UK living wage was £7.65. It can offer a useful means of increasing living standards and addressing poverty.

In 2011-12, 16% of the UK population were in poverty before taking account of housing costs and 21% after taking account of housing costs.¹³ Excluding pensioners, there are more households in poverty where at least one person is in work (6.1 million people), than there are workless households in poverty (5.1 million people).¹⁴

In 2011-12, 21% of working-age households without children, 35% of those living in households with children, and 9% of pensioners, were living on an income below the minimum income standard in the UK.¹⁵ The risk had increased for all household types since 2008-09, from 16%, 31% and 7% respectively. It is estimated that 5.24 million people, or 21% of the UK workforce, are paid less than the living wage in 2013, based on hourly rates.¹⁶

Costs and benefits of the living wage

The main objective of the living wage is to provide low paid people with sufficient income to cover their cost of living. The impact of a wage increase on low-income individuals is complex and currently the benefit system can mean that an individual employee is no better off with an increased hourly wage because some of their benefits are taken away as a result.

There will be positive income effects for some low-income individuals, including vulnerable groups ineligible for benefits. There are likely to be indirect benefits for all benefit recipients: if more employers pay the living wage, this will make available more money in the capped social welfare budget. More research is needed on the relationship between the living wage and the benefit system.

There are costs to employers of implementing the living wage, primarily associated with increased wage bills, though these will vary by employer.² Reported business benefits to employers include lower staff turnover, increased productivity, improved organisational reputation and better staff motivation and morale.^{3,4}

The living wage and health inequalities

Living on a low income is associated with a greater risk of limiting illness and poor mental health including maternal depression.⁵⁻⁷ Children who live in poverty are more likely to be born early and small, suffer chronic diseases such as asthma, and face greater risk of mortality in early and later life.^{8,9}

The negative health impacts of living on a low income can be caused by material (for example, the inability to afford the items necessary for a healthy life) and/or psychosocial factors (such as 'status anxiety').

Adopting the living wage has been shown to improve psychological wellbeing among employees.^{10,11} Studies from the US have suggested that the introduction of a living wage is associated with significant improvements in life expectancy, self-rated health, depression, alcohol consumption, activity-limiting illnesses and a fall in mortality.¹²

What works to increase the number of employees receiving a living wage?

BOX A

How to promote a living wage successfully

1. Lead by example as a major employer: pay a living wage to all directly employed staff and, where appropriate, contracted staff.
2. Use innovative approaches for implementing the living wage in procurement, including applying the Public Services (Social Value) Act 2012.
3. Maintain ongoing discussions with a range of local employers around adopting the living wage, assessing the costs and benefits and supporting them with implementation.
4. Ensure strong leadership and buy-in from the local authority.
5. Use existing or create new partnerships to develop wider support for the living wage.
6. Clearly communicate and promote the living wage.
7. Plan ahead regarding the best time to implement (for example, at the same time as major changes to job descriptions and pay grades).
8. Establish systems to monitor compliance and ensure the living wage is sustained and raised along with annual uplift.

A Unison survey of all local authorities in England and Wales found that 103 councils (27.5%) have adopted the living wage, 27 have living wage accreditation and a further 38.4% were considering the move to a living wage. Many local authorities that have implemented the living wage among their staff and set an example as large employers, have also taken steps to encourage contractors to pay a living wage, by including the living wage as part of the procurement process. EU procurement legislation means that councils cannot use a commitment to pay a living wage to employees as a condition for awarding a contract to suppliers and must find effective ways of encouraging contractors to pay the living wage within EU law. Finally, local authorities can use

their influence to encourage and support other local employers across all sectors to pay their employees a living wage.

The evidence review that underpins this briefing provides examples of employers that have adopted the living wage, how they have implemented it within their organisation and supply chain, and how they have influenced other local employers to adopt it. Where possible, the examples highlight some of the challenges faced and how they were overcome, and consider the direct costs and benefits of adopting the living wage. Several key messages emerge from the experiences of these employers:

Reasons for adopting the living wage

Employers varied in their reasons for adopting the living wage. Islington Council and Sheffield Council adopted the living wage in response to the recommendations of Fairness Commissions, while Newcastle Council created a commission to identify the costs and benefits of introducing a living wage, and Camden Council adopted the living wage in response to the Camden Plan, a high level five-year vision for the borough. Finchley Reform Synagogue adopted the living wage mainly out of a moral obligation that their employees should be able to afford a basic standard of living. This reflects that it is both financial and moral considerations, alongside the alignment of the living wage with other organisational strategies, that are important precursors to introducing the living wage for many employers.

Financial costs

Most employers found that the financial costs were not as high as anticipated. It is difficult to make firm cost estimates as they differ between organisations and are heavily dependent on the numbers of low paid staff. Islington Council found that the annual cost of paying directly employed staff the living wage was £53,000, less than 0.05% of the total pay budget. There was a further £70,000 for agency staff and £230,000 to the council for procurement. The annual costs to Sheffield City Council, excluding on-costs, were estimated to be £107,000 for directly employed staff, £6,500 for casual workers, £619,000 in schools (funded by schools) and £20,000 for apprentices.

Benefits for the workforce

Across employers, it was low paid staff who found their wages increased following the adoption of the living wage. In Newcastle, this included cleaners, kitchen assistants, supervisory assistants and school crossing patrol officers. Out of more than 3,000 employees of companies in the GLA supply chain (including the Metropolitan Police Authority, the London Fire Brigade and Transport for London) benefitting from their move to the living wage, more than 2,000 work for cleaning companies and the rest are in facilities management (660), security (300) and catering (160). Further, representatives of the Finchley Reform Synagogue emphasised a change of culture within the organisation following their move to the living wage, where those on low wages experienced more of a sense of identity and worth. In Epsom and Ewell it was felt that the move sent a strong message that the council was committed to staff wellbeing and that it was a good place to work. However, reviewing individual employee circumstances has been shown to be important to ensure that paying the living wage does not make an employee worse off once their benefits are taken into account.

Implementation in new contracts

Employers faced challenges with implementing the living wage. EU procurement law prevented awards of a new contract on the basis of paying a living wage; this was addressed in a number

of innovative ways by different local authorities. Some negotiated each contract on an individual basis, carefully assessing each one on a case-by-case basis, and highlighting early that it was something in which the council was interested (Islington). Another approach involved asking the bidder to complete two pricing schedules: one that included paying all staff the living wage and one that did not (Lewisham). The Mayor of Lewisham, having adopted this approach, has consistently chosen to implement the living wage option. A third approach was to apply the Public Services (Social Value) Act 2012, which requires local authorities to consider how goods or services being procured might improve the economic, social and environmental wellbeing of the local area, and how improvements can be secured proportionately and with relevant action. Paying the living wage might be viewed as improving the social and economic wellbeing of an area and so is likely to be a relevant consideration under the Act, where it is relevant to the contract and action is proportionate.¹⁷

Implementation in existing contracts

Implementing the living wage in existing contracts commonly involves multiple conversations and negotiations between the local authority and the provider. Where the provider agrees to pay the living wage, this many result in them bearing the whole cost of moving to the living wage, or the employer bearing some or all of the costs. Another possible outcome is moving the service back in-house, as happened with one of the main existing contracts in Islington. Social care contracts are considered by many local authorities to be too complex and high cost to move to the living wage, primarily because of the high numbers of low paid staff in the sector, the use of national care home providers that also work with many other areas, and councils paying for individual rooms in much bigger care homes. However, experience suggests that it is important to keep discussions with providers ongoing with aim of finding solutions will that allow such sectors with low paid staff to adopt higher wages.

Sustainability

To ensure sustainability of interventions, Islington has put a monitoring system in place to ensure compliance with the living wage, particularly after annual pay uplifts. Where the living wage is included in a contract, the GLA has also included it as a contract performance condition requiring compliance.

Engaging and supporting local employers

Local authorities have been active in engaging other local employers and encouraging them to adopt the living wage. They have used strong, sustained communications emphasising the rationale and benefits, by writing to partners across the area in all sectors, such as headteachers, major health employers and large employers in other sectors. There has also been work to promote the living wage to business contacts for example through newsletters, the press, and in the case of Camden, the council's business board and awards. Lobbying the government and the local community can also help to influence businesses to adopt the living wage.

Islington Council found that it was important to maintain ongoing discussions with local employers and work out the costs and benefits for the organisations to enable them to see that it was possible. Other approaches include offering financial support (for example, covering costs of accreditation) or other forms of support such as negotiating with contractors on schools' behalf. Once employers have indicated an interest in adopting the living wage, the Living Wage Foundation offers support for implementation. Local authorities have also provided support to others, including Camden Council which has provided guidance and advice to local areas and held the first pan-London living wage workshop in 2012.

Conclusion

Increasing the number of people receiving a living wage has the potential to increase incomes among many people on a low income. As there is evidence that living on a low income can have negative mental and physical health impacts, more widespread pay rates at the living wage should have positive health effects. However, further research is needed to identify whether the living wage means a real increase in incomes, given interaction with the welfare benefit system. Further work is also needed to determine the impact of the living wage on inequalities.

A number of key features of success for implementing the living wage have been identified in this briefing. These are based on the experiences of several local authorities and other organisations that have implemented the living wage for their staff, which are discussed in the evidence review that underpins this briefing. Local authorities can lead by example as a major employer by paying a living wage to all directly employed staff and, where appropriate, contracted staff. More research is needed to evaluate the extent to which the living wage benefits business and individuals and the degree to which it reduces social inequalities and health inequalities.

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