

## Fair Pay for Merthyr: Opportunities and Constraints Facing the Living Wage

The campaign to increase take up of the Living Wage is for the most part UK-wide, although the campaign in Scotland has proved very successful. There are relatively few local Living Wage campaigns, particularly those which promote the Living Wage rate as set by the Living Wage Foundation, and those that do exist are mainly in relatively prosperous parts of the UK and cover relatively large cities or towns.

As part of our work to develop an action plan to increase take up of the Living Wage in Merthyr Tydfil, we wanted to establish the specific local opportunities and constraints that need to be taken into account. In order to do this we interviewed people from a range of different organisations to gather the views and experiences of employers and those working with employers, and those of people in low paid work. We also produced a short survey for employers, as well as distributed literature on the Living Wage and spoke at a variety of forums across the borough.

### Characteristics of the local economy

The prospects of achieving a substantial increase in the number of people paid the Living Wage is shaped by the characteristics of the local economy.

#### Employer size and sector

Merthyr's economy is a mixture of quite large public sector employers, some large private sector employers in both manufacturing and services, and many more SMEs in the private and third sectors. This size and sectoral mix brings both opportunities and barriers to increasing the number of people paid the Living Wage.

Merthyr's public sector employers have taken the lead on introducing the Living Wage. For example, the local authority introduced it for all its directly employed staff in 2016. The impetus for paying the Living Wage in this case was based on:

*'a moral duty [elected members] felt towards workers regarding how they should be treated....it was the right thing to do.'*

The major public sector employers in Merthyr Tydfil – Merthyr Tydfil County Borough Council, Welsh Government, Merthyr Tydfil College and Cwm Taf University Health Board – all pay the Living Wage to their directly-employed staff. In the case of the council, this was a decision taken locally, but both the health board and the college pay the Living Wage as part of Wales-wide pay arrangements for their respective sectors. However, only Welsh Government is an accredited Living Wage employer,

therefore also committing to pay the Living Wage to sub-contracted staff and uprate it annually in accordance with the Living Wage rate.

Amongst the private sector, take up of the Living Wage is much more limited, with only one accredited employer headquartered in the borough - Miller Argent. There are also some accredited employers who are headquartered elsewhere which have a Merthyr Tydfil branch such as Nationwide, Santander, Lloyds and Barclays.

Most other large private sector employers in Merthyr Tydfil are branches or outlets of major UK-wide chains, such as Marks and Spencer, Matalan, Premier Inn and Vue Cinemas. The ability of a local campaign to persuade UK-wide organisations to change their pay scales is extremely limited and needs to be taken into account in developing any local Living Wage strategy.

There is more potential for a local campaign to increase take-up amongst smaller, private sector employers, although many of the smaller employers that we interviewed expressed concern about the impact that the Living Wage could have on their wage bills. The introduction of the National Living Wage seemed to have been felt more acutely by SME employers in Merthyr Tydfil than their larger counterparts, and there seemed to be less of an appetite for the Living Wage unless there was support available to them to assist with taking on a Living Wage commitment. For example, there were several anecdotal reports from interviewees about small businesses which had closed as a result of the National Living Wage.

## Economic climate

The economic climate also contributes to employers' concerns about raising pay, and in particular to committing to increase pay at a rate defined by a third party in the future. There was a clear feeling that many businesses and organisations have little room for manoeuvre and are not in the position to make long-term commitments. A trade union representative explained that the union applies pressure wherever it can to win better pay and conditions for workers, but employers' budget constraints are a real obstacle.

One interviewee explained that he was sensitive to the current economic climate as well as the reality that some smaller employers would not be able to raise wages to meet the Living Wage or commit to an annual increase. However, he said that many of Merthyr's employers were already creating a positive work environment for their staff. He referred to EE, one of the county's largest employers, where the staff he had spoken to were happy with their working conditions and a low level of turnover was reported.

The cost of accreditation was also raised as a possible obstacle for many smaller organisations. An interviewee working in the third sector said it would be difficult for many organisations to justify the cost of making an application especially as it is paid to a London-based organisation with no obvious benefit to the local community or the organisation's aims.

## Insecure employment

Recent changes in the labour market mean that many jobs in Merthyr Tydfil are now temporary or part-time. One interviewee explained that low-hour, flexible contracts are the norm in retail, with it becoming rare for people to be given contracts for more than 16 hours (although as they are flexible employees often work additional hours). Shift patterns and hours are set by individual agreement and can be changed at short notice. She said that when a staff member on a 20-hour contract leaves their job, they are usually replaced with two people each on 10-hour contracts. Hourly pay is therefore not the only problem facing workers in Merthyr Tydfil, and so the Living Wage cannot be looked at without considering the quality of jobs being offered in the borough.

Employment which is permanent and offers fixed hours is highly prized. One trade union representative at an establishment where most employees earn between £7.20 and £7.60 an hour said that people generally worked at the factory for a long time and there is a high retention rate, partly because of the quality of the work that is offered. These workers are reluctant to take industrial action.

Another union representative also found that union members are less willing than they used to be to take action on pay. He suspected that job security is the underlying reason, with people feeling unable to put demands on their employer or because they are in short-term employment so are unlikely to benefit from any changes.

This makes it far harder for unions to collectively negotiate on behalf of these members as their bargaining power is weakened.

## Social security benefits

Merthyr Tydfil still has relatively high levels of unemployment and economic inactivity. Many workers were said to be conscious of the impact of changes to someone's employment and the regularity of their hours on a benefit claim. Jobcentre Plus's sanction regime for claimants was also raised as a factor which has fundamentally changed people's attitudes towards work. The regime is so strict that claimants are willing to take any job, and are not in a position where they can choose or hold out for a Living Wage vacancy. The threat of being sanctioned is also a factor when people are in work, in case they lose their job and need to claim benefits again.

One interviewee said:

*'[T]he sanctions regime and the experience of claiming Jobseekers' Allowance means that many people feel that they are happy to take any job they are offered and will tolerate conditions and pay for fear of losing their job. This climate – where job security is so important – means that many people are very unlikely to feel that they could discuss the Living Wage with their employers,*

*and that aspects of a 'Living Wage' may feel very far away from the sort of relationship they are used to having with employers.'*

This therefore reduces one of the benefits of the Living Wage, which is to ease recruitment, as many jobseekers' are not in the position to 'shop around' for work opportunities as they are under a great deal of pressure to accept their first job offer. One interviewee also suggested that the availability of workers willing to work for less than the Living Wage in Merthyr Tydfil meant that there was little pressure on employers to compete for employees by raising pay.

## Workplace issues

As well as conditions in the local economy and labour market, the introduction of the Living Wage is also shaped by workplace issues such as the impact on differentials and how workers engage in wage negotiations where this is relevant.

### Differentials

A further challenge (and cost) when introducing the Living Wage – especially for bigger employers – results from needing to maintain differentials, meaning pay rises for those already paid the Living Wage or more. Amongst Living Wage employers and employers aspiring to pay the Living Wage, this has been the biggest hurdle for them to overcome as it can result in quite a big increase in the wage bill which also has to be forecasted for future expenditure. For example, the local authority found that calculating and forecasting for the increase in pay bands in order to maintain differentials was a lengthy and relatively expensive process.

In some cases, the process of analysing the relationship between the lowest paid workers and the pay grades above it – and how they should be maintained – is already underway as a result of the introduction of the National Living Wage. Some of the large manufacturers in Merthyr Tydfil have a very high number of workers who were paid below or around the National Living Wage (NLW) rate, and so they had to bring up all their employees to the current £7.20 NLW rate as well as maintain differentials, and they are working on how they will raise wages and maintain differentials in the next few years in preparation for the planned increase in the NLW to approximately £9 an hour by 2020.

An additional challenge is faced by some of the large manufacturers as they do not have pay bands as such, and have a large number of workers doing similar roles but with different terms and conditions, partly due to existing TUPE arrangements. The NLW has encouraged these employers to standardise pay, terms and conditions across the workforce, but has tended to result in workers losing out rather than gaining. For example, some employees have lost out on paid breaks in order that their pay is brought into line with their colleagues, so that it is simpler for their employer to

implement the NLW rise across the workforce while maintaining differentials. It is also worth noting that some of the borough's larger employers have introduced the NLW for all workers aged 18 and over, even though they are only legally required to do so for workers aged 25 and over. So, on the one hand, the process of standardising the offer to employees which has resulted from the introduction of the NLW makes it easier for employers to push ahead and introduce the voluntary Living Wage as well, but a pay rise does not necessarily mean that all employees benefit equally – or at all.

Differentials also pose a problem for the borough's employers which only have a few members of the workforce paid below the Living Wage. For example, one local employer has explored how they can move the handful of employees paid below the Living Wage into Living Wage roles by moving them up a band. However, in order to justify moving these workers up a band they must demonstrate how they undertake additional duties and responsibilities to qualify for the promotion. However, when they have discussed this with their employees they were told that they did not want to take on the additional responsibilities in turn for a pay rise – they were happier being paid below the Living Wage and remain on the same band. Of course, this is not the same as saying that they were happier earning less than the Living Wage than earning it, but it does show the sort of challenges faced by employers and how much employees value the nature of their work as well as what they are paid for it.

### Workers' attitudes to trade unions

Employees' attitude to work and the sort of relationships between workers and their employers matter in so much as the role that they are able to take in campaigning for the Living Wage. For instance, employees who feel that their employment is precarious, or if they believe that if they express dissatisfaction with the terms of their employment they will be penalised, cannot be expected to feel comfortable with publicly lobbying their employer to raise pay.

The way in which people engage with trade unions has also changed, meaning that the impact that trade unions now have is different. One trade union representative said:

*"[T]here have been changes in how people engage with trade unions.....it is harder to encourage people to be active members, [and] it is difficult to attract younger members, so the average age of members is significantly higher than it was a couple of decades ago."*

As well as difficulties with attracting younger members to trade unions, the recruitment of non-British born members has also been challenging in some sectors. One trade union representative described how many migrant workers are employed in 'unseen' roles, such as office cleaners or on night shifts, which can make it harder for unions and other campaigners to engage with them. There were also anecdotal reports of different employment arrangements for migrant workers.

Another union representative described how his union has had some difficulty with recruiting some members of the workforce from other EU states, such as Poland, Hungary, Portugal and Lithuania, who tend to work in some of Merthyr's bigger factories. Partly this is because of language barriers, and sometimes they struggle to communicate the role and function of the union in the workplace. They have had similar recruitment problems with younger workers as well.

A Living Wage campaign must engage with trade unions because of the mandate they have to represent their workers, but it must also look at the challenges the union faces in relation to recruiting younger workers and those born outside the UK, and what this may mean about how these workers feel about how they can influence their pay, terms and conditions in the workplace.

### Other factors which influence employers

Besides trade unions, there is little external pressure on employers in relation to their terms and conditions in Merthyr Tydfil. For example, one public sector employer which has relations with other public, private and third sector employers in the borough said that they do not factor in whether they are a Living Wage employer when they establish a working relationship. What is more important to them is the sort of opportunities they can offer and the quality of training and work provided.

This is a good example of where the Living Wage could be raised by one Merthyr Tydfil employer to another, but is rarely discussed. Much greater emphasis needs to be placed on the potential of peer-to-peer networking and collaboration to drive up employment standards – and pay – in the borough.

For employers who do pay the Living Wage in Merthyr Tydfil, it tends to be one of the many ways in which they express their commitment to good employment standards. While they mention it in the recruitment process and possibly on their website, it is not a key feature of their brand and is not something which they tend to publicise more widely. Employers who are conscious of their role in Merthyr socially as well as economically should take more of a role in promoting the benefits of ethical employment practices such as the Living Wage. Several interviewees felt that more should be done to champion Living Wage employers as well, to raise awareness of the initiative and increase the reputational benefits.

### Terms and conditions

The idea of an hourly Living Wage rate was considered somewhat limited by some interviewees. While many people they work with are employed, some are self-employed and others combine employment with self-employment. It is therefore difficult to just rely on an hourly pay rate as a means of boosting household income when not all households would necessarily benefit.

Some employers also felt that the nature of the work, other terms and conditions, and the reality that the job may not exist at all if it were paid at a higher rate justified paying people less than the Living Wage. One of Merthyr Tydfil's larger third sector employers currently has four members of staff paid below the Living Wage, two of whom will soon be paid it. The organisation said they fully appreciated the importance of the Living Wage initiative, but were keen to emphasise that the jobs they provide can offer more than just an hourly wage. For example, one of their employees paid below the Living Wage is a cleaner who can pick their own working hours to suit their needs – they would prefer this role over a post which paid the Living Wage or more but did not offer the same flexibility. The other person paid below the Living Wage – a gardener – is in an entry level post which they have given to someone who would struggle to find employment elsewhere.

Interviewees pointed out that the 'first step' in someone's career is very valuable, and enforcing the Living Wage in 'entry level' posts for people who possibly face other challenges could be counter-productive. They were concerned that young people may miss out on opportunities as employers would favour a more experienced candidate if they had made a voluntary Living Wage commitment.

A Living Wage campaign must therefore recognise that there are limitations to focussing on hourly pay. It must also consider what sort of additional support may be available for organisations pursuing Living Wage accreditation so that they are still able to offer entry-level opportunities and supportive terms and conditions.

## The local supply chain

The local and regional supply chains present numerous opportunities where employers can influence one another and pressure can be applied to encourage businesses and organisations to pay the Living Wage. However, this also presents a challenge in the form of employers who are not part of the local supply chain and are therefore less likely to be influenced by this sort of campaign technique.

## The sub-contracted workforce

The ability to influence employers regarding their pay structures somewhat depends on their interconnectedness within the local and regional economy.

Despite the fact that many of the bigger, public sector employers in Merthyr Tydfil have committed to paying the Living Wage to their directly employed staff, many do not extend this benefit to their sub-contracted workers. Merthyr Tydfil County Borough Council, Merthyr Tydfil College and Cwm Taf Health Board are all examples of this. This is especially concerning as the sort of work which is more likely to be contracted out – such as hospitality, care work and cleaning – are sectors where the employees are at much greater risk of being paid less than the Living Wage.

Progress is slowly being made here though. One interviewee explained that many of his union's members in Merthyr Tydfil are employed either directly or sub-contracted to Merthyr Tydfil County Borough Council. The union is aware that the sub-contracted workers are not all paid the Living Wage, and this is something which they are seeking to change. They are also trying to get the local authority to require contractors to pay the Living Wage as a minimum as part of the tendering process. The interviewee said that:

*'[T]he council wants to become accredited in future because of what it will mean for their reputation and for people living in the borough, as well as the local economy.'*

However, one employer said he had considered becoming Living Wage accredited but stepped back from doing so because they were concerned about the absence of local Living Wage employers. They regularly use sub-contracted workers and were concerned that they would need to look outside the borough to find sub-contracted workers who were paid the Living Wage.

### Procurement and other contracts

The way in which organisations spend their money, and how they use it to influence – or not influence – the quality of employment in the borough, was raised repeatedly by those we spoke to. There is considerable interest in how procurement could be used to combat the problem of low pay. However, even amongst employers who were aware of the Living Wage, believed in it and may pay it to their staff, they did not often go as far as to raise it during any negotiations with suppliers.

Procurement is a complex area in regard to the Living Wage, and the pressure to drive down costs can conflict with paying the Living Wage. For example, one interviewee explained that in the third sector, especially in social care and education, organisations bid for public sector contracts against competitors from the private sector. As being a Living Wage employer is not recognised in the tender process, it is difficult for them to commit to a minimum pay rate when they are competing on price against those who do not make the same commitment. For there to be significant change amongst these sort of employers, paying the Living Wage will need to be recognised in the procurement process.

From the procurer's point of view, it is difficult to put an obligation on contractors to pay the Living Wage. One employer said that Welsh Government advice focuses heavily on efficiency, so they are encouraged to seek out the lowest price - which tends to drive down pay rates. He also felt that the funding his organisation receives does not give them the option to consider how much they pay sub-contracted staff. If the Welsh Government were to offer additional funding so that they can ensure that sub-contracted staff are paid the voluntary Living Wage, this would make a difference.

Another employer said that pay in the education sector has been going through rapid changes lately and that some supply teachers were being paid at or just over the Living Wage rate. He explained that schools are sometimes subject to agreements with certain supply teacher agencies, which are often determined on price. He said the supply teaching industry is turning into a '*race to the bottom*' on pay as they bid for contracts with local authorities and/or schools. Not only is pay for these teachers therefore likely to be low, they are also at risk of not being paid during school holidays. Procurement policy and budgetary constraints are therefore factors in ensuring that those employed in the education sector are paid at least the Living Wage.

## Funding

A very important reason why many third and public sector employers sympathetic to the Living Wage initiative do not pay it to all employees is that their funding does not necessarily provide sufficient resources to cover the cost of paying the Living Wage, nor does it specify that it is required or desirable for employees to be paid the Living Wage. Many organisations in Merthyr Tydfil are reliant on grant funding, but the funding process does little to encourage more employers to pay the Living Wage to all their employees.

In relation to the third sector, one interviewee explained that while the Welsh Government has published minimum standards for grant funding – devised by the Grants Centre for Excellence – they make no reference to the Living Wage. As such, grant funding does not usually stipulate that anyone employed by the applicant organisation or employed as a result of the grant funding should be paid the Living Wage, and, sometimes, the grant award is not enough to employ someone on the Living Wage. If some of the significant third sector funders would start to raise the Living Wage in funding negotiations and stipulate that organisations must pay the it to be eligible for funding and also recognise this in the size of the grants which are given, this would result in a significant increase in the number of Living Wage employers in the borough.

Again, funding was raised as a constraint for many third sector organisations which do not pay all their staff the Living Wage. Simply put, money is very tight, and if they were bound to pay someone the Living Wage rather than the NLW it would lead to not employing them at all. One employer said they have faced this decision on a handful of occasions, such as when considering taking someone on via a Jobs Growth Wales post. Like the points raised in relation to grant funding, if funding and opportunities such as Jobs Growth Wales stipulated that staff must be paid the Living Wage and provided the resources to do so this would have an immediate impact.

Funding was raised as an issue in the public sector as well. All staff directly employed by one large Merthyr Tydfil employer are paid at least £8.25 an hour. However, many people employed indirectly are in occupations such as cleaning and catering – traditionally low paid – and are paid below the voluntary Living Wage. Funding

constraints mean that this is not something that they will consider asking for in the near future either, as it would mean that they have to take “*money out of services*” to top-up the pay of those earning below the voluntary Living Wage.

The length of a funding cycle is also an important factor for any organisation reliant on grant funding. For example, this was a significant issue for the local authority when they were planning how to introduce the Living Wage for all directly employed staff. As they receive their funding on an annual basis, they had to make sure that they could continue paying the Living Wage in subsequent years as well.

A consistent theme amongst employers which are reliant on grant funding is that they were deeply concerned that they would have to rescind on a Living Wage commitment in future. There seemed to be a strong feeling amongst employees at all levels within organisations that budgets were being squeezed, and a high level of caution around making any decision which assumes that the funding level will be maintained. While the employers were fully committed to the principles behind the Living Wage, they were unwilling to make a commitment to their workforce they may need to go back on once they were into their next round of funding.

### Employers not in receipt of funding or public contracts

It must also be acknowledged there is a significant portion of the workforce employed in businesses which are relatively unaffected by changes to the local economy. For example, many of the manufacturers and large retailers based in the borough are not in receipt of local funding or contracts, their customers are based throughout the UK and further afield and they are often headquartered elsewhere. While they have chosen Merthyr Tydfil to site part or all of their services or manufacturing operation, their work is not connected to the borough as such. These sorts of employers are relatively isolated within the local economy and it is far harder to influence their decisions around pay, especially when these decisions are not necessarily made locally.

One interviewee, a trade union representative, speculated that some of the factories would be responsive to a shift in pay within the borough, but that they would want to follow rather than lead. He suspected that a very prominent Living Wage campaign in Merthyr Tydfil would be something that the factories may be responsive to, especially where pay is negotiated locally.

However, retail presents an even bigger challenge as pay deals for the large chain retailers are almost always agreed centrally, and are unlikely to take local factors (such as a Living Wage campaign in one borough) into account. Another interviewee said that is much harder to influence the decisions these employers make in regard to terms and conditions, especially when they are not in receipt of public contracts and do not necessarily recognise trade unions.

## The Living Wage initiative

Awareness of the Living Wage initiative and confusion about what it is must be addressed by a Merthyr Tydfil Living Wage campaign. But there are other issues as well – such as the value of accreditation when awareness is low and the relevance of a national initiative to people in Merthyr – which must be overcome for a campaign to have an impact.

### Awareness & confusion

Awareness of the Living Wage is relatively low in Merthyr Tydfil, and there is also a lot of confusion resulting from the introduction of the National Living Wage.

One interviewee was familiar with the voluntary Living Wage initiative, but said that it was difficult to identify Merthyr Tydfil's Living Wage employers as so few are accredited. She highlighted the importance of Living Wage employers setting an example and communicating the benefits of the Living Wage, and mentioned that high-profile employers such as General Dynamics should consider Living Wage accreditation. She also said there is a role for the council in terms of their ongoing communication with employers in the borough, and the levers they have to influence change.

Another interviewee said that it had been a useful exercise for their organisation to take stock of how many people they pay less than the Living Wage. She highlighted the confusion around the voluntary Living Wage and the National Living Wage, mentioning that a colleague in her HR team had initially thought that the Living Wage referred to the NLW.

This was commented on several times, and one interviewee felt that there needs to be more big, high-profile employers paying the Living Wage before most people become aware of it, and that high-profile employers in Merthyr such as the local authority should lead by example by becoming accredited.

The implications for a Living Wage in Merthyr Tydfil are that if community leaders are serious about encouraging many more employers to adopt it, they must continue to raise it at every available opportunity and champion those who already pay it.

### A local Living Wage?

Several interviews raised the possibility of introducing a Merthyr Living Wage, although there was some disagreement over what this would mean. Some commented that it would be difficult to imagine the Living Wage gaining a high level of support if it continued to feel like a national campaign. One interviewee said she could not see how people in Merthyr would feel that the Living Wage has anything to do with them, while several other people thought that referencing 'Merthyr Tydfil' or 'Wales' would make it easier to build support as it would seem more relevant.

But there was some scepticism over how much difference rebranding the Living Wage as 'Welsh' or 'Merthyr Tydfil' would make. There was also suspicion that it could be used to introduce a lower rate than that set by the Living Wage Foundation, and that any effort to calculate a local rate would be duplicating work.

A Merthyr Tydfil Living Wage campaign should consider if introducing some local branding would make it feel much more relevant to employers and workers in the borough, but there seems to be little need or appetite for a local rate to be calculated.

## About the Bevan Foundation

The Bevan Foundation develops ideas to make Wales a fairer, prosperous and sustainable place. We are independent of government or any political party, and are funded by subscriptions, donations, grants from charitable trusts and foundations and commissions.

## About this project

Following on from research on the Living Wage in Wales and the Cardiff Capital Region, the Bevan Foundation has been considering what it would take for there to be a significant increase in the number of people earning the voluntary Living Wage in Merthyr Tydfil.

The Bevan Foundation has been speaking to employers, workers' representatives and community organisations throughout the borough as part of its research, and has published a series of briefings and research publications on the benefits of the Living Wage to Merthyr.

The Bevan Foundation is grateful to funding from the Coalfields Regeneration Trust and Oxfam Cymru to carry out this research.



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