

Fair Pay for Merthyr: The Potential Impact of the Living Wage

Increasing the hourly pay of Merthyr Tydfil's lowest paid workers would have consequences for employers, the local economy and the workers themselves. This paper explores the potential consequences of a step change in the number of people earning at least the Living Wage in Merthyr Tydfil, which currently stands at approximately a quarter of the workforce.

The Living Wage

The out-of-London Living Wage is an hourly rate of pay which is intended to provide a modest but acceptable standard of living. Set by the Living Wage Foundation, the current rate (announced in October 2016) is £8.45 an hour.

The Living Wage is calculated independently by the Centre for Research in Social Policy (CRSP)¹, based on research on what constitutes modest needs. These include a selection of food items, a small assortment of clothing and footwear, housing costs, personal goods and services and transport costs. The rate is based on an average of these needs for different family types, and assumes that all relevant welfare benefits and credits are claimed.

The Living Wage is entirely voluntary – no employer is forced to pay it if they do not want to do so. It is also capped so that no employer is expected to award pay rises of more than two percent above the average increase in earnings.²

Accreditation

Employers who pay the Living Wage may seek accreditation from the Living Wage Foundation. The scheme commits employers to paying the Living Wage (and uprating it annually) to all those they directly employ, and to having a plan for the phased implementation for all contracted staff at the point of contract renewal.³ The licence signed between the Living Wage Foundation and the employer as part of the accreditation process is legally binding. Accredited employers pay a modest annual fee to the Living Wage Foundation.⁴

¹ The London living wage rate is calculated by the Greater London Authority. Both the UK and London living wage rates are set by the Living Wage Foundation.

² Centre for Research in Social Policy (2015), Working Paper: uprating the UK Living Wage in 2015

³ Living Wage Foundation (2016), Living Wage: A Guide for Employers

⁴ Living Wage Foundation (2014), FAQs: How much does it cost to be accredited? [accessed via: <http://www.livingwage.org.uk/how-much-does-it-cost-be-accredited>]

Not all employers that pay the Living Wage are accredited. This can be for several reasons, such as an unwillingness to pay contractors the Living Wage, reluctance to commit to future pay rises, or a lack of awareness of the accreditation process.

National Living Wage

The Living Wage Foundation's Living Wage is different to the National Living Wage (NLW), announced by the Chancellor in July 2015. The NLW is effectively an increase in the National Minimum Wage for people aged 25 and over to £7.20 an hour from April 2016.⁵ There are in addition minimum wage rates for people aged under 25 and for apprentices (Table 1).

Table 1: Selected statutory and voluntary wage rates in the UK, October 2016

Apprentice	Under 18	18 to 20	21 to 24	National Living Wage	UK Living Wage
£3.40	£4.00	£5.55	£6.95	£7.20	£8.45

There are several important differences between the UK Living Wage and the National Minimum Wage (including the UK Government's National Living Wage), including that it is a voluntary rate, and is paid to all employees aged 18 and over.

Impact on Employers

Wage Bills

The Living Wage has a direct and immediate impact on employers' wage bills which increase as a result of paying the Living Wage, as well as maintaining differentials. It is estimated that employers' wage bills in the UK would increase by around 1.3% if all employees are paid the Living Wage – some £12.4 billion.⁶ The forecast increase varies substantially between sectors, being much higher in those with a large proportion of low-paid workers:

- Up 6.2% in the bar and restaurant sector
- Up 4.7% - 4.9% in retail
- Up 0.5% in construction
- Up 0.2% in banking.⁷

⁵ UK Government (2015), Summer Budget 2015

⁶ KPMG (2015), The Living Wage: an economic impact assessment

⁷ IPPR & Resolution Foundation (2013), Beyond the Bottom Line: The challenges and opportunities of a living wage

Approximately 20% of employee jobs in Merthyr Tydfil are wholesale and retail, and accommodation and food services, so the increase in wage bills across the borough is likely to be relatively high for these sectors. In contrast, Merthyr Tydfil has far fewer employee jobs in financial and other business services, where the forecast pay rise for the sector is much lower.

Table 2: Percentage of employee jobs in key sectors, Merthyr Tydfil and Wales (2014)

		Merthyr Tydfil	Wales
High impact on wage bill	Wholesale & retail trade; repair of motor vehicles and motorcycles	16.5	14.4
	Accommodation & food service activities	5.6	7.3
Low impact on wage bill	Financial & other business services	10.5	14.7
	Construction	3.2	4.8

Source: Nomis (2016), Labour Market Profile - Merthyr Tydfil

However, it should be noted that since the introduction of the new National Minimum Wage in April 2016, the percentage increase in the wage bill to pay the Living Wage will have been reduced substantially.

Productivity

Increasing productivity is one of the most commonly used means by which employers off-set higher wage bills. Research shows that most employers report productivity gains following implementing the Living Wage,^{8, 9} although there is variation by firm size and sector.¹⁰ Research on the previous National Minimum Wage found that productivity gains are most often achieved through organisational change, employee training and improved management and efficiency, rather than through substitution of capital e.g. automation.^{11, 12}

Businesses also report that being a Living Wage employer enhances their reputation and brand value, which can help them when trying to attract new clients and customers, and in recruitment exercises. However, this relies on awareness of the Living Wage initiative being relatively high, which is not currently the case in Merthyr

⁸ Coulson, A. B. and Bonner, J. (2015), Living Wages Employers: evidence of UK Business Cases

⁹ Wills, J. And Linneker, B. (2012), The costs and benefits of the London living wage

¹⁰ The Scottish Government (2015), Scottish Government - Wider Payment of the Living Wage in Scotland Issues for Consideration

¹¹ IPPR & Resolution Foundation (2013), Beyond the Bottom Line: The challenges and opportunities of a living wage

¹² Riley, R. and Rosazza Bondibene, C. (2015), Raising the standard: Minimum wages and firm productivity

Tydfil. A Living Wage strategy for the borough must therefore first focus on raising awareness to maximise the impact it can have for an employer's reputation.

In terms of productivity, there is no reason to expect that the gains reported elsewhere in the UK would not be achieved in Merthyr Tydfil – indeed this increase is much needed given that the Central Valleys' Gross Value Added is £15,449 per head, compared to £22,107 in Cardiff and the Vale.¹³

Staff retention

There is strong evidence that the Living Wage reduces turnover and absenteeism, with reductions in staff leaving rates of up to 25% being reported.^{14, 15, 16} Some employers also say that recruitment is easier, with a wider range of better quality applicants for posts.¹⁷ Many employers find that the Living Wage is associated with reduced sickness absence and increased employee morale.¹⁸ With staff turnover in the retail sector typically costing more than £20,000 per replacement¹⁹ (including the cost of lost output and temporary staff as well as recruitment costs) the cost saving of retaining staff can be substantial. Given that Merthyr Tydfil has a higher rate of employees in this sector compared to Wales as a whole, it could potentially lead to significant savings for employers.

The improved staff retention and easier recruitment reported elsewhere may be less significant given that there are few reported labour shortages in Wales compared to the rest of the UK. However, the reductions in sickness absence and improved morale could be of considerable benefit: for example the sickness absence rate in Cwm Taf University Health Board in 2015 was 5.7%²⁰ while in Merthyr Tydfil's local authority the average number of days lost through sickness absence was 6.6.²¹

Non-wage employee costs

Some employers may manage an increase in hourly pay rates by cutting other employee costs, such as overtime rates and sick pay or benefits such as free meals or staff discounts. A survey of UK employer responses to the new National Minimum Wage found that 16% of employers planned to reduce overtime rates and bonuses

¹³ ONS (2015), Regional Gross Value Added (Income Approach): Table 2: Gross Value Added (Income Approach)1,2 per head of population at current basic prices

¹⁴ Coulson, A. B. and Bonner, J. (2015), Living Wages Employers: evidence of UK Business Cases

¹⁵ The Scottish Government (2015), Scottish Government - Wider Payment of the Living Wage in Scotland Issues for Consideration

¹⁶ Jensen, N. and Wills, J. (2013), The prevalence and impact of the Living Wage in the UK: A survey of organisations accredited by the Living Wage Foundation

¹⁷ The Scottish Government (2015), Scottish Government - Wider Payment of the Living Wage in Scotland Issues for Consideration

¹⁸ GLA Economics (2009), An independent study of the business benefits of implementing a Living Wage Policy in London

¹⁹ Oxford Economics (2014), The cost of brain drain: understanding the financial impact of staff turnover

²⁰ StatsWales (2016), Percentage absent by organisation and date

²¹ InfoBaseCymru (2015), The number of working days/shifts per FTE local authority staff lost due to sickness absence (FY 2014-15)

and 9% planned to cut hours.²² But it is important to note that this response is based on an increase in statutory minimum pay rates, rather than a voluntary initiative such as the Living Wage.

Profits and margins

Employers may choose to 'absorb' increases in costs by cutting profits.²³ In the study of the Living Wage in Glasgow, some employers reported that their profits had fallen although it was not clear that this was solely attributable to the Living Wage, while five out of fifteen employers said their margins had actually increased as a result of raising wage rates.²⁴

Jobs

Estimates of the impact of paying the Living Wage on employee numbers vary. At the very worst, forecasts suggest very modest job losses (of 0.5%) even if all employees' pay rates increased, while several local and regional forecasts suggest the Living Wage can result in modest gains in employment.²⁵

Offset against forecast job losses should be any jobs created as a result of increased demand if wage rises are spent on local goods and services. In the absence of an economic model, we can do no more than assume that the gains projected elsewhere would be mirrored in Merthyr. At a time when the economy is struggling, a boost from increased pay rates should be welcomed.

Social Impact

Household income

The Living Wage has the potential to increase people's income by more than £1 an hour, but what does this actually mean for their income once in-work benefits are taken into account? Table 3 illustrates the difference in weekly household income based on two different fictional households.

The example shows that a single adult could be £26.42 a week better off because of earning the voluntary Living Wage. For a couple, both working part-time and with one child, the loss of some benefits reduces the net increase to £14.89 a week. As in-work benefits are reduced it is likely that the gains for working families will increase.

The difference that even modest increases in weekly household income can make should not be underestimated. The increase to someone's household income can

²² CIPD & Resolution Foundation (2016), Weighing up the wage floor: Employer responses to the National Living Wage

²³ Coulson, A. B. and Bonner, J. (2015), Living Wages Employers: evidence of UK Business Cases

²⁴ Dutton, M., Raeside, R., Mazza, T. and Tao, C. (2014), Evaluating the economic impact of the Glasgow living wage

²⁵ Bevan Foundation (2016), Fair Pay: the Living Wage in Wales

make their weekly shopping that little bit more affordable, or mean that they can switch the central heating on for a couple more hours a week. One study has found that nearly four out of ten people in Living Wage workplaces say that they are better off, and so are able to afford goods and services (which leads to further economic benefits) or to save.²⁶

With the wages of low earners having been static for several years, and with real terms reductions in benefits planned over the next five years,²⁷ the Living Wage is the best prospect of increasing the incomes of low paid workers.

Table 3: Weekly income for a single adult and a couple with one child earning the NLW and Living Wage working 37 hours/week living in the Gurnos ward, Merthyr Tydfil (September 2016)

	Single Adult, working 37 hours per week		Couple with 1 child, one adult works 20 hours per week, the other adults works 17 hours per week	
	NLW	Living Wage	NLW	Living Wage
Gross Pay	266.40	305.25	266.40	305.25
Tax	10.97	18.74	0	0
National Insurance	13.37	18.03	0	1.20
Net Pay	242.06	268.48	266.40	304.05
Rent	67.76	67.76	80.55	80.55
Housing Benefit	0	0	7.21	0.42
Working Tax Credit	0	0	33.05	17.08
Child Tax Credit	n/a	n/a	64.02	64.02
Child Benefit	n/a	n/a	20.70	20.70
Total weekly income after housing costs	174.30	200.72	310.83	325.72
Net gain or loss:		+£26.42		+£14.89

The evidence on the social effects of the Living Wage is relatively limited, but what is available points to considerable gains for those who are paid it. And while the gain in a worker's earnings would be exactly the same in Merthyr Tydfil as in other parts of the UK, the financial benefit to households is potentially greater because housing and

²⁶ Ibid.

²⁷ Reductions to in-work benefits in Universal Credit, freezes to almost benefit rates and the possibility of further cuts in the future

childcare costs are substantially lower than in other parts of the UK, so the effect of the withdrawal of welfare benefits is felt less.

Hours of work

The Living Wage offers employees a way of increasing their incomes while keeping the same hours of work or enables them to reduce hours if they wish. Around one-third (32%) of those in Living Wage workplaces in London felt that it had benefitted their family life, for example enabling them to spend more time with their family or take more holidays.²⁸

The Living Wage is also beneficial if workers are unable to work additional hours. Extra hours are often simply not available: around 64,000 people in Wales worked part-time because they could not find a full-time job, while overtime is not offered by some employers with the long-term trend in overtime hours being downwards.²⁹

Workers may be unable to work extra hours, not least because a substantial minority are already working long hours (24% of all male employees work more than 45 hours a week)³⁰ while around 61,000 workers in Wales have a second job.³¹ They may not be able to work additional hours because of responsibilities such as caring for children or sick or disabled relatives, or because working short hours enables them to manage a disability or impairment.

Well-being

The benefits of the Living Wage are not just financial. There is sound evidence that being paid a Living Wage improves family life and individual wellbeing and choices.

Workers who receive the Living Wage have higher levels of well-being than those who do not – Flint et al found that 50.3% of Living Wage workers had above average psychological well-being compared with 33.9% of workers who did not receive the Living Wage.³² Around one-third (32%) of people surveyed in London Living Wage workplaces felt it had benefitted their family life, for example enabling them to spend more time with their family and to take more holidays.³³ Save the Children state that more family time is beneficial for children's development too.³⁴

Earning enough to support oneself allows people to choose how to live and who they live with, rather than needing to rely on a partner or parent to have enough money.

²⁸ Wills, J. And Linneker, B. (2012), The costs and benefits of the London living wage

²⁹ ONS (2015), ASHE 1997 to 2015 selected estimates: Table 1 All employees' pay and paid hours by sex, United Kingdom, April 1997 - 2015

³⁰ ONS (2016) Regional Labour Market Statistics HI10 Headline Indicators for Wales, Table 6. April 2016

³¹ ONS (2016) Regional Labour Market Statistics HI10 Headline Indicators for Wales, Table 3. April 2016

³² Flint, E., Cummins, S. and Wills, J., (2013), Investigating the effect of the London Living wage on the psychological wellbeing of low-wage service sector employees: a feasibility study

³³ Wills, J. And Linneker, B. (2012), The costs and benefits of the London living wage

³⁴ Save the Children (undated) Living Wage Step Up.

Many low earners who are not in poverty only avoid it because of the people they live with who bring in another income, and not because of their own earning power.³⁵ The lower earner is much more likely to be a woman, as recent data suggests that just over two-thirds of women in couples with dependent children earn less than their partner.³⁶ Low earners are at significant risk of poverty should the relationship with other household members break down: for example 43% of those becoming a lone parent moved into poverty.³⁷

Gender Inequality

While the Living Wage is the same rate for men and women, more women are likely to benefit from its introduction than men because women comprise the majority of those paid less than the Living Wage rate, based on occupation, type of work and industry.

The precise impact depends on which groups of employees' wages are increased, but it is reasonable to expect the gender pay gap to narrow as a result. The Resolution Foundation forecast that new National Minimum Wage will boost the trend of narrowing the gender pay gap, so that the gap in mean hourly pay for the UK will fall to 17.3% by 2020.³⁸

Poverty

The relationship between the Living Wage and poverty is complex. Poverty is measured for households and takes account of household composition and circumstances, whereas the Living Wage is paid to individuals, varies with the amount of work done and takes no account of living arrangements.

The Living Wage does not guarantee that a family will be lifted out of poverty. The individual may not work enough hours to increase family income above the poverty threshold while the tapering of various in-work benefits as incomes rise compounds the difficulty of reducing poverty through the Living Wage. In addition, the bulk of the cash gained from raising wages goes to households with low- to middle incomes and not to the very poorest who are more likely to rely on benefits than wages.

Looking at the population as a whole, the Institute of Fiscal Studies found that the new National Minimum Wage (NMW) will have only a very small impact on incomes right across the household income distribution, raising them by less than 1% for all groups. They conclude that there is likely to be a small reduction in poverty but that it will not be sufficient to make a statistically significant difference to headline indicators. They

³⁵ Gardiner, K. and Millar, J. (2006) How Low-Paid Employees Avoid Poverty: An Analysis by Family Type and Household Structure, *Journal of Social Policy*, 35, 3, 351–369

³⁶ Ben-Galim, D. and Thompson, S. (2013), Who's breadwinning? Working mothers and the new face of family support, IPPR

³⁷ Department for Work and Pensions (2013), Households Below Average Income: An analysis of the income distribution 1994/5 – 2011/12

³⁸ Resolution Foundation (2015), Higher ground: Who gains from the National Living Wage?

attribute this in part to the relatively modest scale of the new NMW - an increase in pay rates to the Living Wage could have a greater impact because it involves a larger cash increase in earnings.

The position is rather different for the least well-off households. In Wales, more than eight out of ten workers living in the poorest fifth of working households were low paid in 2011. For these workers, an increase in wage rates is a considerable benefit. It is also likely to have more impact on household incomes than increasing hours of work, not least because in a quarter of the poorest working households everyone is already working.³⁹

For low income families, the poverty threshold is an arbitrary line. It has the effect of valuing an increase of, say, £5 which takes a family over the threshold more than the same £5 for a household which remains below the poverty threshold. Yet the £5 extra for the very poorest families can matter a great deal – it can make the difference between affording food that evening or leaving the heating on an extra hour, rather than go without. Essentially, £5 extra is £5 more to spend whether or not it affects the statistical measure of poverty. Holden and Raikes found that the impact of the Living Wage on poverty is increased if coupled with measures to reduce household costs, e.g. affordable housing.

Impact on Merthyr Tydfil's economy

The Living Wage brings costs and benefits to the local economy, but estimates for other parts of the UK suggest that there can be local gains. In Leeds City Region, it was estimated that the City Region economy gained by £349 billion if unemployment and low pay were reduced.⁴⁰ In Manchester, the benefits of introducing the Living Wage for all council contractors and suppliers outweighed the costs by £1.3 million.⁴¹

The impact on Merthyr Tydfil's public finances of introducing the Living Wage is limited, but there may be scope for local authorities in Wales to agree some form of 'pay-back' arrangement so that any increase in tax receipts could be retained locally.

Conclusion

All the available evidence and forecasts suggest that the Living Wage could bring benefits to businesses, and to their employees and families. The benefits are often difficult to quantify, and are often 'soft' gains such as greater staff morale or reduced financial hardship. The gains for businesses vary according to their size and sector, and the gains for employees also depend on their working patterns and household arrangements. Nevertheless, the benefits of increasing take-up of the voluntary Living Wage are potentially very substantial.

³⁹ Joseph Rowntree Foundation (2013), Monitoring poverty and social exclusion in Wales 2013

⁴⁰ Bivand, P. and Simmonds, D. (2014), The benefits of tackling worklessness and low pay

⁴¹ CLES (2014), Using procurement processes to encourage living wage principles

The biggest risk is the loss of jobs as employers seek to reduce their wage bill, and the erosion of other non-wage benefits. However to date these losses from the voluntary Living Wage are purely theoretical – there is little, if any, evidence of actual cuts to employment or to terms and conditions resulting from the introduction of the Living Wage.

So, there is every reason to expect that Merthyr Tydfil would benefit considerably from an increase in uptake of the Living Wage. The impact on the aggregate wage bill is likely to be relatively modest, while the benefits for productivity and sickness absence are potentially large. The reputational benefits are also important.

With an above-average proportion of people paid less than the Living Wage, Merthyr Tydfil's workers stand to benefit from a voluntary pay rise. Indeed the gains could be more than in other parts of the UK because housing costs in Merthyr Tydfil are below average. And while the headline rates of poverty are unlikely to change, many households could find their financial position easing.

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.



145a High Street, Merthyr Tydfil, CF47 8DP

www.bevanfoundation.org

info@bevanfoundation.org

T.: 01685 350938

Registered charity no. 1104191

Company no. 4175018