

## CONFIDENTIAL REPORT

**TO:** Committee of Council

**MEETING DATE:** 7 February 2018

**TITLE:** Living Wage Analysis

**DATE:** 15 January 2018

**AUTHOR/S:** Wayne Wilson, Human Resources Manager, Headquarters

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### REASON FOR CONFIDENTIALITY

It is recommended that this report be considered with the public excluded, as permitted by the Local Government Official Information and Meetings Act 1987, because:

**s7(2)(i) Negotiations**

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### RECOMMENDATION(S) TO COUNCIL

1. That the Council does not adopt the living wage      **OR**
2. That the Council approves a programme to be included in the 10 year plan and that this programme is consulted on through the 10 year plan consultation process.

**SUMMARY OF OPTIONS ANALYSIS FOR**

<b>Problem or Opportunity</b>	Elected members, at a 10 year plan workshop on 8 December 2017, requested that a report be presented to the Committee of Council meeting in February 2018 on the merits of adopting the living wage for employees at the Council for consideration in the 10 year plan process.
<b>OPTION 1:</b>	<b>Fully adopt the current living wage for Council staff.</b> This would involve moving all staff to a minimum pay rate of \$20.20 per hour. It is expected that this option would include the Council maintaining a minimum pay rate of the living wage as it is reviewed each year.
Community Views	Community views not known.
Benefits	Based on research there is minimal benefit to the local economy. May have benefit to affected individual employees.
Risks	May not result in extra earnings for employees and significant risk of relativity issues with other staff and contractors.
Financial	Minimum cost \$325,647. Relativity with other staff could increase this to \$1,504,720. Impact on rates of between 0.36% and 1.44% in year one.
<b>OPTION 2:</b>	<b>Partially adopt the living wage.</b> As an example Wellington City Council is progressively moving towards a living wage using a stepped approach to increases in remuneration.
Community Views	Community views not known.
Benefits	Same as above but spread over time.
Risks	As above.
Financial	Same as above but spread over a number of years.
<b>OPTION 3:</b>	<b>Not adopt the living wage.</b> Maintain the current market comparability approach to remuneration.
Community Views	Community views not known.
Benefits	Maintains market comparable remuneration between staff and with competing organisations.
Risks	N/A

Financial	Nil.
<b>OPTION 4:</b>	<b>Adopt a living wage for all employees and staff of Contractors.</b> Require contractors engaged by Council to pay the living wage to their employees.
Community Views	Community views not known.
Benefits	Maintains relativity between Council employees and competitors. Larger but still minimal impact on local economy.
Risks	Could become a financial burden on Council
Financial	Unknown because the Council does not know the input costs of contracts.
<b>Contribution of Recommended Option to Council's Strategic Direction</b>	Continuing with the status quo of market comparable remuneration is the option with the least unintended consequences.

Publicly Released

## **RATIONALE FOR THE RECOMMENDATIONS**

### **1. OVERVIEW OF THE PROBLEM OR OPPORTUNITY**

- 1.1 Elected members, at a 10 year plan workshop on 8 December 2017, requested that a report be presented to the Committee of Council meeting in February 2108 on the merits of adopting the living wage for employees at the Council for consideration in the 10 year plan process.

### **2. BACKGROUND AND PREVIOUS COUNCIL DECISIONS**

- 2.1. Although the living wage has been a topic of interest at the Council no formal decisions have been made.
- 2.2. The living wage campaign was launched in 2012 by Living Wage Aotearoa New Zealand with the aim of reducing inequality and poverty in society by lifting wages of the lowest paid. The movement includes around 200 community/secular organisations, union and faith-based groups. It proposed in 2012 that employers be encouraged to 'opt in' if they were able and willing to implement the living wage policy of \$18.40 per hour for employees. <sup>(1)</sup> There are now nearly 90 employers listed as accredited living wage employers across New Zealand. <sup>(2)</sup>
- 2.3. The living wage is defined as 'the income necessary to provide workers and their families with the basic necessities of life'. <sup>(3)</sup> The groups considered that a living wage for all households is 'a necessary and important step in the reduction of poverty in New Zealand'. The original living wage rate of \$18.40 was set through independent research by the Family Centre Social Policy Research Unit and was based on a wage required by a family of two adults and two children. The household is assumed to have two income earners, one working full time and the other part-time. The methodology used doesn't take account of the personal circumstances of a worker including living arrangements, regional variations and skill set. <sup>(4)</sup> A year later when the living wage rate was reviewed using the same methodology the result was an increase to \$22.89 per hour. <sup>(5)</sup> Rather than use \$22.89, a figure of \$18.80 was arrived at using the average movement in wages for the 12 month period. Continuing to use the annual movement in average wages as the methodology, the living wage has increased to its current rate of \$20.20. In comparison, the minimum wage rate provided for in legislation is \$15.75 per hour. The next full independent review has been reported to be completed in 2018. <sup>(6)</sup>
- 2.4. Arguments in favour of introducing the living wage largely focus on the opportunity to improve economic prosperity and improve the quality of life of communities. The overwhelming consensus is that lifting minimum wages have, at best, minimal effects in reducing income inequality and lowering poverty rates. <sup>(7)</sup> In Palmerston North the economic benefit is minimal because while there will be an addition cost to residents

of the City, who will face an increase in rates or other council charges. Council staff would increase their spending in the City but a high proportion of that will be spent on goods and services which are produced overseas or in other regions of New Zealand. Other residents would have a reduction in their discretionary spending. There would be a small distributional gain, with some lower income households experiencing an increase relative to the average household.

- 2.5. Advocates argue that business benefits such as staff retention and brand recognition also serve as incentives for organisations to adopt the living wage. The evidence from literature is mixed. There is evidence of both positive and negative effects of its implementation. Auckland City Council commissioned a report “A Literature Review on the Effects of Living Wage Policies” in 2013. This report concluded that there is little evidence to support that the living wage reduces absenteeism or improves productivity. There is however strong evidence that the living wage reduces turnover and that new hires are more experienced and skilled.<sup>(8)</sup> In regards to staff turnover the organisations that reported turnover decreases had extremely high turnover rates previously.<sup>(9)</sup>

### 3. DESCRIPTION OF OPTIONS

- 3.1. **Fully adopt the current living wage.** This would involve moving all staff to a minimum pay rate of \$20.20 per hour. It is expected that this option would include the Council maintaining a minimum pay rate of the living wage as it is reviewed each year.
- 3.2. **Partially adopt the living wage.** As an example Wellington City Council is progressively moving towards a living wage using a stepped approach to increases in remuneration.
- 3.3. **Not adopt the living wage.** Maintain the current market comparability approach to remuneration.
- 3.4. **Adopt a living wage for all employees and staff of Contractors.** Require contractors engaged by Council to pay the living wage to their employees.

### 4. ANALYSIS OF OPTIONS

#### 4.1 OPTION ONE – Fully Adopt the Current Living Wage

- 4.2 Financial - The direct cost of transferring all staff to a minimum of \$20.20 per hour is \$385,893. This covers ■■■ staff. Excluding the ■■■ temporary and student staff, the cost is \$325,647. This figure includes annual leave and kiwisaver but does not

account for overtime or extra hours' casuals may work. This equates to a rate increase of 0.36% in year one.

- 4.3 Relativity of Remuneration – A real issue is the impact on staff who are currently earning remuneration that is close to \$20.20. Currently there is a differential in remuneration because of role requirements, qualifications, skill set and experience that is reflected in the market rate paid to jobs. The research into the impact on relativity suggests that pay rates within 12% of the minimum rate are increased by progressively smaller increases.<sup>(10)</sup> A number of reports detailed impacts of turnover and morale on this group of staff when their relativity with their co-workers was eroded by implementing the living wage.<sup>(11)</sup>

To maintain some form of relativity as described and move all staff to the living wage would cost the Council \$1,297,292 excluding temps and students. In total of a total of staff are included in this relativity calculation including those below the living wage. This equates to a rate increase of 1.44% in year one.

- 4.4 Demographics – The demographics of the permanent staff affected are 28 female and 80 males. Their age range is from 19 to 72, with the average age for females being 40 and 47 for males. The average tenure is 4.25 years for females and 11.5 years for males. The overseas research concludes that as the wage rate increases the demographics of new employees move towards male and are less likely to be from disadvantaged communities.<sup>(12)</sup>
- 4.5 Turnover – The overseas evidence is strong that turnover decreases, however the cases cited had very high turnover levels of up to 50% per annum<sup>(13)</sup> At the Council, of those earning less than the living wage, 30 permanent staff have voluntarily left in the past 5 years (6 per year or a turnover rate of 5.5% per annum). The average tenure for permanent staff in the affected group earning below the living wage is 9.5 years reflecting this low turnover rate. It is unlikely because of the current very low turnover rate and consequently longer tenure for current staff that the financial impact of lower turnover will be significant for the Council. In fact turnover rates this low can have opposing issues for an organisation. The Council aims for an average turnover rate of 12%. If the relativity argument for staff earning slightly more than the living wage is correct and they become de-motivated the impact on turnover could be greater in this more highly skilled group.
- 4.6 Applicant Pool – The evidence is strong that when the minimum rate of pay is increased the new hires into the organisation have higher skills and experience than the current employees and previous applicants. This can impact on productivity,

with research showing that the more highly skilled new staff are more productive.<sup>(14)</sup> This impacts on the less skilled applicants being less likely to be selected.

- 4.7 Productivity – There are three different claims concerning the concept of improved productivity by paying the living wage.<sup>(15)</sup> Staff earning more are more productive (as discussed above, this is usually a result of new hires having superior skills), turnover decreases meaning that employers do not have the expense of recruiting as often (not applicable to PNCC due to our low turnover rates), and absenteeism declines (no evidence found to support this claim).<sup>(16)</sup> Much of the evidence to support these claims is difficult to quantify because the examples used in the case studies showed that at the same time as implementing the living wage, organisations transferred contract workers to staff, changed shifts from night to day, and enlarged jobs using the new employees to do other tasks as well.<sup>(17)</sup>
- 4.8 Transfer of Costs from Taxpayer to Ratepayer - The Treasury report states that 79% of employees who earn less than the living wage do not have dependants and therefore they do not receive the supplementary benefits such as working for families from the government. Most of the national group earning less than \$20.20 are young and single.<sup>(18)</sup> This is not the case at Council with the average age for females 40 and males 47. While we do not have information on personal dependant circumstances of staff, anecdotally a number of staff at the Depot advise that pay increases have little impact on their overall income as their wage increases are off-set by benefit decreases.
- 4.9 Autonomy – If the Council adopts the living wage then it does not have the ability to negotiate and agree to wage rates with the Unions and staff. As stated above currently the living wage is calculated using the average increase in wages as the mechanism to set the living wage. When it is recalculated using the original methodology the national increase in housing costs as an example will have a real impact on the rate set for the living wage which will have little recognition of the actual costs of living in Palmerston North. While the current method of using the average increase in wages has resulted in modest increases similar to market increases the possible return to the original methodology is an unknown cost.
- 4.10 Regional Variations in Living Wage – Following on from the previous clause, the living wage is set nationally and does not take into account regional variations. The attached paper provides evidence that at \$17.50 the minimum rate being paid by the Council is equivalent to the regional living wage.
- 4.11 Impact on City Enterprises – City Enterprises is tasked with providing market comparable pricing. If the living wage is implemented this will be difficult to maintain with a higher wage structure than competing organisations. A new measure of efficiency may be required. If City Enterprises is not comparable to external organisations it may have to discontinue that work.

**4.12 OPTION TWO – Partially Adopt the Living Wage**

4.13 Financial - Using a stepped approach to increasing wages will reduce the initial outlay in year one but will eventually require the same quantum increase in the remuneration budget as per option one.

4.14 All other considerations are the same as option one.

**4.15 OPTION THREE – Not Adopt the Living Wage**

4.16 Financial – There are no financial implications with this option as the budget is based on predicted market increases.

4.17 This option negates the issues of relativity with other staff and competing organisations.

4.18 Employment agreements at Council include a clause which guarantees that the minimum rate paid at Council will be \$1.75 per hour above the legislated minimum wage in New Zealand. Currently this is \$17.50 per hour or \$36,487p/a. This is a fair reflection of the market.

**4.19 OPTION FOUR - Adopt a Living Wage for all Employees and Staff of Contractors**

4.20 Financial - It is not possible to quantify the cost of this option as contractors may not pass on all of the extra cost of paying their staff the living wage to the Council in their contracted rate. Also we do not hold information on contractors wage structures (numbers and rates) or how much wages contribute to the contracted rate.

4.21 Legality – Wellington City Council’s decision to require contractors working for them to pay the living wage to their staff, was the subject of legal action from the Wellington Chamber of Commerce. This was later withdrawn with the parties agreeing to limit the requirement to certain contracts.<sup>(19)</sup> Living Wage Aotearoa New Zealand has a legal opinion from Dr Matthew Palmer that the reported productivity increases means that the decision is one a Council can make.<sup>(20)</sup> Others believe that it breaches the Local Government Act and that section 17a reviews would confirm that there are more effective and efficient means of delivering a service if other employers have a different wage structure.<sup>(21)</sup>

4.22 This option negates the concern that City Enterprises is not comparable to external organisations.

4.23 **RECOMMENDATION** - This is a decision for Elected Members. The research and consequences of implementing the living wage do not support a decision to move to a living wage at this stage. The impact on rates is between 0.36% and 1.44% in year one depending on relativity of salary between staff. Currently the lowest pay rate in

Council is \$17.50 which is market comparable and is equivalent to a regional living wage for Palmerston North. However, the marginal impact on the local economy of injecting extra wages into the economy and the positive outcome for the lowest paid employees of Council may make this a priority for Elected Members. If this is the case then it is recommended that the Council instruct the Chief Executive to progressively increase the Council minimum wage commencing in Year 2.

## **5. CONCLUSION**

- 5.1 The overseas evidence is not particularly strong in support of adopting the living wage and those aspects that are stronger e.g. reduced turnover are not applicable to this organisation.
- 5.2 The impact on the economy is marginal and it has been assessed that if the living wage was calculated on a regional basis then the current minimum wage of \$17.50 per hour paid at the Council would meet the regional living wage rate. (see attachment)
- 5.3 Therefore it is recommended that the Council does not adopt the living wage but maintains market comparable wage structures.

## **6. NEXT ACTIONS**

- 6.1 If the council adopts the recommendation then no further action is required.
- 6.2 If the council decides to consult on the living wage then a programme will be included in the draft 10 year plan for consultation with the community

## **7. OUTLINE OF COMMUNITY ENGAGEMENT PROCESS**

- 7.1 No consultation with the community has occurred to date. If a programme is included in the 10 year plan then this will constitute consultation with the community.

**COMPLIANCE AND ADMINISTRATION**

Does the Committee have delegated authority to decide? If Yes quote relevant clause(s) from Delegations Manual <Enter clause>	<b>No</b>
Are the decisions significant?	<b>No</b>
If they are significant do they affect land or a body of water?	<b>No</b>
Can this decision only be made through a 10 Year Plan?	<b>No</b>
Does this decision require consultation through the Special Consultative procedure?	<b>No</b>
Is there funding in the current Annual Plan for these actions?	<b>No</b>
Are the recommendations inconsistent with any of Council's policies or plans?	<b>No</b>

**Bibliography**

1. Living Wage, Christchurch City Council [www.ccc.govt.nz](http://www.ccc.govt.nz)
2. [www.livngwage.org.nz](http://www.livngwage.org.nz)
3. The Living Wage in the world's most liveable city [www.livngwage.org.nz](http://www.livngwage.org.nz)
4. Living Wage, Christchurch City Council [www.ccc.govt.nz](http://www.ccc.govt.nz)
5. Wellington Employers Chamber of Commerce submission to Wellington City Council Draft Annual Plan 2014 [www.wcc.govt.nz](http://www.wcc.govt.nz)
6. [www.livngwage.org.nz](http://www.livngwage.org.nz)
7. A Literature Review of the Effects of Living Wage Policies, Auckland City Council [www.aucklandcouncil.govt.nz](http://www.aucklandcouncil.govt.nz)
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9. Living Wage Employers evidence of UK Business Cases [www.livingwage.org.uk](http://www.livingwage.org.uk)
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17. Living Wage Employers evidence of UK Business Cases [www.livingwage.org.uk](http://www.livingwage.org.uk)
18. <http://www.treasury.govt.nz/publications/informationreleases/livingwage/pdfs/lw-2726820.pdf>
19. Press release City Council and Chamber agreement on living wage [www.wcc.govt.nz](http://www.wcc.govt.nz)
20. The Living Wage in the world's most liveable city [www.livngwage.org.nz](http://www.livngwage.org.nz)
21. Wellington Employers Chamber of Commerce submission to Wellington City Council Draft Annual Plan 2014 [www.wcc.govt.nz](http://www.wcc.govt.nz)

## **ATTACHMENTS**

### 1. Living Wage Information

Wayne Wilson  
**Human Resources Manager**

#### **The Living Wage, what is it?**

The Living Wage (LW) is described as “the income necessary to provide workers and their families with the basic necessities of life and enable them to live and to participate as active citizens in society”.

The LW rate goes beyond the legal minimum wage rising just above a poverty line to establish a benchmark for a socially sustainable society.

#### **The Living Wage Movement**

The LW is promoted in response to concern about growing numbers of working poor and inequality in New Zealand, and around the world.

The LW campaign was launched in 2012 by Living Wage Aotearoa New Zealand, which formed an incorporated society in April 2013. This group comprises a governance body and membership comprising the three streams of civil society: faith based religious groups, unions and community/secular groups. The aim of the campaign is to reduce inequality and poverty in society by lifting wages of the lowest paid.

The Movement seeks to influence the public sector and increase incomes of low-paid workers with families funded through public money, and the large employers who can afford to pay a Living Wage, refer to the Living Wage website, for more information.

The Movement includes around 200 community/secular, union and faith-based groups. It proposed in 2012 that employers be encouraged to ‘opt in’ if they were able and willing to implement the Living Wage policy of \$18.40 per hour for employees. There are now nearly 90 employers listed as accredited Living Wage employers across New Zealand.

### **How is the Living Wage calculated?**

In 2013, the Family Centre Social Policy Research Unit, using Foundation for Research, Science and Technology (FRST) and Health Research Council (HRC) funding, established the first Living Wage rate for New Zealand, \$18.40 per hour. This was updated in February 2014 to \$18.80 per hour, in February 2016 to \$19.80 per hour, and again in July 2017 to \$20.20 per hour.<sup>1</sup>

The LW is calculated independently each year by the New Zealand Family Centre Social Policy Unit. It is calculated based on the national average expenditure for a modest weekly budget<sup>2</sup> to enable a working family of two adults and two children to be able to pay basic household bills, such as healthy food, transportation, housing, school trips, and childcare. The household is assumed to have two income earners, one working full-time and the other part time.

There are some issues with the way the LW is calculated which lead to inflated household costs, food and childcare costs. For example, the LW rate of \$20.20 is a national average and does not take into consideration regional differences in living costs; there is a clear difference in housing cost estimates for a three bedroom house between Auckland and Palmerston North.

Also, the recalculated LW hourly rates are based on wage movement rather than the movement in household living costs. Wage movement is reported by Statistics New Zealand quarterly in the New Zealand Income Survey, and the Living Wage rate is set annually according to this wage movement for the year to the previous June, with a full review every five years.

### **Current Legal Minimum Wage Rates**

The Living Wage is voluntary, and higher (\$4.45) than the Legal Minimum Wage (LMW) set by government of \$15.75. The current LMW rate is provided for in legislation and reviewed annually. There are three different types of LMW rates: adult, starting-out and training. Employees aged 16 years and over must be paid at least the adult LMW unless they are starting-out workers or trainees. LMW rates apply to all employees aged 16 and over, who are full-time, part-time, fixed-term, casual, working from home and paid by wages, salary, commission or piece rates (refer to table 1)>

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<sup>1</sup> P King & C Waldegrave, 2012, Report of an investigation into defining a living wage for New Zealand, Commissioned for the Living Wage Campaign, Family Centre Social Policy Research Unit.

<sup>2</sup> MacLennan, 2017, *Paying a living wage in Aotearoa New Zealand in 2017 – how the government can do it*, report

**Table 1: Legal minimum wage rates**

Type of minimum wage	Per hour	8 hour day	40 hour week	80 hour fortnight
Adult	\$15.75	\$126.00	\$630.00	\$1,260.00
Starting-out	\$12.60	\$100.80	\$504.00	\$1008.00
Training	\$12.60	\$100.80	\$504.00	\$1008.00

Source: Employment New Zealand 2018.

In April 2018 the LMW rates will be boosted 75 cents to \$16.50 per hour, as part of the Government’s priority to phase in an increase in the minimum wage to \$20 by 2021<sup>3</sup>.

**Council’s minimum wage**

The Council currently pays a minimum wage of \$17.50 per hour, \$1.75 above the LMW and \$2.70 per hour below the Living Wage.

Table 2: Comparison of the different wages rates for 2018

	Per hour 2017	Difference to LW	Different to LMW
Living wage	\$20.20	\$0	4.45
Legal minimum wage	\$15.75	\$4.45	\$0
Council Minimum wage	\$17.50	\$2.70	\$1.75

The minimum LW has increased faster than inflation. This may be due to the fact that the updated LW is recalculated based on wage movement rather than household costs.

<sup>3</sup> <https://i.stuff.co.nz/national/politics/100112611/minimum-wage-boost-delivers-75-cent-hike-for-lowest-workers>

### How wages are set

There is no set standard or minimum industry wage rate. Income is generally determined by market dynamics (such as level unemployment or scarcity of skill), work experience, education and skill and then negotiated with the employee based on performance, work experience, education and skill and market dynamics. Many organisations develop their own salary bands and have collective agreements to regulate working salaries, conditions, benefits and other aspects of worker compensation and rights.

A justifiable wage is generally balanced at a level high enough to attract workers but low enough to enable the employer to offer employment.

### Proponents in favour of and against adopting the Living Wage

There are claims and arguments in favour and against adopting a Living Wage, some of these are summarised in the table 3 below.

**Table 3: Arguments and claims for and against adopting a Living Wage**

In favour	Against
<ul style="list-style-type: none"> <li>• Potential boost to economic growth from increased spending power and demand for products and services</li> <li>• LW helps address issues some of the issues with growing income inequality, low paid people working long hours, and high levels of child poverty</li> <li>• More motivated employees, productivity, and service delivery</li> <li>• Generally life satisfaction increases with income<sup>4</sup></li> <li>• Lower rates of staff turnover, leading to costs savings on recruitment and induction training</li> <li>• Lower rates of absenteeism and sick leave</li> <li>• Lift in work place morale</li> </ul>	<ul style="list-style-type: none"> <li>• The LW is not well targeted at the intended demographic of low income families. According to Treasury 79% of employees who earn less than the LW do not have dependants and are commonly single adults and two adult families without children. Only a minority are families with children<sup>7</sup></li> <li>• Low inflationary impact, as the minimum wage applies to a smaller proportion of the workforce (less than 4%)</li> <li>• The recalculated LW hourly rate is reviewed annually based wage movement rather than the movement in household costs. This suggests increases to the LW do not reflect changes in living costs</li> <li>• Increased operational and employment costs from increased wages</li> <li>• Potential cuts in spending in other activities could off-set increased wage costs</li> </ul>

<sup>4</sup> Statistics NZ, 2016, Household expenditure statistics year ended June 2016.

<sup>7</sup> Treasury, 2013, Analysis of the Propose \$18.40 Living Wage - The Treasury 30 September 2013 – Information release.

<ul style="list-style-type: none"> <li>• Increase hiring standards and calibre of candidates. The evidence is strong that when the minimum rate of pay is increased the new hires into the organisation have higher skills and experience than the current employees. This can impact on productivity, with research showing that the more highly skilled new staff are more productive</li> <li>• Reduce inequality as low paid workers are better able to actively participate in their community</li> <li>• Reduction in health, education, crime, debt, child poverty, gambling</li> <li>• More income tax revenue for government and reduced costs as the need for government expenditure on financial aid for poor and low-income individuals is reduced</li> <li>• Strong evidence, in organisations with high turnover, that the LW reduced turnover and new hires are more experienced and skilled with reported turnover decreases from 50% to 33% per year<sup>56</sup></li> <li>• Low incomes create big social costs as well as hardship</li> <li>• Problems in health, education, crime, child poverty, debt and gambling are more prevalent among people with low incomes</li> </ul>	<ul style="list-style-type: none"> <li>• For households where income was in the lowest 20% of the population, slightly less than half (48%) of respondents still considered their income was enough or more than enough to meet their everyday needs</li> <li>• Most people say they have enough income. 64% of respondents report their income as enough as or more than enough to meet their everyday needs. In contrast 36% said their income was just enough or not enough to meet their everyday needs. For households where income was in the lowest 20% of the population, slightly less than half (48%) of respondents still considered their income was enough or more than enough to meet their everyday needs<sup>8</sup></li> <li>• Increase competition for jobs attracting minimum wages. This may make it harder for lower skilled people especially young people, to get their first job</li> <li>• The evidence is strong that when the minimum rate of pay is increased the new hires into the organisation have higher skills and experience than the current employees and are more productive. This impacts on the less skilled applicants being less likely to be selected</li> <li>• Increased inequality, as higher paid low paid jobs taken by higher calibre candidates and low skilled candidates are overlooked</li> <li>• May lead to unemployment among low-skilled as a result of cost cutting if the minimum wage is too high it can</li> <li>• Can lead to a switch to labour saving technology to increase productivity if the minimum wage is too high</li> <li>• Living Wages have, at best, minimal effects in reducing income inequality and lowering poverty rates. As the wage rate increases the</li> </ul>
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<sup>5</sup> Auckland City Council, 2013, *A Literature Review on the Effects of Living Wage Policies*, report

<sup>6</sup> This evidence was based on overseas studies where minimum wages are set at a much lower level against average wages.

<sup>8</sup> Statistics NZ, 2016, Household expenditure statistics year ended June 2016.

	<p>demographics of new employees move towards male and are less likely to be from disadvantaged communities</p> <ul style="list-style-type: none"> <li>• Wages to higher paid workers suppressed to off-set salary increases for lower paid workers</li> <li>• Council turn-over is much lower than with the average tenure for permanent staff in the affected group earning below the living wage is 9.5 years</li> <li>• Low turnover rates can cause issues for an organisation in not bringing in fresh ideas. However, if the relativity argument is correct and staff earning slightly higher wages become de-motivated the impact on turnover could be greater in this more highly skilled group</li> <li>• Higher proportion of wages determined by the Living Wage rather negotiated by market dynamics, work experience, education and skill</li> <li>• Government has range of interventions and services set up across the major sectors of health, education and welfare that are intended to assist families and individuals with low incomes. These are income tested. Council therefore is taking on subsidy payments from central government</li> <li>• Potential increase in household and business costs if wages costs are translated into increased in rates, charges and fees to households and businesses. In 2016, housing and household continue to be the largest component of total average weekly household expenditure. Increases are mostly due to households spending more on mortgage payments (up to 16.9%) and property rates (up to 11.3%) or renting costs (5.1%)<sup>9</sup></li> <li>• On average households are spending more of their total income on housing costs. For households not owned by the usual residents, almost half (49.3%) spend one-quarter or</li> </ul>
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<sup>9</sup> Statistics NZ, 2016, Household expenditure statistics year ended June 2016

	<p>more of their income on housing costs</p> <ul style="list-style-type: none"> <li>• Slower growth economically and decreased levels of employment</li> <li>• Little evidence (including at PNCC) to support that the living wage reduces absenteeism or improves productivity<sup>10</sup></li> <li>• Increases in the LW are based on increased hear</li> </ul>
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**Is the Living Wage cost-effective?**

The Council is obliged under the Local Government Act 2002 section 10 purpose of local government, and 17A delivery of services, to meet the current and future needs of communities in a way that is most cost-effective for households and businesses. In considering whether to adopt the minimum living wage the Council needs to consider the cost-effectiveness of providing that service.

When Wellington City Council decided to require contactors working for them to pay the living wage to their staff, this was subject to legal action from the Wellington Chamber of Commerce. This was later withdrawn. The Living Wage movement has an opinion that the reported productivity increases means that the decision is one a Council can make. Others believe that it breaches the Local Government Act and that 17a reviews would confirm that there are more effective and efficient means of delivering a service if other employers have a different wage structure.

The LW for Palmerston North will be lower than \$20.20 per hour. The household expenditure estimates, provided by Statistics NZ, for Palmerston North are \$2.73 lower per household than the household expenditure estimates for the rest of New Zealand. The main contributor to this difference is lower housing rental costs in Palmerston North compared to the NZ average. If we take this \$2.73 regional difference into account the LW for Palmerston North is estimated to be  $\$20.20 - \$2.73 = \$17.50$  per hour. Coincidentally, this is the current minimum pay rate of the Council. If the Council were to adopt the LW for Palmerston North it is expected that this would include maintaining a minimum pay rate of the living wage as it is reviewed each year.

If the Council was to adopt the national LW then the direct cost of transferring all staff to a minimum of \$20.20 per hour is \$385,893. [REDACTED] If we exclude the [REDACTED]

<sup>10</sup> Auckland City Council, 2013, *A Literature Review on the Effects of Living Wage Policies*, report



**Appendix - Calculations for determining the Living Wage for Palmerston North.**

Household expenditure estimates for Palmerston North						
Expenditure categories from HES plus child HES Decile 1-5 with National rents						
	LW estimates 2012	HES 2013 expenditure based result	Stats NZ estimate 2016 for NZ	Stats NZ other North Island estimates	Palmerston North Yr to June 2017	National diff
Food	226	232	249	219.2	219.2	
Clothing and footwear	18	27.07	37.9	30	30	
Household utilities (incl rent and energy)	321	329.73	332.3	276.9	278.3	
Household contents and services	33	42.4	49.1	46	46	
Health	14	16.9	38.8	41.1	41.1	
Transport	121	159.3	195.2	166.6	166.6	
Communication	29	34.03	35.5	34.3	34.3	
Recreation and culture	78	96.34	118.8	113.5	113.5	
Education	37	13.85	22.6	17.6	17.6	
Miscellaneous goods and services	64	101.7	115.3	106.5	106.5	
other expenditure	66	67.06	147.7	135.8	135.8	
Childcare	31	54.8				
<b>Weekly</b>	<b>1038</b>	<b>1175.18</b>	<b>1342.6</b>	<b>1187.5</b>	<b>1188.9</b>	
Annually	53,976	61,109	69,815	61,750	61822.80	
total gross from 1.5 earners	57,432	71,416	74,285	65,704	65781.22	
Hourly rate for fulltime worker	18.41	22.89	23.81	21.06	21.08	2.73
Ratio	1.1					

note. LW only based on lower decile households and not Statistic NZ averages for expenditure and income.

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