London Assembly Economy Committee

Low pay and the London Living Wage: Summary of informal meeting with employers and representative bodies

10 September 2013

This note is a summary of points made by guests during the Economy Committee's informal meeting with a group of employers and representative bodies. Attendees were from the hospitality, social care, retail and services sectors.

1. The prevalence of low pay

1.1 Social care

Pay scales are dependent on local authority commissioning practices. The sector previously saw itself as being on a par with retail wages but their position has now dropped. In one survey, 80% of providers reported a real terms decrease in publicly-funded services. In London, rates paid to providers rates have dropped by 8-10%, meaning that providers have generally not been able to increase wages for three years. London boroughs have moved away from commissioning social care on block contracts to using flexible framework borough wide contracts, which increases travel time for staff. Local authorities currently only pay for contact time with service users, for example this would not include the time a worker waits for a service user to answer the door or travel time between service users. Some local authorities require electronic monitoring of contact time as part of contracts and some will pay minute by minute. Local authorities moving towards living wage rates generally still fund contact time only.

In the past, providers would deliver preventative services, using time between higher need appointments, to deliver domestic, shopping or socialisation visits thus fully utilising staff. However, in recent years, the raising of eligibility for social care means users are those with greater needs and these preventative services are increasingly not funded, leading to greater fragmentation of the working day.

There are very tight margins in social care and providers regularly question whether they should stop providing publicly funded services. Self-funders are therefore a potential opportunity for providers, both in terms of developing services and maintaining or improving wage levels.

1.2 Retail

At a UK-wide level, the median national hourly rate in the retail sector is £6.69 with an estimated 3% of workers paid the National Minimum Wage. Pay levels have significant variability within regions, but there are many workers at entry level whose basic hourly rate is lower than the London Living Wage. However living wage accreditation does not take account of the total reward packages offered in the sector which, if taken into account, would substantially raise the hourly contribution. Rates in certain geographical areas are likely to be higher, for example Oxford Street, Regent Street or some shopping centres. This might be caused by a number of reasons, such as local labour market pressures or the skills required. In recent years there has been particular pressure on the non-food retail sector, where a small but growing number of companies now report a concentration of employees paid within 10p or 20p of the National Minimum Wage.

1.3 Hospitality

The 'going rate' for the sector is driven by the nature of unskilled lower level jobs. The higher end of the hospitality sector may pay higher wages, but this will be accompanied by higher needs in terms of staff skills. Low skill levels cause some employers to focus heavily on training and development of staff, particularly for younger people. One example was given of an employer who has invested heavily in a new apprenticeship scheme. For some this will aim to support fast progression, for others it is about equipping them to do their current job well. Due to financial constraints, smaller businesses may not be able to focus on development and training.

1.4 Services

The sector provides services across the public and private sectors. The business by its nature is very diverse and each year transfers in large numbers of employees under TUPE regulations on different terms and conditions of employment. A range of customer requirements can impact on wage levels and tight margins also impact this sector. However, an increasing proportion of customers now require payment of the living wage as a minimum wage level, in particular in the public sector.

2. Employment terms and conditions

2.1 Social care

Zero hours contracts are highly prevalent in domiciliary care for older people, however in reality this would generally refer to 'non-guaranteed' and flexible hours. Despite being employed without guaranteed levels of income, staff retain the option of turning hours down and have employment rights. Zero hours contracts present a 'constant juggling act' for providers to ensure workers are allocated the desired number of hours. The sector is trying to move towards some level of guaranteed hours and in London providers are engaging with some London boroughs on this. The level of guaranteed hours could be calculated as a percentage of hours worked in the previous 13 weeks. This change would increase administration processes for providers and therefore impact on margins. It is important to note that some workers currently desire a specific number of hours to be eligible for welfare and childcare support.

On travel time, providers try to restrict workers to the geographical area they are happy to work in; this can be harder in Outer London. In London many workers walk between appointments or generally use the bus, rather than the Underground to travel between appointments. Providers make decisions about how they might cover transport costs, for example by factoring this into wages or making a separate payment, some providers require staff to cover their own travel costs. Covering the cost of travel may be used as an incentive to attract staff in some Outer London boroughs, where it can be harder to recruit.

2.2 Retail

There appears to be limited use of zero hours contracts in the retail sector. Known examples of where they are used include workers such as university students who are only available during certain periods. There don't appear to be significant concerns regarding people on zero hours contracts being under-employed.

2.3 Hospitality

Zero hours contracts usage is low among some employers, but genuine casual agreements are still of benefit to employers and employees, for example for people who want casual work at functions during high season and also want to have enough flexibility to meet family obligations or to travel for leisure. These arrangements are seen as not placing any obligation on workers to accept work that is offered.

A large proportion of the lowest paid workers in hospitality work in food service or food preparation. So it is important to consider service charges and meals that workers have access to. Some workers have access to reward and recognition schemes that can include cash value vouchers.

2.4 Services

Zero hours contracts are less prevalent within the services sector, with their use largely dependent on the purpose of the service provision under the contract. Most employees will have access to a range of benefits that will enhance the total value of their remuneration.

3. Supporting wider adoption of the living wage

Guests reported having had a mixed level of contact with the Mayor's office, GLA, Living Wage Foundation or London Citizens. Additional contact with these organisations was welcomed. Additionally, there should be more evidence of the positive impact that moving to a living wage would have on employees.

3.1 Social care

Some London boroughs are requesting both living wage and non-living wage tenders from prospective providers. Some ask for living wage tenders only, but then set a cap on the rate for providers (out of which providers will need to cover living wage salaries). One borough recently asked whether providers would pay the living wage as part of the tendering criteria, but will not award any points for this during the scoring of bids. Some providers are particularly concerned with growing their business responsibly; this can mean turning down public sector contracts, where they deem funding unsustainable. While there is a very diverse market of providers in London, local authorities should consider the potential impact if they need to bring services back in house due to a reluctance from external providers to take on contracts.

3.2 Retail

A blanket endorsement of the living wage would not be possible, partly due to the potential risk to labour demand. There is however a real interest in the concept of the living wage from the sector. This interest is currently focused on how the living wage calculation could take account of the total remuneration package, including bonuses, discount cards and holiday pay beyond the statutory level. Discount card usage can be aggregated by individual employers so this is a useful piece of data.

If a major retailer were to adopt the living wage, this might lead other retailers to consider it. However, the fact that it has not happened to date may be a sign of the real challenge in achieving this. Therefore, there would need to be a significant initiative to reach this point. It is unclear how the sector would react to an offer to share in the savings to government when employers pay higher wages (brought about by increased tax and National Insurance Contributions and lower welfare payments).

3.3 Hospitality

It is difficult to see how the living wage could be 'the norm' within the hospitality sector, given the drivers for low pay, such as the nature of unskilled lower level jobs and subsequent need for training as identified above. Within the hospitality sector, hotels may be franchised, leased or managed for individual owners or investment funds. The viability of pay levels must therefore take into account the different financing models within these arrangements. Another point raised was the impact of the higher costs of operating in London. Discussions across the sector have highlighted the difficulties of absorbing the additional costs. It is not possible to carry out a simple calculation of the increase in room rates that might be required to compensate for adoption of the living wage; this is a much more complex calculation.

3.4 Services

It is important to take a national approach to the living wage agenda as most employers operate across the UK. A majority of bid costs generally relate to employee costs and in order to maintain competitive parity there is a need to provide a 'level playing field' when bidding for contracts; this would mean customers being clear whether a tender is being issued on a living wage basis. In this there is a need for future engagement between the Government and local authorities, other customers and the service providers.