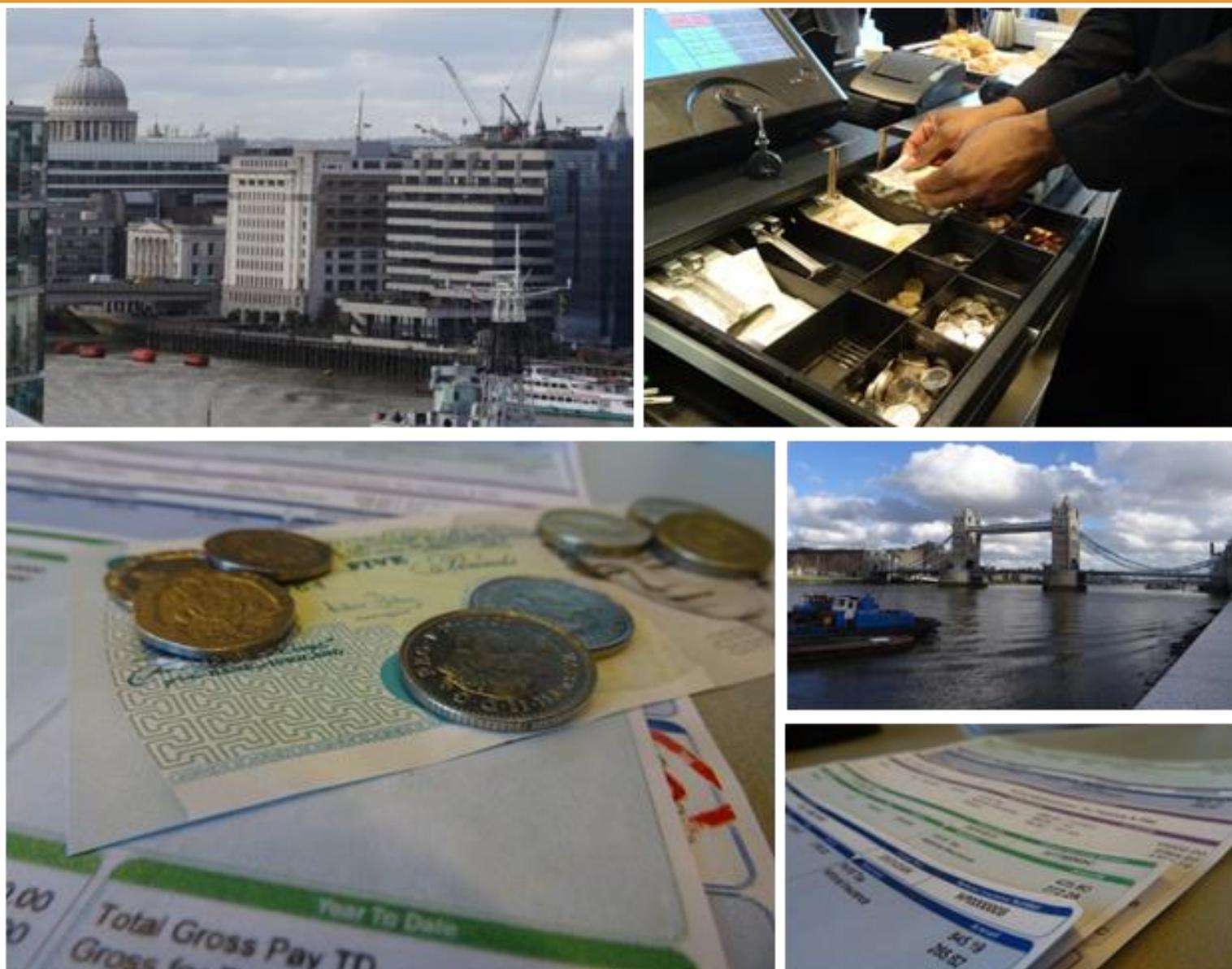


# Fair pay

## Making the London Living Wage the norm

February 2014



## Economy Committee Members

Stephen Knight (Chair)	Liberal Democrat
Fiona Twycross (Deputy Chair)	Labour
Tony Arbour	Conservative
Gareth Bacon	Conservative
Tom Copley	Labour
Andrew Dismore	Labour
Jenny Jones	Green

The Economy Committee agreed the following terms of reference for this investigation on 9 July 2013:

- to investigate the extent and drivers for low pay in London;
- to assess the impact of low pay on London's economic success; and
- to explore what action should be taken by the Mayor, employers and partners in relation to low pay in London.

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## Foreword

Across the economy, wages have been falling in real terms since 2009 and reduced purchasing power is felt particularly harshly by those who are already at the bottom end of the wage spectrum. The National Minimum Wage, which has been falling in real terms since 2007, takes no account of the substantially higher living costs in London and clearly represents, for most Londoners, an unsustainably low income.



Both the previous and current Mayor and all parties on the London Assembly have supported the London Living Wage since its introduction in 2005. This wage level represents what the GLA assesses as the minimum wage needed to meet basic living expenses in the capital (currently £8.80 an hour). The current Mayor announced last summer that he wanted the London Living Wage to be ‘the norm’ in London by 2020.

Tackling low pay would have a positive impact not only on individuals and their families, but also London’s employers and wider economy. Higher wages mean not only a more loyal and productive workforce, leading to higher productivity, but also higher consumer spending and therefore wider economic growth.

There are an estimated 750,000 Londoners earning less than the London Living Wage. The majority are women and the majority work part-time.

The London Assembly Economy Committee shares the Mayor’s ambition for the London Living Wage to be the norm by 2020. But for this to happen, the Living Wage movement must go beyond being a niche initiative limited to certain sectors and employers. Low pay in London is concentrated in a number of sectors – hospitality and catering, cleaning, retail and social care. A functioning city is dependent on workers from these sectors to meet our basic needs.

There are of course some pioneers in these sectors - employers who take on the challenge themselves, as well as those encouraging contractors to adopt the Living Wage. However, there are currently no major employers from these sectors signed up to the policy and there appears to be little likelihood that any will do so in the near future. In the social care sector,

most low paid staff are employed on local authority contracts and even those councils which have become accredited Living Wage employers seem to have made little progress in raising wage rates among social care workers.

It is therefore clear that, despite undoubted steady progress over the years, without a major new effort, the Mayor's vision of the London Living Wage becoming 'the norm' by 2020 will not be achieved.

Our report outlines a number of opportunities for increasing take-up, including: ensuring London's public sector is at the forefront of Living Wage adoption; focusing greater effort on the sectors where low pay is widespread; maximising the role of procurement, investment and skills policies; and lending support to other partners' programmes.

Finally, a majority of the committee felt that, if all these fail, then the Mayor should ask government to consider a statutory solution to tackling low pay in London.

**Stephen Knight AM**  
Chair, Economy Committee

## Executive Summary

Low pay contributes to poverty in London. Low pay in the capital is concentrated in a number of sectors; retail, hospitality, catering, cleaning and social care are of particular concern. Indeed, the proportion of low-paid jobs in the social care sector, cleaning and hospitality sectors has risen significantly since 1997. Furthermore, workers in key low pay sectors are four times as likely to remain in low pay as comparable low-paid workers from other sectors.

Employment terms and conditions play a role in driving low pay. Employers in London who use zero hours contracts put more of their workforce on zero hours contracts than comparable employers in the rest of the country. This presents a concern given current reports of abuse of this form of contract, particularly for social care workers.

The National Minimum Wage helps to prevent exploitation at the bottom of the labour market. There is currently a welcome debate, at both national and London levels, about whether the minimum wage can be significantly increased as the economy recovers. However, there is also growing concern that the minimum wage is not sufficiently enforced in the capital. We would therefore welcome piloting the partial devolution of minimum wage enforcement as an opportunity to address this deficit.

However, the National Minimum Wage remains unsustainably low against living costs in London. The minimum wage has been decreasing in real terms since 2007. The London Living Wage is calculated to reflect an adequate wage for London, which should be enough to cover the basic costs of living, reflecting London's higher living costs. We therefore welcome the Mayor's vision for the Living Wage to become the norm in London by 2020.

Accredited Living Wage employers in London span the private, public and voluntary sectors. However, the number of workers included so far is just a small fraction of the estimated 750,000 Londoners earning less than the Living Wage.

There is a growing body of evidence that the Living Wage can bring significant benefits for employees and their families, for employers, for the wider economy and for public finances. Nevertheless, it is right that any intervention considers potential risks for employers at both an individual, sectorial and macroeconomic scale. Understanding these risks

will help employers to support the London Living Wage, rather than increasing their resistance to adopting it.

Over time, the Living Wage has been promoted in different ways to different economic sectors. As the economy gains strength, there are a host of un- or under-exploited opportunities to realise the Mayor's vision of the Living Wage as the norm in London.

Crucially, evidence suggests that many London employers could already pay the Living Wage. We acknowledge that adopting the Living Wage in low-wage sectors would be particularly challenging, but not impossible.

There is now progress with uptake of Living Wage accreditation within the GLA group, which includes Transport for London, the Mayor's Office for Policing and Crime, the London Fire and Emergency Planning Authority and the London Legacy Development Corporation. However, the current rate of adoption by other employers is insufficient to achieve the Mayor's objective of normalising the Living Wage by 2020.

The Living Wage can only be considered 'the norm' in the capital once it is widely adopted in the sectors where low pay is most prevalent. The Mayor has begun to recognise the need to focus particular attention on low-pay sectors but, without a significantly increased effort, the Living Wage will fail to gain traction in these sectors.

Procurement, investment and other commercial decisions can also play a role in normalising the Living Wage. A number of private and public sector organisations are successfully applying Living Wage standards to procurement. Introducing Living Wage standards to investment and commercial decisions is less advanced, but offers further potential to promote the Living Wage to a wider range of organisations.

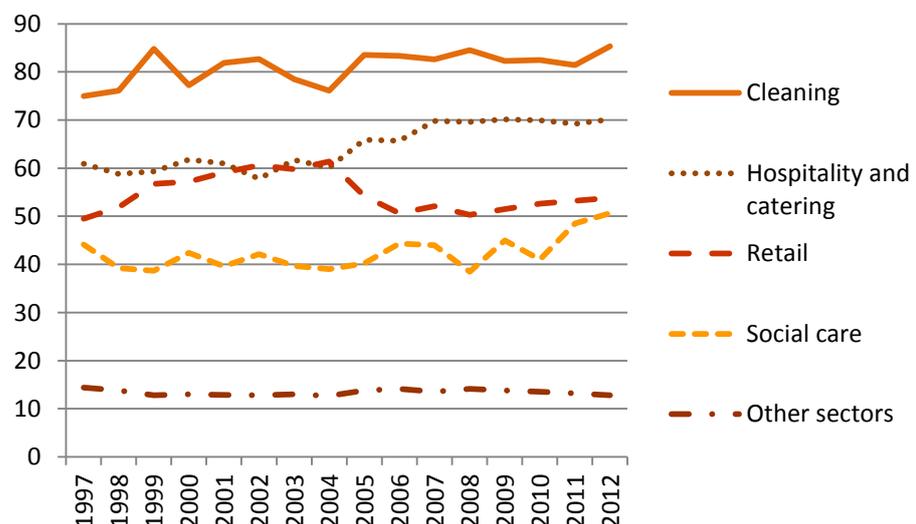
The Living Wage should not be championed in isolation. Skills and progression policy is a key consideration for tackling low pay in the capital. Low levels of pay are linked to low productivity. There is a growing consensus in support of an increased focus on furthering progression for low-paid workers. Subsequent increases in productivity could allow employers to adopt business models where the London Living Wage is the lowest grade in their pay scale.

This report focuses recommendations on the role of the Mayor in promoting the London Living Wage. We also make recommendations to other organisations that have a key role in normalising the Living Wage.

# 1. Low pay in London

- 1.1. Low pay contributes to poverty in London. Over 2 million Londoners are in poverty and of these over half live in households with at least one person in work.<sup>1</sup>
- 1.2. Several recent academic studies have mapped the impact of the economic downturn on those in low pay. A recent report by the Centre for the Analysis of Social Exclusion at the LSE found that, 'while London coped well with some economic pressures, inequalities in earnings and incomes increased between 2006/08 and 2010. Those living on the lowest incomes were hit hardest, seeing their incomes after housing costs fall by 24 per cent in real terms compared with 3.5 per cent nationally.'<sup>2</sup>
- 1.3. Low pay in London is concentrated in a number of sectors. There is a high concentration in the private sector; jobs in retail, hotels and restaurants account for 50 per cent of all low-paid jobs in London.<sup>3</sup> However, there are high numbers in some parts of the public sector or industries that receive public funding, for example in social care or cleaning.
- 1.4. Analysis for this report by GLA Economics explored the proportion of low-paid jobs in London. For this analysis low pay was defined as people earning the 20th percentile wage or below. The proportion of low-paid jobs in the social care, cleaning and hospitality sectors has risen significantly since 1997, peaking in 2012.<sup>4</sup> In 2012, the 20<sup>th</sup> percentile wage for social care was the highest of these three sectors at £6.85 p.h.

**Chart 1: Proportion of employee jobs that are low-paid jobs in each low-paying industry sector and in other sectors, London 1997-2012 (%)**



- 1.5. Low pay is distributed unevenly across London. Some boroughs, particularly those in outer London, have a greater proportion of low-paid jobs than others. The Low Pay Commission believes that there are seven London boroughs in which five per cent or more (at least one in 20) workers, are paid the minimum wage or less.<sup>5</sup> You are also more likely to be in a low-paid job if you are Black, Asian or minority ethnic or female.
- 1.6. People on low pay often get stuck in low-paid jobs. Analysis for this report by GLA Economics examined the proportion of low-paid workers across different sectors in London who remain in low pay at the end of four four-year periods since 1997. This study identified that persistence of low pay is approximately four times as likely for low-paid workers in retail, cleaning, hospitality and social care, compared to low-paid workers in other sectors.
- 1.7. Older people are more likely than younger workers to suffer long-term low pay. Our analysis shows that one in five workers aged 50+ remained in low pay over a four-year period, compared to one in eight across all age groups. But we have also heard about the risks of unpaid internships becoming the norm for people starting their careers in some industries, despite them being entitled to the National Minimum Wage.<sup>6</sup>
- 1.8. Employment terms play a role in low pay. In particular, the Committee has examined the role of zero hours contracts. These contracts are a growing feature of the UK's labour market.<sup>7</sup> Estimates of the extent of their use vary; recent UK-wide estimates range from 250,000 to around 1 million. Evidence to date indicates that their use is more extensive in public services (including social care<sup>8</sup>), and in distribution, accommodation and food services industries.<sup>9</sup>
- 1.9. Zero hours contracts have a mixed reputation. They offer flexible employment terms: they do not require the employer to guarantee work nor the employee to accept offered hours. This flexibility can suit both employers and employees creating a best-fit between business needs and work-life balance. However, as in the rest of the country, zero hours workers in London are found disproportionately in relatively low-skilled and low-paid jobs.
- 1.10. Employers in London who do use zero hours contracts put more of their workforce on zero hours contracts than comparable employers in the rest of the country. Table 1 indicates that, while roughly the same proportion of London employers use zero hours contracts as in the rest of the UK,

they apply this type of contract to over one quarter of their workforce, compared to under one fifth in the UK as a whole.

**Table 1: Percentage of employers using zero hours contracts and the percentage of their employees contracted on a zero hours basis**

	UK	London
<b>Percentage of employers using zero hours contracts</b>	24%	23%
<b>Percentage of these employers' employees who are contracted on a zero hours basis</b>	16.5%	27.8%

Source: CIPD

- 1.11. We are seriously concerned by reports of abuse of zero hours contracts in public sector contracts, particularly in the social care sector. Reports highlighted by government indicate that workers may not be paid for travel time between care appointments, thereby reducing their hourly rate to below the minimum wage. The minimum wage rules generally require that time spent travelling between care assignments counts as time worked for minimum wage purposes. Workers should also be reimbursed for any associated expenses incurred during the time for which the minimum wage should be paid.<sup>10</sup>

### Reviewing and enforcing the National Minimum Wage

- 1.12. The National Minimum Wage (NMW) is a single national adult rate for everyone aged over 21, with lower rates for young people, people in training, and a few other exceptions.<sup>11</sup> It remains important in protecting the lowest-paid workers from exploitation and is paid to over 105,000 workers in London, with a further comparable number earning little more than the minimum wage.
- 1.13. There is currently a lively debate about whether the minimum wage can be significantly increased as the economy recovers. We welcome the Government's direction to the Low Pay Commission to explore what economic conditions would allow for a faster rise in the minimum wage without damage to employment.<sup>12</sup> The Government is currently seeking to assess the impact of raising the minimum wage to £7 per hour by 2015/16, instead of the current projection of £6.71 per hour (assuming average earnings growth).
- 1.14. Centre for London and Trust for London have recently argued for a higher minimum wage in the capital. Their report identifies the reduced bite of

the national minimum wage in London: the minimum wage threshold currently includes a smaller proportion of London's workforce compared with the rest of the UK. The report also highlights the distinct nature of London's economy: employers can already pay wages higher than the minimum wage across all the main categories of lowest paid work.<sup>13</sup>

- 1.15. Alongside this debate, there is growing concern that the minimum wage is not sufficiently enforced in the capital. Failure to enforce the minimum wage leaves employees open to abuse; but it also disadvantages those employers who observe the law and who can be undercut by those who do not. Stronger enforcement would also regularise employment for workers who are likely to be outside the formal labour market, thus increasing tax and National Insurance payments to central government.
- 1.16. The Committee welcomes current HMRC action to enforce the minimum wage. In particular, HMRC is pursuing a number of reported cases of non-compliance in the care sector, and is also fast-tracking investigations into reports of non-payment of the minimum wage to interns, about which the Low Pay Commission is particularly concerned.<sup>14</sup>
- 1.17. However, we believe that there is scope to enforce the minimum wage in London more effectively. There is a strong case for partially devolving enforcement powers to local authorities. In such a reformed system, local authorities would have primary responsibility for minimum wage enforcement, and HMRC would retain central functions in support of them. London boroughs already have regular contact with local employers; this extra power could complement boroughs' existing enforcement responsibilities. Fines collected locally by boroughs would help to fund this proposal. While a number of boroughs have expressed an interest in piloting the idea,<sup>15</sup> this reform requires a change to primary legislation.

**There is cross-party support for greater enforcement of the minimum wage. Piloting partially-devolved enforcement presents an opportunity to assess the benefits of a locally-driven enforcement regime.**

## Recommendation 1

**The Mayor** should set out his support for those London boroughs seeking to pilot partial devolution of minimum wage enforcement powers. If these pilots prove to increase effectiveness of minimum wage enforcement in London, the Mayor should then call on government to partially devolve minimum wage enforcement to London boroughs (with HMRC retaining a central function).

**The Government** should make the necessary legislative changes to allow for piloting of partial devolution of minimum wage enforcement in London.

**London boroughs** should ensure that minimum wage rules are followed for both directly employed and contracted social care staff, particularly in relation to payment of travel time between care assignments and reimbursement of any associated expenses during this time.

### Developing pay and reward policies to address low pay

- 1.18. Pay and reward levels are approached within industries and individual employers in a number of ways.
- 1.19. Much recent debate has focused on the role of remuneration panels in deciding pay and rewards for those at the top end of the pay scale. We are concerned that the needs of low-paid workers should not be sidelined in pay and reward decision-making processes. Actively engaging low-paid workers and/or their representatives in pay decisions can help to expand take-up of the Living Wage.<sup>16</sup>
- 1.20. The Hutton Review of Fair Pay<sup>17</sup> and the Local Government Association<sup>18</sup> have both recently highlighted how public sector bodies can consider the needs of low-paid staff are considered as part of pay and rewards discussions. Auditing processes across the public, private and third sectors assess the good governance of an organisation, including pay decisions. Organisations can use the auditing process to consider the views of low-paid workers to guide remuneration decisions.
- 1.21. Organisations with non-standard reward structures can also develop mechanisms to address low pay. For example, the Committee previously reported on concerns regarding low pay in the theatre sector.<sup>19</sup> Indeed, Equity's most recent survey of members found that over nine per cent

earned nothing from their work in the industry, and over 69 per cent earned either nothing or under £10k per year.<sup>20</sup> We welcome the fact that the sector has recognised and is seeking to address this issue. Equity is seeking to establish their exceptional minimum rate of £331 per week in the fringe theatre sector. Furthermore, from April 2014, entertainment employers will no longer have to pay Class 1 National Insurance contributions for those entertainers who will be considered as self-employed for tax and National Insurance purposes. This saving to employers is an opportunity for the entertainment sector to increase pay. The Mayor should play a role in championing the Equity exceptional minimum rate in his dealings with fringe theatres.

### **The case for a public policy intervention to promote the London Living Wage**

- 1.22. The Mayor has set out his ambition to normalise the London Living Wage by 2020. The Living Wage takes account of London's higher living costs to provide the minimum acceptable quality of life. The Mayor argues that "it is morally right that their [low-paid workers'] contribution is appropriately recognised and that they share in the proceeds of London's resumed growth".<sup>21</sup>
- 1.23. Normalising the Living Wage will have a number of positive economic benefits too, including:
  - addressing the disconnect between low pay and London's higher living costs;
  - ensuring low-income families also benefit from the economic recovery;
  - driving London towards a higher skill, higher productivity economy;
  - and
  - boosting growth in London's wider economy.
- 1.24. The National Minimum Wage remains unsustainably low against living costs in London. The minimum wage has been decreasing in real terms since 2007 because consumer price inflation has been higher than increases to the minimum wage.<sup>22</sup> This is despite the minimum wage rising faster than average wage growth across all sectors. The London Living Wage should help to address the differential between London's higher living costs and the current extent of low pay in the capital.
- 1.25. Since its introduction in 2005, the London Living Wage has increased wages for approaching 20,000 workers, with some seeing significant cumulative increases in pay.<sup>23</sup> This represents a significant contribution to mitigating the health, housing and educational impacts of in-work

poverty, and has been achieved by a very limited number of accredited Living Wage employers. Promoting and expanding the Living Wage further could lead to a dramatic increase in this figure.

- 1.26. There is a growing body of evidence that the Living Wage can bring significant benefits for employees, their families and employers, as well as the wider economy and for public finances. Among employees, evidence shows that the Living Wage provides more security, higher morale, personal commitment and motivation, and thus potentially increased productivity.<sup>24</sup> The benefits extend to employers (which enjoy reduced staff turnover),<sup>25</sup> and to employees' families: evidence has identified positive impacts on mental wellbeing and educational performance among children from households that benefit.<sup>26</sup>
- 1.27. Some commentators argue that increasing wages for low-paid people can foster growth in both the local and wider economies. Lower income groups generally spend a greater proportion of their earned income compared with more affluent groups, and they tend to spend it locally.<sup>27</sup> According to the TUC, 'research has shown that low-paid workers who receive a pay rise tend to spend all of the increase, so that the extra wages largely go back into the local economy.' In terms of the positive impact of wage increases on the wider economy, Professor Stockhammer highlighted findings that a redistribution of four per cent of national income from profits to wages increases aggregate consumption expenditure in the UK by some 0.3 per cent of gross domestic product.<sup>28</sup>
- 1.28. Additionally, increasing wages brings very significant potential benefits to government finances. National Insurance contributions rise; welfare payments fall. Tax credits currently top up the incomes of low-paid people and the unemployed. Analysis of the tax credit allocation shows that almost one third of tax credits went to low-paid workers in health and social care, retail and other services industries.<sup>29</sup> Indeed, if the Living Wage were adopted across London (under the current tax and welfare framework) one estimate of savings to the Exchequer exceeds £600 million per year.<sup>30</sup>
- 1.29. Increasing wage levels for the low-paid is intrinsically linked to boosting productivity. Attention to skills and progression should play a role in tackling persistent low pay. Some commentators argue that increasing wages will help to shape a more productive workforce, or lead employers to adopt a more productive business model. Others argue, on the contrary, that productivity should be increased first so that employers can raise pay levels.

1.30. We want to see employers, skills commissioners and providers pay attention to both imperatives. Indeed, there is growing consensus around an increased focus on fostering skills and pay progression for low-paid employees, as emphasised by the CBI Director General in his recent New Year message.<sup>31</sup> There is a clear role for the Mayor and the London Enterprise Panel (LEP) within this drive.

### Can London afford the Living Wage?

1.31. It is right that any intervention considers potential risks for employers at both an individual, sectorial and macroeconomic scale. Normalising the Living Wage would increase the amount of National Insurance and pension contributions paid by employers. It could make the labour market less flexible, and employers could decide to reduce non-wage benefits for employees. It could decrease pay differentials and could make small businesses less viable.

1.32. Much of the debate on expansion of the Living Wage centres on the impact on employment levels. Estimates of the impact range from 160,000 job losses (IPPR's 'worst case scenario')<sup>32</sup> to a net gain of 7,000.<sup>33</sup> It is also important to recognise that wage restraint – including nominal wage freezes – has been credited with protecting employment levels during the recent economic downturn, when compared with previous recessions.<sup>34 35</sup> Indeed, the CBI has noted that 'sustainable wage growth can only follow sustainable economic growth'.<sup>36</sup> Understanding these risks will help employers to support the London Living Wage, rather than increasing their resistance to adopting it.

1.33. London wages are already well above the national average. ONS data show that the median gross weekly wage in London for full-time employees (excluding overtime) was nearly 30 per cent higher than the national median.<sup>37</sup> The London figures are higher because London's economy is dominated by professional and managerial services in industries such as the financial, information and communication, real estate and creative industries. Productivity is higher in these industries than in others. Overall London's productivity – measured as Gross Value Added (GVA) per hour worked – is higher than other regions. And overall, Londoners are paid more due to this higher productivity.

1.34. However, this difference from the national median is greatest at the top end of the income distribution. At the 90th percentile the difference between the UK median gross hourly wage (excluding overtime) and that paid in London is over 45 per cent; at the 10th percentile, it is just over 13

per cent.<sup>38</sup> So Londoners receive higher remuneration than the rest of the UK but not in equal proportion across the income scale. Furthermore, Londoners face higher housing, transport and childcare costs.<sup>39 40 41 42</sup> The London Living Wage is designed to address these anomalies.

- 1.35. Crucially, evidence suggests that many London employers could already pay the Living Wage. The Resolution Foundation and IPPR, in a recent study, concluded that London Stock Exchange-listed firms in a number of sectors should adopt the Living Wage ‘as a matter of course.’ The report acknowledges that adopting the Living Wage in low-wage sectors would be more challenging but not impossible.<sup>43</sup>
- 1.36. The study also assessed the impact of adopting a wage rate at 90 per cent of the Living Wage, rather than the full rate. The table below estimates the impact on average wage bills in key low-paid sectors for these two scenarios. This 90 per cent rate appears to be a realistic stepping stone to moving towards the Living Wage, even in low-paying sectors.

**Table 2: Estimated average percentage increase to firm-level wage bill by industrial sub-sector when the Living Wage is implemented at both the full rate or at 90 per cent of the rate**

Industrial sector	Scenario	
	Implement full Living Wage (average % increase)	Implement 90% of the Living Wage (average % increase)
Bars & restaurants	6.2	2.6
General retailers	4.9	2.1
Food & drug retailers	4.7	2.0

Source: Resolution Foundation/IPPR

**The Mayor is right to set out a vision for the London Living Wage to be ‘the norm’ by 2020. This will provide multiple benefits to the capital’s economy, but delivering on this commitment will require a significant up-scaling of efforts to promote the Living Wage to employers, particularly in sectors where low pay is widespread. As the economy gains strength, there are a host of un- or under-exploited opportunities to realise the Mayor’s vision of the Living Wage as the norm in London.**

## 2. The London Living Wage – progress to date

*I want the London Living Wage to be the norm in London.*

**Boris Johnson, November 2013**

### The Living Wage campaign

*...a fruitful partnership between The Mayor and his Office, the Assembly, Citizens UK and the Living Wage Foundation is capable of producing tangible, measurable results for the lowest paid workers in the capital.*

**Living Wage Foundation**

- 2.1. In 2001, the East London branch of Citizens UK initiated the current Living Wage campaign. The founders were parents living in the East End of London. These parents wanted to remain in work, but they were struggling to make ends meet despite working two or more jobs. They also felt that they were left with no time for family and community life. Initial campaigning focused on cleaners in both the public and private sectors.
- 2.2. In 2005, the then Mayor Ken Livingstone established the GLA Living Wage Unit as specified in his manifesto. The scope of this unit was to 'look at the issue of a realistic living wage for London and to examine poverty-related issues.'<sup>44</sup> The Living Wage rate for the rest of the UK is calculated by the Centre for Research in Social Policy at Loughborough University.
- 2.3. The London Living Wage is calculated by the GLA Economics unit to reflect an adequate wage for London. It should be enough to cover the basic costs of living. The calculation is a combination of two approaches. The first estimates the costs of a 'low cost but acceptable' budget for a selection of households. This takes into account the price of a regular shopping basket, as well as housing, council tax, transport and childcare costs. The second identifies the median income for London (appropriately weighted for 11 household types) and then calculates 60 per cent of that sum. These two amounts are averaged to generate a 'poverty threshold wage'. A margin of 15 per cent is then added to the poverty threshold wage to protect against unforeseen events, an important allowance for those with limited household budgets. The calculation relies on the assumption that recipients will have access to means-tested benefits and tax credits.<sup>45</sup>
- 2.4. The London Living Wage is currently £8.80 per hour.<sup>46</sup> This is 39 per cent above the National Minimum Wage – a very significant differential for low-paid workers.

- 2.5. Over time the Living Wage has been promoted in different ways to different economic sectors. In 2011, the community organising network Citizens UK and other founding partners established the Living Wage Foundation.<sup>47</sup> The Foundation offers an accreditation process and Living Wage mark for employers who pay the Living Wage.<sup>48</sup> This provides a framework and an incentive for employers to adopt the Living Wage across their own workforce and contractors. It is comparable to the Investors in People or Fair Trade marks.
- 2.6. Accreditation should play an important part in normalising the Living Wage. Accredited employers are encouraged to publicise their status, for example by displaying the Living Wage logo or highlighting it to other organisations. In the early stages of the introduction of the accreditation process, concerns were voiced that the process should not create a disproportional compliance burden or excessive reputational risk for employers (should cases of non-compliance be identified despite organisations' best efforts). Increasing numbers of employers are becoming accredited, indicating that employers are able to engage with the accreditation process. However, it will be important to ensure that accreditation maintains its value.
- 2.7. Accredited Living Wage employers in London span the private, public and voluntary sectors. As of the end of January 2014, there are 263 accredited Living Wage employers in London – the largest number for any UK region. Accredited employers with the largest workforces (500+) are predominantly private sector employers, with small and medium sized workforces better represented in the public and third sectors. However, the number of accredited employers is a small fraction of London's employers, and an even smaller number of the capital's employees.
- 2.8. The GLA estimates that approximately 750,000 Londoners earn less than the London Living Wage; this represents an increase on the 2012 estimate of almost 700,000.<sup>49</sup> Indeed, Trust for London's analysis of the ONS's Annual Survey of Hours and Earnings identifies a worrying growth in the number of low-paid jobs in London. Since 2009, the absolute number of low-paid jobs in London has increased each year. This is true for every combination of full-time/part-time and male/female workers.<sup>50</sup>
- 2.9. We recognise that some employers will take longer to adopt the Living Wage than others. In some cases, employers agree a significant lead-in time as part of the accreditation process, to mitigate potential negative impacts. This lead-in period particularly applies where organisations

engage a number of contractors, or have a high proportion of low-paid employees.

- 2.10. Employers can also aspire to track the Living Wage, without formally adopting it. The Living Wage rate serves as a useful benchmark for employers who do not commit to accreditation. Such benchmarking is an important element of the Living Wage becoming the norm in London.

### **The Mayor's Living Wage commitments and his vision for the Living Wage becoming 'the norm' in the capital**

- 2.11. The Mayor and GLA play an important role in promoting the Living Wage. While the Living Wage Foundation is the overall lead organisation for the campaign, the Mayor and GLA can, and should, lend significant support. Kit Malthouse AM, the Deputy Mayor for Business and Enterprise, leads on Living Wage issues on behalf of the Mayor.<sup>51</sup>

- 2.12. Over time, the Mayor has set out a number of strategic commitments to promote the Living Wage, including:

- ensuring Living Wage accreditation for the GLA group;
- promoting Living Wage accreditation for London boroughs;
- encouraging Living Wage accreditation for Whitehall departments; and
- increasing the number of accredited private sector employers.

The table in Appendix 2 sets out a cumulative summary of the Mayor's Living Wage commitments and ambitions against the Committee's assessment of progress to date. It is a very mixed picture.

- 2.13. There are a number of examples of good progress. We welcome the fact that the GLA group is heading towards complete accreditation. Almost one-third of London boroughs are now accredited employers. The Living Wage legacy at the Queen Elizabeth Olympic Park demonstrates the catalyst provided by the Living Wage commitment within both the former structure of the Olympic Park Legacy Company and the current structure provided by a Mayoral Development Corporation.

- 2.14. We also recognise the first use of Underground poster sites to promote Living Wage Week 2013. The Living Wage Foundation will evaluate the impact of this poster campaign. We would support future requests from the Foundation to repeat or increase the use of Transport for London poster sites.

- 2.15. As noted above, the number of accredited employers in London has been growing but represents a small fraction of London's total number of employers. The Mayor has highlighted the letters he has sent to employers, advocating the Living Wage. It is difficult to assess the role of the Mayor in influencing employers. This is hampered by the confidential nature of discussions between the GLA and employers as well as the lack of public evidence of follow-up of these letters.
- 2.16. One way the GLA currently monitors its progress on the Living Wage is through a GLA Key Performance Indicator. This tracks the number of accredited Living Wage employers in the capital.<sup>52</sup>
- 2.17. However, this indicator does not also capture the number of employees whose pay has been lifted through their employer adopting the Living Wage. This is vital information in assessing the impact of Living Wage expansion. GLA officers have expressed themselves willing to explore whether this KPI could be amended.<sup>53</sup> We welcome the Assembly Budget and Performance Committee's formal recommendation that the GLA Living Wage KPI is amended from the start of the 2014/15 monitoring cycle to assess the number of workers affected by Living Wage adoption.<sup>54</sup>
- 2.18. The Mayor's Vision 2020 sets out the ambition for the Living Wage to become 'the norm' across the capital by 2020.<sup>55</sup> The Deputy Mayor has since defined the norm as the Living Wage becoming "the customary practice...like having an Oyster card". Defining 'the norm' in this way would imply that a London employer who does not pay the Living Wage would be the exception. The Deputy Mayor identified three key milestones to achieving the norm: Living Wage accreditation for the GLA group; accreditation of all London boroughs; and establishing Living Wage zones.<sup>56</sup>

#### *Living Wage accreditation for the GLA and Functional Bodies*

- 2.19. The Mayor is a key advocate for the Living Wage and should lead by example in terms of the GLA Group workforce. Accreditation of key public sector employers has multiple benefits. Most obviously, a proportion of directly-employed and contracted staff see their wages increase or wage levels protected. Accreditation also sets an example of good practice for the capital's employers and should strengthen the Mayor's role in advocating for the Living Wage.

All the functional bodies in the GLA group are accredited Living Wage employers.<sup>57</sup> MOPAC's Living Wage accreditation agreement covers the

Metropolitan Police Service (MPS). The MPS are currently undergoing phased implementation of the Living Wage. This means all staff directly employed by the MPS receive the Living Wage and the Living Wage is being applied across contracts as they come up for renewal. Over 600 contracted staff already receive the Living Wage. 87 per cent of contracts will be renewed in the next two years and MPS expects all contracts to be fully compliant by January 2016. Separately, London & Partners, a key body representing London, is not an accredited Living Wage employer.

**GLA accreditation is essential to the Mayor being a successful champion for the Living Wage. We welcome the progress made on accreditation for the whole GLA group.**

### **Recommendation 2**

**The Mayor** should ensure the Metropolitan Police Service adheres to the commitment to become fully Living Wage compliant by January 2016.

**Kit Malthouse AM, in his capacity as Chairman of London & Partners,** should ensure London & Partners becomes an accredited Living Wage employer by November 2014.

### *London boroughs*

- 2.20. Living Wage accreditation for London boroughs is now a key milestone towards the Living Wage becoming the norm in London.
- 2.21. London boroughs are of course the final decision-makers on pay scales for their own employees. Boroughs have taken different approaches to the Living Wage campaign. Some are well down the line in applying Living Wage standards across most contractors; others are committed to milestones towards introducing it. A small number of boroughs have a position of paying the Living Wage to their directly employed staff only and not contractors' staff. A small number have taken a position against adopting the Living Wage.
- 2.22. The Mayor's role to date has been to encourage boroughs to adopt the Living Wage. In the past, the GLA has also provided advice on responsible procurement. The Mayor's first manifesto committed to a roundtable with London boroughs. It was subsequently decided to engage with boroughs on a one-to-one basis, to address their specific needs.<sup>58</sup>

- 2.23. There are currently ten accredited London boroughs and two more are in the process of accreditation. The Mayor has set a target of 16 boroughs becoming Living Wage employers by 2016, and his vision for normalising the Living Wage would mean that all London boroughs would be accredited by 2020.
- 2.24. Public sector accreditation has an additional benefit of expanding the Living Wage to other sectors. Because many public sector organisations outsource, they can directly influence private and third-sector employers to adopt the Living Wage. Indeed, increasing the number of public sector contracts being considered on a Living Wage basis could lead to a tipping point for the number of employers adopting the Living Wage across their own operations and not just for specific contracts.<sup>59</sup> London boroughs should also be mindful of the need to ensure small and medium-sized providers can still tender for procurement with a Living Wage standard.
- 2.25. The Committee has a particular concern about social care workers. We support a Living Wage for social care workers, as called for by a number of groups, including Citizens UK.<sup>60</sup> Frontline social care workers have been historically low-paid, despite the demanding and important nature of their work. The Equality and Human Rights Commission has identified low pay in the care sector as a driver for high turnover, a key factor in inadequate quality of care.<sup>61</sup> The Living Wage Commission has also recently highlighted how difficult it can be to make an adequate living from a career as a care worker in London.<sup>62</sup>
- 2.26. Addressing low pay in the social care sector sits within wider reform of the employment conditions and good practice for social care workers. It sits alongside tackling abuse of zero hours contracts, improving training and improving staffing levels. We recognise the severe pressure that social care departments are under.<sup>63 64</sup> However, the Committee remains concerned that most Living Wage accredited boroughs have yet to apply the Living Wage to social care services. We therefore reiterate calls on government to increase funding for social care to help councils to reward adequately and retain social care workers.

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### **The London Borough of Islington**

Islington was one of the first two authorities to become an accredited Living Wage employer in 2012. 92 per cent of its contractors now pay the Living Wage, benefitting more than 500 workers. The borough is explicitly committed to rolling out the Living Wage to its social care contracts. This will happen on a contract-by-contract basis rather than as a blanket requirement. The rollout is accompanied by a drive for contractors to prioritise local recruitment, maximising the subsequent benefits to the local economy.<sup>65</sup>

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### *Whitehall departments*

- 2.27. Adoption of the Living Wage by Whitehall departments is a key milestone in the Living Wage campaign. The Mayor has previously encouraged departments to adopt the Living Wage.
- 2.28. There has been a high profile campaign highlighting low pay for cleaners working in government departments. However, only the Department of Work and Pensions (DWP) is publicly committed to pursuing Living Wage accreditation. Four government departments (including the DWP) have been identified as paying the Living Wage to their cleaning staff without being accredited. The Department for Business Innovation and Skills (BIS) has also committed to try to raise the pay of its lowest-paid staff, but has fallen short of a Living Wage commitment.
- 2.29. However, the Mayor has personally taken only a limited role in promoting the Living Wage to government departments, leaving this task to the Deputy Mayor and officers. The Deputy Mayor and officers can maintain contact with departments at different political and officer levels, but increased involvement by the Mayor is needed in the approach to Whitehall departments.
- 2.30. Additionally, the Living Wage is making some inroads into the wider public sector in London. As of the end of January 2014, six health organisations, ten higher education organisations and 14 schools are accredited Living Wage employers. We applaud these employers.

**London's public sector should continue to expand the Living Wage across London. Public bodies are making the case to become Living Wage employers while managing reductions to their budgets and delivering value for money. Living Wage adoption by London boroughs should include commissioned social care services. If milestones do not**

**include social care, then the Living Wage ethos and reputation is likely to be eroded negatively.**

### **Recommendation 3**

**The Mayor** should write a joint letter with the Assembly to all unaccredited London boroughs, Whitehall departments and other public sector bodies. The letter should set out the case for becoming Living Wage employers and ask for a response setting out organisations' assessment of the feasibility of adopting the Living Wage for both directly-employed and contracted staff. Responses to these letters should be tracked and proactively followed up.

**The Mayor** should propose an item covering London borough adoption of the Living Wage for the agenda of a meeting of the Congress of Leaders (the joint meeting between the Mayor and borough leaders). This discussion would aim to examine the opportunities for further expansion of the Living Wage.

**London boroughs** seeking Living Wage compliance should set a clear start date for staged implementation to social care workers, including contracted services.

### *Living Wage zones*

2.31. The Deputy Mayor, in particular, has been an enthusiastic advocate of Living Wage zones.<sup>66</sup> The idea behind zones is to promote the Living Wage on a geographical basis. The current working definition for a zone would require that:

- at least one accredited Living Wage employer in each low-pay/low-skill sector is represented within the zone;
- the majority (at least 75 per cent) of employers are accredited Living Wage employers;
- the majority (at least 75 per cent) of employees work for an accredited Living Wage employer;
- Living Wage employers cover the majority (at least 75 per cent) of floor space in the area; and
- where relevant, the estate landlord is an accredited Living Wage employer.

- 2.32. The ultimate aim for this concept is that all employers within a zone become Living Wage employers. This would be achieved through zones committing to continuous improvement to increase Living Wage adoption within the zone.
- 2.33. An alliance of businesses in Canary Wharf is trying to establish the first Living Wage zone in the capital. There are also initial discussions to create another zone in moreLondon (a privately owned estate with a mix of public and private sector tenants, including City Hall). The Living Wage Foundation has very limited capacity to incubate any additional zones, and it is unlikely that any more zones will be developed in the near future.<sup>67</sup> The Living Wage Foundation plans to work with these two partnerships to evaluate the impact of establishing a Living Wage zone.
- 2.34. The current definition of the Living Wage zone carries the potential for misunderstanding among the wider public. We are concerned that most people would assume that the label would mean that all low-paid workers have already seen their wages rise to, or track, the Living Wage.
- 2.35. Living Wage zones are not the only way to champion the Living Wage on a geographical basis. Local business alliances are already promoting the Living Wage to local employers. Sector-specific bodies and associations can also raise the profile of the Living Wage among their members. Such initiatives have the added benefit of requiring less intensive input.

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### ***Vauxhall One and Team London Bridge Business Improvement Districts (BIDs)***

These two BIDs are taking a number of actions to promote the Living Wage. Both BIDs pay the Living Wage, and Vauxhall One is an accredited Living Wage employer. They also promote the Living Wage to their members through events, information and advice. For example, Team London Bridge has launched a new area-wide Responsible Business Alliance.<sup>68</sup> As part of an 'Employability' work stream, businesses are encouraged to adopt the Living Wage for their own employees and to assess the Living Wage status of contractors.

In partnership with the Waterloo Quarter and Better Bankside BIDs, they run the Employ SE1 job brokerage service to drive local recruitment. When employers place vacancies on the site, the London Living Wage is given as the default entry level wage. This serves as a 'nudge' to prompt employers to consider the Living Wage as a preferred entry level rate, rather than a lower rate.

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The value of Living Wage zones in driving participation is yet to be quantified. The right approach is to evaluate the two current proposals before establishing further zones. The success of Living Wage zones will depend on their ability to include low-pay sectors in a meaningful way. If they fail to do so, Living Wage zones may present a significant risk to the Living Wage campaign. We welcome the role that Business Improvement Districts (BIDs), Chambers of Commerce and sector bodies can play in promoting the Living Wage to their members.

#### **Recommendation 4**

**The Living Wage Foundation** should set out a framework for Living Wage zones clearly stating that areas will become official zones only once the majority of low-paid workers' wages rise to, or track, the Living Wage and with an explicit aim for all low-paid workers to be paid the Living Wage in the future.

**The Living Wage Foundation and the working groups for the Canary Wharf and more London Living Wage zones** should publish an initial evaluation within the first year of the zones' development.

### 3. Creating Living Wage London

*...we cannot afford to rest on our laurels. There is little more than six years to 2020 and there is still some way to go before the London Living Wage becomes the norm in this city.* **Boris Johnson, November 2013**

- 3.1. We are concerned that the Mayor's plans for normalising the Living Wage in London fail to take account of the scale of the challenge. The current rate of progress is insufficient to achieve the Mayor's objective.
- 3.2. The Living Wage is still failing to reach the sectors where low pay is most widespread. Success in low-paying sectors is key to the Living Wage becoming the norm in the capital. On the whole, these sectors cannot adopt the Living Wage overnight. Only a very significant increase in effort can lead to the step change for which the Mayor is rightly calling.
- 3.3. Procurement, investment and other commercial decisions can play a role in normalising the Living Wage. Additionally, the Living Wage should not be championed in isolation. Skills and progression policy is a key consideration for tackling low pay in the capital.

#### Tackling low pay in the sectors where it is most widespread

- 3.4. From the start, our investigation identified that the Living Wage can only be considered the norm in the capital once it is widely adopted in the sectors where low pay is most prevalent. The hospitality, catering, retail and social care sectors present a very significant challenge to the campaign.
- 3.5. Cleaners' pay was an early focus for Living Wage campaigners. In its early years, the campaign targeted employers for whom adopting the Living Wage would have a small or negligible effect on their costs, while having a significant impact on individual employees. The strategy has begun to pay dividends beyond these targeted employers. The Committee heard how adoption of the Living Wage in certain parts of London has had the impact of upping the 'going rate' for cleaners - a welcome example of the Living Wage heading towards becoming the norm in parts of the capital.
- 3.6. Individual companies are pioneering the Living Wage in the retail and hospitality sectors. In London, these include Lush, Faucet Inns and the catering company Table Talk/Blue Strawberry.

*The way forward may not be in seeking a lot of new employers but in making a breakthrough in those more difficult low-paying sectors of the economy by concentrating on a major company whether it be a flagship retailer...or any one of the large hotel chains.* **Udaw**



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### Faucet Inn

Faucet Inn is the first accredited Living Wage pub company, with 18 branches in the capital. The company is set on creating a viable career path for employees in the hospitality sector. As the company implemented the Living Wage, it set out a strategy to increase productivity, adapting both its business model and training provision. The majority of waiting staff now provide table service, offering a higher quality experience and, importantly, increasing revenue.

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- 3.7. It is welcome, also, that the retail sector has been engaging with both the Living Wage Foundation and the GLA. The sector has highlighted the range of widely-used remuneration packages, including staff discount cards and terms of employment above the statutory norm, in order to press for them to be included as part of the Living Wage calculation. The British Retail Consortium has undertaken research on the five most common additional benefits offered across the sector.<sup>69</sup> This research shows that, for an average retail worker on a base hourly wage of £6.69, these benefits increase total reward to an equivalent hourly rate of £7.63. This is over £1 short of the current London Living Wage.
- 3.8. The Living Wage Foundation has recently announced that annual bonus payments and commissions can be included when employers are seeking accreditation.<sup>70</sup> The Foundation has agreed this approach in principle with key stakeholders; the Foundation will set out how this would work in practice. We welcome this significant step in opening up Living Wage accreditation to sectors with different remuneration models. We are, however, concerned that including bonuses and commission could water down the Living Wage concept. There should be very clear parameters for the circumstances in which this would be allowed and any agreement should include liaison with relevant trade unions.
- 3.9. Contact between the Mayor/GLA and key employers from low-paying sectors has been patchy. Indeed, when the Committee spoke to some senior representatives from these sectors, they were not clear what engagement their organisations had had with the GLA.<sup>71</sup> Any engagement so far seems to have resulted in little success: the vast majority of employers in these sectors are not currently considering adopting the Living Wage. Much more attention should be directed at these sectors to achieve a step change.
- 3.10. The Mayor has begun to recognise the need to focus particular attention on low-pay sectors. The GLA will specifically target 30 high-street

retailers for engagement in 2014.<sup>72</sup> However, it is not clear how these retailers have been identified, nor – critically – how success will be measured.

**Only a very significant intervention, involving all key parties, will expand the Living Wage to sectors where low pay is widespread. The GLA should engage more with key employers in low-paying sectors.**

### **Recommendation 5**

**The Mayor** should target 30 catering and hospitality employers in 2014 alongside 30 high street retailers. The Mayor should report in both November 2014 and November 2015 on instances where this contact has contributed to Living Wage accreditation.

**The Mayor and the Living Wage Foundation** should jointly develop a cohort of 20 employer champions across low-pay sectors. These champions would advocate the Living Wage to their respective sectors.

### **Normalising the Living Wage – beyond engagement with employers**

- 3.11. Support to promote the Living Wage should not focus solely on individual employers. Employers are accountable for the wage levels they set, but normalising the Living Wage will require different approaches across a number of business functions.

#### *Promoting Living Wage procurement*

- 3.12. Influencing procurement policies has great potential to help normalise the Living Wage in the capital. Organisations, particularly in the public sector, should of course consider value for money and legal requirements when making procurement decisions. However, we are clear that it is legal to adopt Living Wage standards within procurement.

- 3.13. UK and EU procurement law permits Living Wage procurement by the public sector. Additionally, the Public Services (Social Value) Act 2012 can facilitate Living Wage procurement. The Act places a duty on public bodies to consider how procurement might help the ‘economic, social and environmental wellbeing of an area’.<sup>73</sup> The Cabinet Office guidance on implementing the Act assures public bodies that it is possible to reach a positive balance between achieving the best price and the Act’s desired outcomes.<sup>74</sup>

*Making the Living Wage a highly weighted element within procurement contracts would help to create an environment where paying the Living Wage is more likely to become the norm.*  
**Business in the Community**

- 3.14. Public bodies can follow clear steps to protect themselves as they procure. To ensure compliance with European legislation, procurement decisions should be considered individually, rather than as a blanket policy. Within this context, the Mayor's office has rightly been clear that a Living Wage standard in procurement is legally possible, and this standard is applied within the GLA group.<sup>75</sup> Some boroughs are confidently pursuing a proactive Living Wage commissioning policy.
- 3.15. Organisations need to seek their own legal advice when deciding to apply a Living Wage standard to procurement. The Mayor's support for Living Wage contracting across the GLA group and encouragement of Living Wage procurement by others certainly helps to reassure employers that this is possible.

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#### **KPMG – promoting the Living Wage to a supply chain**

KPMG decided to ask its top 50 strategic suppliers to consider three issues, one of which was adopting the Living Wage. Over 30 of the companies agreed to consider adopting the Living Wage.

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**Future promotion of the Living Wage should highlight the multiple opportunities presented by commissioning and purchasing power. Organisations in the public, private and third sectors should be able to confidently navigate legal requirements when applying a Living Wage standard to commissioning or procurement. The Public Services (Social Value) Act 2012 remains an under-used opportunity for public bodies to argue for Living Wage standards among their contractors and partners.**

#### **Recommendation 6**

**The Mayor** should continue to make the case for a Living Wage procurement standard, particularly to senior politicians and officers in London boroughs and Whitehall departments. The Mayor should particularly emphasise the positive impact that Living Wage procurement would have on social care workers across the capital.

### *Promoting Living Wage standards for investment funds*

- 3.16. Investor and shareholder/beneficiary action can drive Living Wage expansion. ShareAction (formerly FairPensions) has persuaded a number of major financial and insurance companies to adopt the Living Wage and in supporting shareholder advocacy on this issue.
- 3.17. Investment for profit and Living Wage standards are compatible goals. The Committee recognises that the primary obligation of investment schemes is to generate financial returns for their members. However, investors adopting Living Wage standards maintain that doing so can generate healthy and long-term investment returns.
- 3.18. There are at least 58 investors with beneficiaries who are explicitly London-based. These investors include local authority pension funds, university endowments, faith investors and charity investors. Collectively, these investors have an estimated £27 billion in assets.<sup>76</sup> A number of these London-based investors already support the Living Wage. ShareAction is now establishing a Responsible Investment for London (RI4L) network. The RI4L network will bring investors together to hold co-ordinated dialogue with companies in London on issues of social concern in the capital. It is likely that the network will include the Living Wage as a priority issue.
- 3.19. At a national level, the National Employment Savings Trust (NEST) has a policy of explicit support for the payment of Living Wages by companies in its portfolios. NEST underpins the government's plans to enrol every worker in a workplace pension, and could eventually control up to £150 billion of assets. The NEST corporate governance policy sets out that paying the Living Wage will be a consideration for voting at AGMs.<sup>77</sup>

**A growing number of investors see the long-term case for socially responsible investment. There is further potential to promote the Living Wage via investment and pension funds, building on achievements to date. Organisations such as ShareAction will continue to play a key role in championing responsible investment, but a step change is required to mainstream the Living Wage as an investment consideration.**

## **Recommendation 7**

**The Mayor** should use his dialogue with institutional investors to advocate adoption of Living Wage standards, particularly when investors have a high proportion of London-based beneficiaries and/or London-particular assets.

**The Mayor** should highlight the benefits of responsible investment in London as he promotes the London economy to potential investors.

**The Mayor** should be ready to support the Responsible Investment for London (RI4L) network, particularly where the network is promoting the Living Wage to investors.

### *Promoting the Living Wage through commercial tenancy agreements*

- 3.20. Commercial landlords, particularly those in the public sector, could also play a role in promoting the Living Wage to their tenants. The Committee acknowledges the basic premise behind lettings: to generate income and support investment. However, lettings could be an opportunity to achieve wider benefits, whether as part of a public body's core agenda or as an element of corporate social responsibility (CSR) activity.
- 3.21. Transport for London (TfL) has previously acknowledged that their strategy for commercial lettings should not just be to maximise upfront commercial return but also to consider broader CSR opportunities.<sup>78</sup> The Mayor has since stated that TfL "would encourage" all of its own tenants to pay the Living Wage.<sup>79</sup> The Committee welcomes this, but the implementation and impact of this policy are unclear.
- 3.22. Landlords could explore a number of options, depending on their circumstances and legal and other requirements, including:
- having targeted conversations with tenants according to their capacity to move towards Living Wage accreditation;
  - establishing an ambition for a certain proportion of tenants to be Living Wage employers; and
  - offering financial and non-financial incentives for tenants who may face greater barriers to becoming Living Wage employers, for example sole traders.

**Landlords have a responsibility to explore whether advocating for the Living Wage via commercial lettings can support further adoption.**

## **Recommendation 8**

**Transport for London and the London Legacy Development Corporation** should produce an assessment of the consequences of championing the Living Wage to potential and current tenants by summer 2014, including the specific areas for exploration in paragraph 3.22.

**The Mayor** should then set out his position on the role of TfL and LLDC in promoting the Living Wage to tenants in the Fairer London 2014 report (due to be published in November 2014) and then promote similar approaches to other commercial landlords.

**Other public bodies with commercial tenants such as London boroughs, government departments and health organisations** should also consider how to promote the Living Wage to tenants.

**As a Committee, we currently support the voluntary campaign to promote the Living Wage, aiming for it to become the norm in the capital. The recommendations in this report are designed to significantly accelerate voluntary uptake of the Living Wage.**

**However, the majority of the Committee is concerned that the voluntary approach is unlikely to achieve a sufficiently large uptake, particularly in the sectors where low pay is most widespread. If the rate of Living Wage adoption does not increase to put it on track to be the norm by 2020, then the majority of the Committee would therefore want the Mayor to seek a statutory solution from government to incrementally raise the legal minimum wage rate in London, over a period of time, to the level of the London Living Wage.<sup>i</sup>**

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<sup>i</sup> The Conservative Group supports the London Living Wage campaign and all that the Mayor has done to further it. We also support the Mayor's desire for it to be the norm in London and for it to be a voluntary measure for those companies who can afford to and have been convinced by its benefits. We believe that forcing all firms to pay a Living Wage in London is the wrong approach, not least because many small firms would be unable to do so. As such, we do not believe that the Mayor should be seeking a statutory solution from government, but should focus his efforts on persuading more firms in London of the good business sense and commitment to its staff that the Living Wage represents.

## 4. Supporting skills progression for low-paid workers

- 4.1. According to the TUC, 'it will be easier to persuade employers to raise pay when productivity is also increased. Many employers have found that paying the living wage enables them to retain and motivate good staff, but pay is not the only determinant of productivity.'
- 4.2. There is a growing consensus behind an increased focus on driving skills progression for low-paid workers. It is as important to develop job progression for people in work as it is to train those out of work. In its oral evidence to the Committee, the CBI prioritised training support for businesses to increase productivity, allowing them to increase wages and progress workers beyond this entry level rate.<sup>80</sup>
- 4.3. Higher levels of pay are linked to higher productivity. Employers can adapt their business models to allow for skills acquisition and progression.<sup>81</sup> Subsequent increases in productivity could allow employers to adopt business models where the London Living Wage is the lowest grade in their pay scale. In turn, employees become more motivated and staff turnover is reduced - ample justification for the effort and resource expended. As noted by the UK Commission on Employment and Skills 'having loyal staff whose knowledge and experience has been maximised and retained through training, development and support has resulted in improved performance and productivity.'<sup>82</sup>
- 4.4. Employers have a key role in championing progression. The ethos and commitment of an organisation and the managers within it are fundamental to a progression-focused approach to staff.
- 4.5. However, skills funding is currently insufficiently focused on low-income working people. The Adult Skills Budget does not offer support for up-skilling people in work aged 24 and over. If skills provision is fundamental to addressing unemployment, it cannot be right that progressing low-skilled workers is neglected.
- 4.6. There is an ongoing need to pool good practice in progression for low-paid workers. Good practice examples can be gathered by a number of bodies, including government, funders, employers and delivery agencies. The most useful examples would be of effective practice in London.<sup>83</sup>

**Skills strategies and interventions should include a focus on raising the skills of low-paid workers. Skills progression should then help to increase productivity.**

### **Recommendation 9**

**The London Enterprise Panel** should include a focus on low-paid workers in future LEP skills strategy. This should include:

- developing an open source resource of successful initiatives to progress and retain low-paid staff; and
- lobbying for the Adult Skills Budget to allocate significant resources to support progression of low-paid workers.

**The Mayor and London Enterprise Panel** should record and publish information on the proportion of individuals progressing into London Living Wage jobs as an outcome for relevant European Social Fund and Growing Places Fund funding, as well as apprenticeships.

### *Quality part-time jobs*

- 4.7. The hourly wage for almost half (48 per cent) of part-time jobs in London is less than the London Living Wage. This is four times higher than the rate for full time workers (12 per cent).<sup>84</sup> There is evidence of a significant ‘part-time penalty’ in inner and central London – where those in part-time jobs can face substantially lower pay when compared to full-time workers in comparable occupations.<sup>85</sup>
- 4.8. The Committee recently examined the issue of parental employment in the capital.<sup>86</sup> We found that most part-time positions in London are being created in industries that are associated with low pay and less secure work. In his 2012 manifesto, the Mayor pledged to create 20,000 quality part-time jobs.<sup>87</sup> This is included as one of the targets in the London Enterprise Panel’s Jobs and Growth Plan,<sup>88</sup> but neither the LEP nor the GLA currently have any specific plans to influence the quality of part-time jobs created in London.<sup>89</sup>
- 4.9. The Joseph Rowntree Foundation has recently highlighted the need to support dual-earning families currently in ‘in-work poverty’.<sup>90</sup> A second earner in such households is likely to work part-time. Increasing opportunities for Living Wage part-time jobs could help to address low

household incomes and potentially help the main earner to reduce their hours or work less overtime.

**There should be targeted action to develop more London Living Wage part-time jobs, particularly addressing the low pay of part-time workers in inner London.**

### **Recommendation 10**

**The Mayor and London Enterprise Panel** should share details of their plans to increase the number of part-time jobs in London paying at least the London Living Wage. This work could include targeted work in inner London.

# Appendix 1 Recommendations

## Recommendation 1

**The Mayor** should set out his support for those London boroughs seeking to pilot partial devolution of minimum wage enforcement powers. If these pilots prove to increase effectiveness of minimum wage enforcement in London, the Mayor should then call on government to partially devolve minimum wage enforcement to London boroughs (with HMRC retaining a central function).

**The Government** should make the necessary legislative changes to allow for piloting of partial devolution of minimum wage enforcement in London.

**London boroughs** should ensure that minimum wage rules are followed for both directly employed and contracted social care staff, particularly in relation to payment of travel time between care assignments and reimbursement of any associated expenses during this time.

## Recommendation 2

**The Mayor** should ensure the Metropolitan Police Service adheres to the commitment to become fully Living Wage compliant by January 2016.

**Kit Malthouse AM, in his capacity as Chairman of London & Partners,** should ensure London & Partners becomes an accredited Living Wage employer by November 2014.

## Recommendation 3

**The Mayor** should write a joint letter with the Assembly to all unaccredited London boroughs, Whitehall departments and other public sector bodies. The letter should set out the case for becoming Living Wage employers and ask for a response setting out organisations' assessment of the feasibility of adopting the Living Wage for both directly-employed and contracted staff. Responses to these letters should be tracked and proactively followed up.

**The Mayor** should propose an item covering London borough adoption of the Living Wage for the agenda of a meeting of the Congress of Leaders (the joint meeting between the Mayor and borough leaders). This discussion would aim to examine the opportunities for further expansion of the Living Wage.

**London boroughs** seeking Living Wage compliance should set a clear start date for staged implementation to social care workers, including contracted services.

#### **Recommendation 4**

**The Living Wage Foundation** should set out a framework for Living Wage zones clearly stating that areas will become official zones only once the majority of low-paid workers' wages rise to, or track, the Living Wage and with an explicit aim for all low-paid workers to be paid the Living Wage in the future.

**The Living Wage Foundation and the working groups for the Canary Wharf and more London Living Wage zones** should publish an initial evaluation within the first year of the zones' development.

#### **Recommendation 5**

**The Mayor** should target 30 catering and hospitality employers in 2014 alongside 30 high street retailers. The Mayor should report in both November 2014 and November 2015 on instances where this contact has contributed to Living Wage accreditation.

**The Mayor and the Living Wage Foundation** should jointly develop a cohort of 20 employer champions across low-pay sectors. These champions would advocate the Living Wage to their respective sectors.

#### **Recommendation 6**

**The Mayor** should continue to make the case for a Living Wage procurement standard, particularly to senior politicians and officers in London boroughs and Whitehall departments. The Mayor should particularly emphasise the positive impact that Living Wage procurement would have on social care workers across the capital.

#### **Recommendation 7**

**The Mayor** should use his dialogue with institutional investors to advocate adoption of Living Wage standards, particularly when investors have a high proportion of London-based beneficiaries and/or London-particular assets.

**The Mayor** should highlight the benefits of responsible investment in London as he promotes the London economy to potential investors.

**The Mayor** should be ready to support the Responsible Investment for London (RI4L) network, particularly where the network is promoting the Living Wage to investors.

### **Recommendation 8**

**Transport for London and the London Legacy Development Corporation** should produce an assessment of the consequences of championing the Living Wage to potential and current tenants by summer 2014, including the specific areas for exploration in 3.22.

**The Mayor** should then set out his position on the role of TfL and LLDC in promoting the Living Wage to tenants in the Fairer London 2014 report (due to be published in November 2014) and then promote similar approaches to other commercial landlords.

**Other public bodies with commercial tenants such as London boroughs, government departments and health organisations** should also consider how to promote the Living Wage to tenants.

### **Recommendation 9**

**The London Enterprise Panel** should include a focus on low-paid workers in future LEP skills strategy. This should include:

- developing an open source resource of successful initiatives to progress and retain low-paid staff; and
- lobbying for the Adult Skills Budget to allocate significant resources to support progression of low-paid workers.

**The Mayor and London Enterprise Panel** should record and publish information on the proportion of individuals progressing into London Living Wage jobs as an outcome for relevant European Social Fund (ESF) and Growing Places Fund funding, as well as apprenticeships.

### **Recommendation 10**

**The Mayor and London Enterprise Panel** should share details of their plans to increase the number of part-time jobs in London paying at least the London Living Wage. This work could include targeted work in inner London.

## Appendix 2: Status of the Mayor's Living Wage commitments

Mayoral commitment	Status
Increase to 250 the number of companies paying the London Living Wage	There are 263 accredited Living Wage employers in London - 111 are private sector employers. We do not know how many of these were directly influenced by the Mayor.
Work with London Citizens to sign up 100 new large (250+ employees) London employers	70 of the accredited Living Wage employers in London have 250+ employees. In 2013, the Mayor wrote personally to the CEOs of over 40 organisations with over 250 employees. It is unclear to what extent accredited employers have been influenced by the Mayor.
Work with London Citizens to sign up five employers each in the retail & hospitality sectors	The GLA will target 30 retail employers in 2014.
Work with London Citizens to sign up 16 London boroughs by 2016 and all London boroughs should be accredited by 2020.	There are currently 10 accredited London boroughs and two more are in the process of accreditation.
Lobby government to adopt the London Living Wage across Whitehall departments	The Department of Work and Pensions is the only Whitehall department to have publicly committed to Living Wage accreditation.
Achieve Living Wage accreditation across the GLA group	All GLA functional bodies are accredited Living Wage employers. The MPS are currently phasing in the Living Wage as part of their accreditation licence.
Ensure that the Living Wage Olympic Legacy continues by negotiating Living Wage commitments with all developers on the Olympic Park.	The London Legacy Development Corporation (LLDC) requires all of its contractors on the Park to pay its directly employed workforce the London Living Wage as a minimum. It is not a requirement for subcontractors.
Establishing Living Wage zones	Discussions are on-going in Canary Wharf and more London but neither of the zones has been officially established.
Work with London Citizens to contribute to the success of Living Wage Week	The Mayor spoke at the launch event for Living Wage Week 2013, attracting media coverage. During the week the GLA allocated one of its TfL poster circuits (50 sites) to promote the Living Wage.

# Appendix 3: How we conducted the investigation

## Written submissions

1. Prof. Jane Wills, Queen Mary, University of London
2. Usdaw (Union of shop, distributive and allied workers)
3. Equity
4. Business in the Community
5. Living Wage Foundation
6. ShareAction
7. Unite
8. Prof. Len Shackleton, on behalf of the Institute of Economic Affairs
9. Child Poverty Action Group (CPAG)
10. Intern Aware
11. Trust for London
12. TUC
13. Community Investment Coalition
14. Association of Convenience Stores
15. UNISON
16. British Retail Consortium
17. Universities and Colleges Employers Association (UCEA)
18. Joseph Rowntree Foundation
19. CBI

## Public comments

Submissions were made by four members of the public.

## Committee meetings

12 June 2013, with the following guests:

- Neil Carberry, Director for Employment and Skills, Confederation of British Industry (CBI)
- Neil Jameson, Executive Director, Citizens UK and Lead Organiser, London Citizens
- Mike Kelly, Head of Corporate Social Responsibility, KPMG, and Chair, Living Wage Foundation Advisory Council
- Matthew Pennycook, Senior Researcher, Resolution Foundation
- Professor Engelbert Stockhammer, Professor of Economics, Kingston University

- Professor Jane Wills, Professor of Human Geography, Queen Mary University
- Fiona Wilson, Head of Research and Economics, Union of Shop, Distributive and Allied Workers (Usdaw)

For the transcript see:

<http://www.london.gov.uk/moderngov/ieListDocuments.aspx?CId=255&MIId=4896&Ver=4>

9 July 2013, with the following guests:

- Dr Gerard Lyons, Mayor's Chief Economic Advisor, GLA
- Kit Malthouse AM, Deputy Mayor for Business and Enterprise

For the transcript see:

<http://www.london.gov.uk/moderngov/ieListDocuments.aspx?CId=255&MIId=4898&Ver=4>

### **Informal meetings**

Committee Members and/or the Scrutiny Manager held informal meetings with:

- A group of employers and representative bodies from the retail, hospitality, social care and services sectors;
- Chartered Institute of Personnel and Development (CIPD);
- The Living Wage Foundation;
- Policy Exchange;
- ShareAction; and
- Trust for London.

## Endnotes

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- <sup>1</sup> Trust for London, London's Poverty Profile, November 2013
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  - <sup>3</sup> Trust for London, London's Poverty Profile 2013, October 2013
  - <sup>4</sup> GLA Economics, Low pay in London, February 2014
  - <sup>5</sup> These are the London Boroughs of Ealing, Hackney, Haringey, Lewisham, Newham, Sutton and Waltham Forest. Centre for London/Trust for London, Settle for nothing less: National Minimum Wage compliance and enforcement, December 2013
  - <sup>6</sup> Intern Aware, Submission to the Committee
  - <sup>7</sup> ONS, Estimating Zero Hours Contracts from the Labour Force Survey
  - <sup>8</sup> Skills for Care workforce estimates 2011, NMDS-SC May 2013, 2012 and 2011.
  - <sup>9</sup> Department for Business, Innovation and Skills, Zero hours employment contracts, December 2013
  - <sup>10</sup> Department for Business, Innovation and Skills, Zero hours employment contracts, December 2013
  - <sup>11</sup> The NMW is set annually by government on the advice of the Low Pay Commission, and is enforced by HM Revenue & Customs (HMRC). The NMW is currently £6.31 an hour for adults over 21. In this report, the phrase 'minimum wage' refers to the National Minimum Wage
  - <sup>12</sup> Department for Business Innovation and Skills, National Minimum Wage: Government evidence for the Low Pay Commission on the additional assessment, January 2014
  - <sup>13</sup> Centre for London/Trust for London, London Rising, November 2013
  - <sup>14</sup> Low Pay Commission, National Minimum Wage Report, 2013
  - <sup>15</sup> Centre for London/Trust for London, Settle for nothing less: National Minimum Wage compliance and enforcement, December 2013
  - <sup>16</sup> Economy Committee, 12 June 2013
  - <sup>17</sup> W Hutton, Hutton Review of Fair Pay in the public sector, March 2011
  - <sup>18</sup> Local Government Association, Strengthening the strategic approach to pay and rewards, February 2012
  - <sup>19</sup> Economy Committee, Centre Stage: Supporting small theatres in the capital, July 2013
  - <sup>20</sup> Equity, Written submission to the Committee
  - <sup>21</sup> GLA, A Fairer London 2013
  - <sup>22</sup> Department for Business Innovation and Skills, National Minimum Wage: Final government evidence for the Low Pay Commission's 2014 report, January 2014
  - <sup>23</sup> <http://www.geog.qmul.ac.uk/livingwage/numbersandmoney.html>
  - <sup>24</sup> N Jensen and J Wills, The prevalence and impact of the Living Wage in the UK: A survey of organisations accredited by the Living Wage Foundation, October 2013
  - <sup>25</sup> J Wills and B Linneker, The costs and benefits of the London living wage, October 2012
  - <sup>26</sup> Professor Jane Wills, Submission to the Committee
  - <sup>27</sup> Landman Economics, The economic impact of extending the Living Wage to all employees in the UK, October 2013
  - <sup>28</sup> Professor Engelbert Stockhammer, Wage-led growth: An introduction, 2011
  - <sup>29</sup> IPPR/Resolution Foundation, Beyond the bottom line: The challenges and opportunities of a Living Wage, January 2013
  - <sup>30</sup> Estimated at £608m per annum by Landman Economics/TUC and £691m per annum by IPPR/Resolution Foundation.

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- <sup>31</sup> <http://www.cbi.org.uk/media-centre/press-releases/2013/12/in-2014-we-need-balanced-growth-that-benefits-everyone/>
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- <sup>33</sup> Landman Economics, *The economic impact of extending the Living Wage to all employees in the UK*, October 2013
- <sup>34</sup> R Blundell, C Carford, W Jin, *What can wages and employment tell us about the UK's productivity puzzle?*, July 2013
- <sup>35</sup> Gerard Lyons, *Written response to the Economy Committee*, September 2013
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- <sup>39</sup> *The cost of living and working in London*, IDS Pay Report, Vol. 1118 Nov 2013
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- <sup>42</sup> Daycare Trust; Family and Parenting Institute, *Childcare costs survey 2013*, February 2013
- <sup>43</sup> Resolution Foundation and IPPR, *What price a living wage? Understanding the impact of a living wage on firm-level wage bills*, May 2012
- <sup>44</sup> GLA, *A Fairer London 2005*, 2005
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- <sup>46</sup> GLA, *A Fairer London 2013*, 2013
- <sup>47</sup> <http://www.livingwage.org.uk/principal-partners>
- <sup>48</sup> <http://www.livingwage.org.uk/how-become-living-wage-employer>
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- <sup>51</sup> Subsequent references to the Deputy Mayor refer to Kit Malthouse AM
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- <sup>53</sup> Budget Monitoring Sub-Committee, 16 October 2013
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- <sup>55</sup> Mayor of London, *Vision 2020*, June 2013
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- <sup>59</sup> Economy Committee informal meeting 10 September 2013
- <sup>60</sup> Citizens UK, *Charter of good practice for care providers and commissioners*, 2013
- <sup>61</sup> Equality and Human Rights Commission, *Close to home: An inquiry into older people and human rights in home care*, November 2011
- <sup>62</sup> Living Wage Commission, *Working for poverty: The scale of the problem of low pay and working poverty in the UK*, February 2014
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- <sup>64</sup> Fernandez J et al, *Changes in patterns of social care provision in England 2005/6-2012/13*, December 2013
- <sup>65</sup> <http://www.islington.gov.uk/about/fairness-commission/putting-fairness-practice/what-we-are-doing/london-living-wage/Pages/default.aspx>
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- <sup>73</sup> The Act was given Royal Assent on 8 March 2012.
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- <sup>75</sup> <http://www.telegraph.co.uk/news/politics/9656627/Downing-Street-says-Boris-Johnsons-living-wage-may-be-illegal.html>
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- <sup>78</sup> London Assembly Budget and Performance Committee meeting on Transport for London sponsorship and other non-fares income, 16 April 2013
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- <sup>86</sup> Economy Committee, *Parental employment in London: Summary findings*, December 2013
- <sup>87</sup> Boris Johnson, *Growing the London Economy*, 2012
- <sup>88</sup> London Enterprise Panel, *Jobs and Growth Plan for London*, April 2013
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