

# THE ECONOMIC IMPACT OF THE GLASGOW LIVING WAGE

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# AIMS OF THE RESEARCH

- A structural analysis of the the Glasgow economy and labour market focussing on factors relevant to the payment of the Glasgow Living Wage (GLW).
- A review of living wage research in other parts of the UK.
- An evaluation of the impact of the GLW on employers and employees.
- An evaluation of the impact of the GLW on household types

# BACKGROUND



- In work poverty is one of the most distinctive features of poverty in the UK today.
- Of 13 million people in poverty in the UK, 6.7 million are in households where at least one person works (ONS, 2013).
- Combined with rising levels of underemployment, these labour market patterns have contributed to greater levels of support for the use of living wages that can lift workers from poverty and social exclusion.

# LIVING WAGE – EFFECTS ON EMPLOYERS

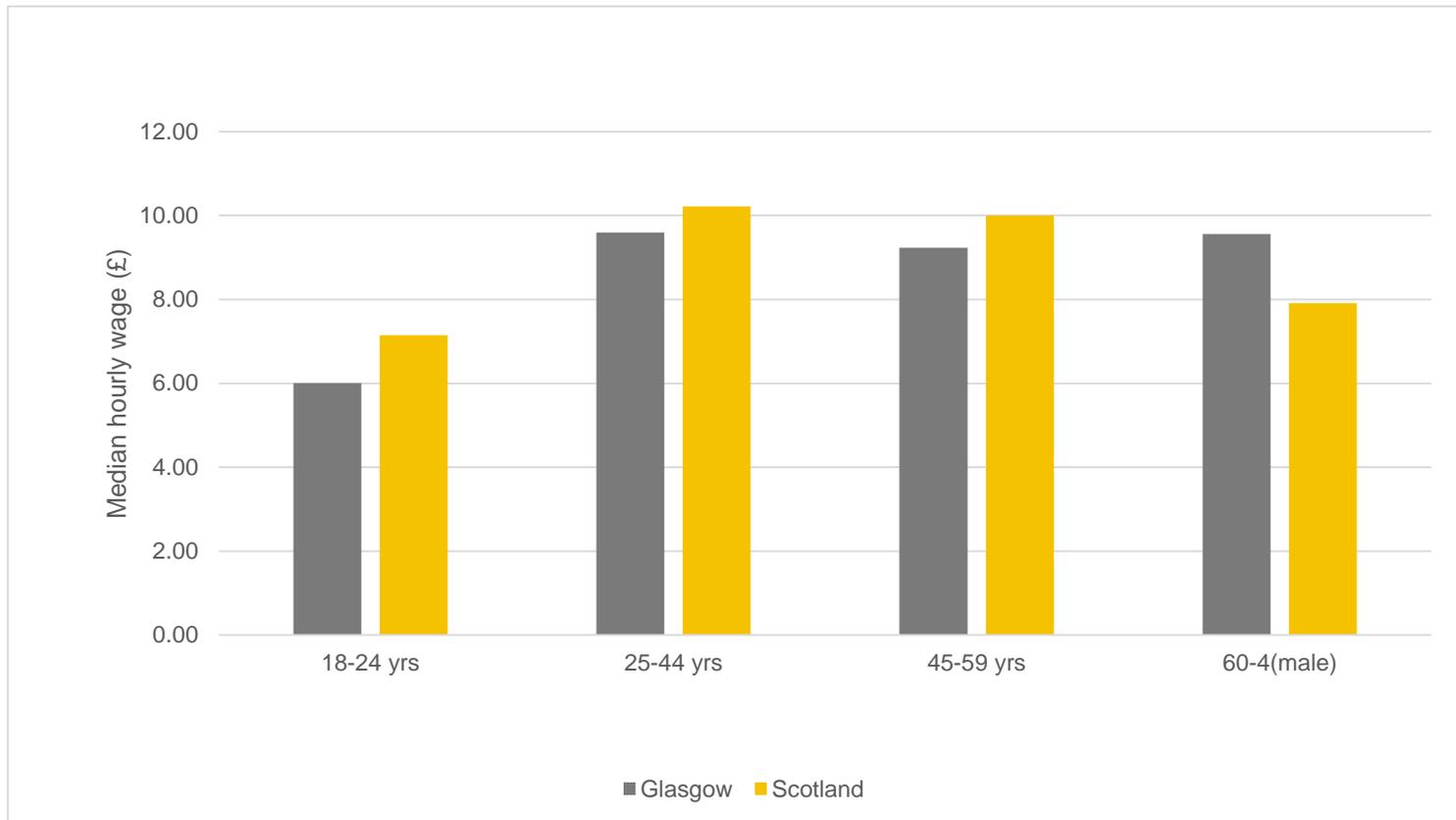
- Studies of the London LW describe improvements in the recruitment and retention of staff, improved morale, motivation, productivity and firm reputation.
- London LW firms also report reduced levels of absenteeism and sick leave and enhanced quality of work from employees.
- However, these findings are largely non-quantified benefits based on qualitative data from samples of London LW firms.
- The cost of introducing the LW differs by the proportion of jobs paying less than the LW within each firm.
- But is also measured by the cost of wage spillover effects to the firm.

# GLASGOW LABOUR MARKET

- Moderately more are employed in elementary, low-paid occupations in Glasgow (12.8%) than in Scotland (11.4%).
- Proportionately more people have no qualifications and proportionately less have NVQ 1 to 2 level qualifications in Glasgow compared to Scotland.
- As those with no or low levels of qualifications are likely to be in low-paid employment, this suggests that the GLW may have a higher proportionate effect in Glasgow.
- It is estimated that around 18.3% (48,175 people) were paid less than the GLW hourly rate in Glasgow.
- Increasing the wages of these people up to the GLW rate would add around £76 million to the Glasgow labour market.

# GLASGOW LABOUR MARKET

Median hourly pay by age group.



Source: Scottish Household Survey (2009/10)

# FINDINGS FROM GLW EMPLOYERS

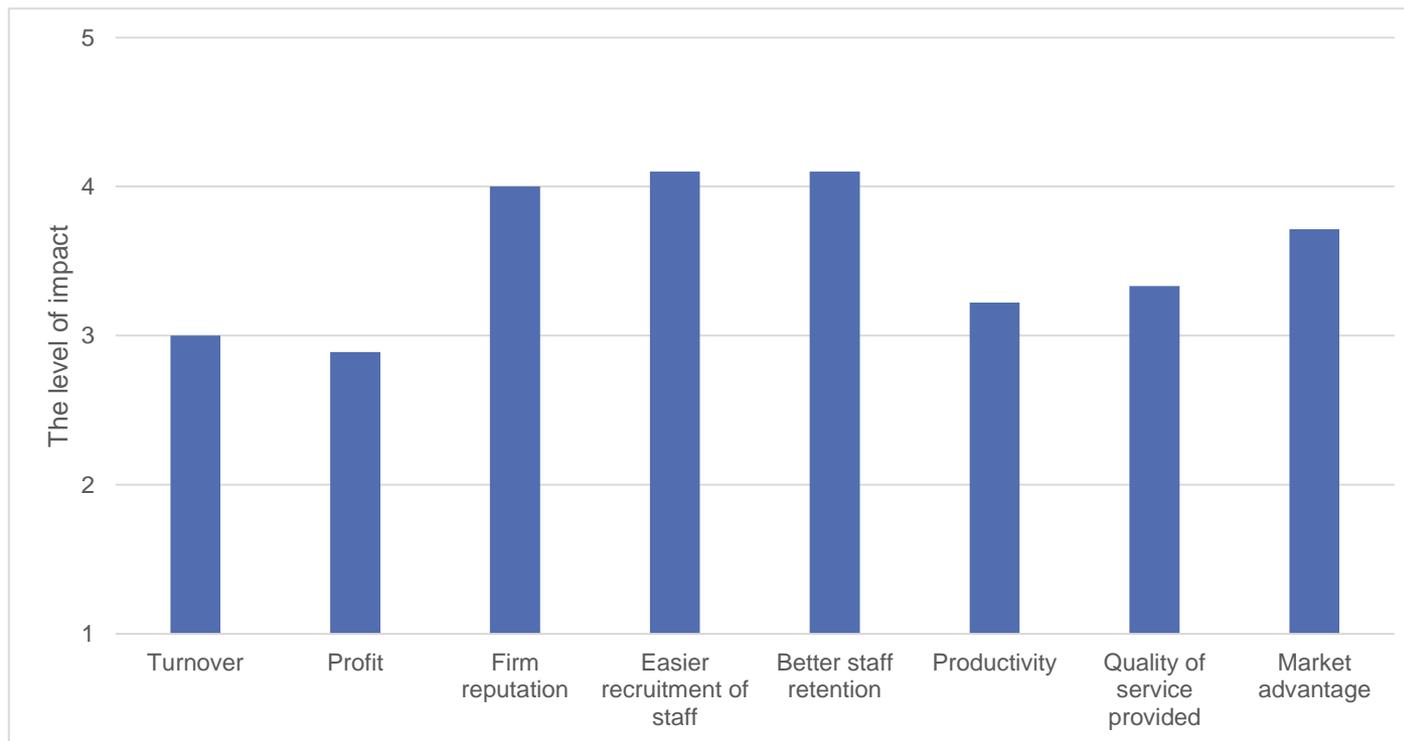
- Interviews with GLW employers found:
  - A strong ethical dimension to payment of the GLW.
  - A belief by some that the GLW had a positive impact on staff performance and morale.
  - A belief that the reputation of the company was enhanced by being seen as a GLW employer.
  - Uncertainty on the relationship between profit, turnover and the GLW – employers had not conducted any in-depth assessment on the effects of paying the GLW.

# FINDINGS FROM GLW EMPLOYERS

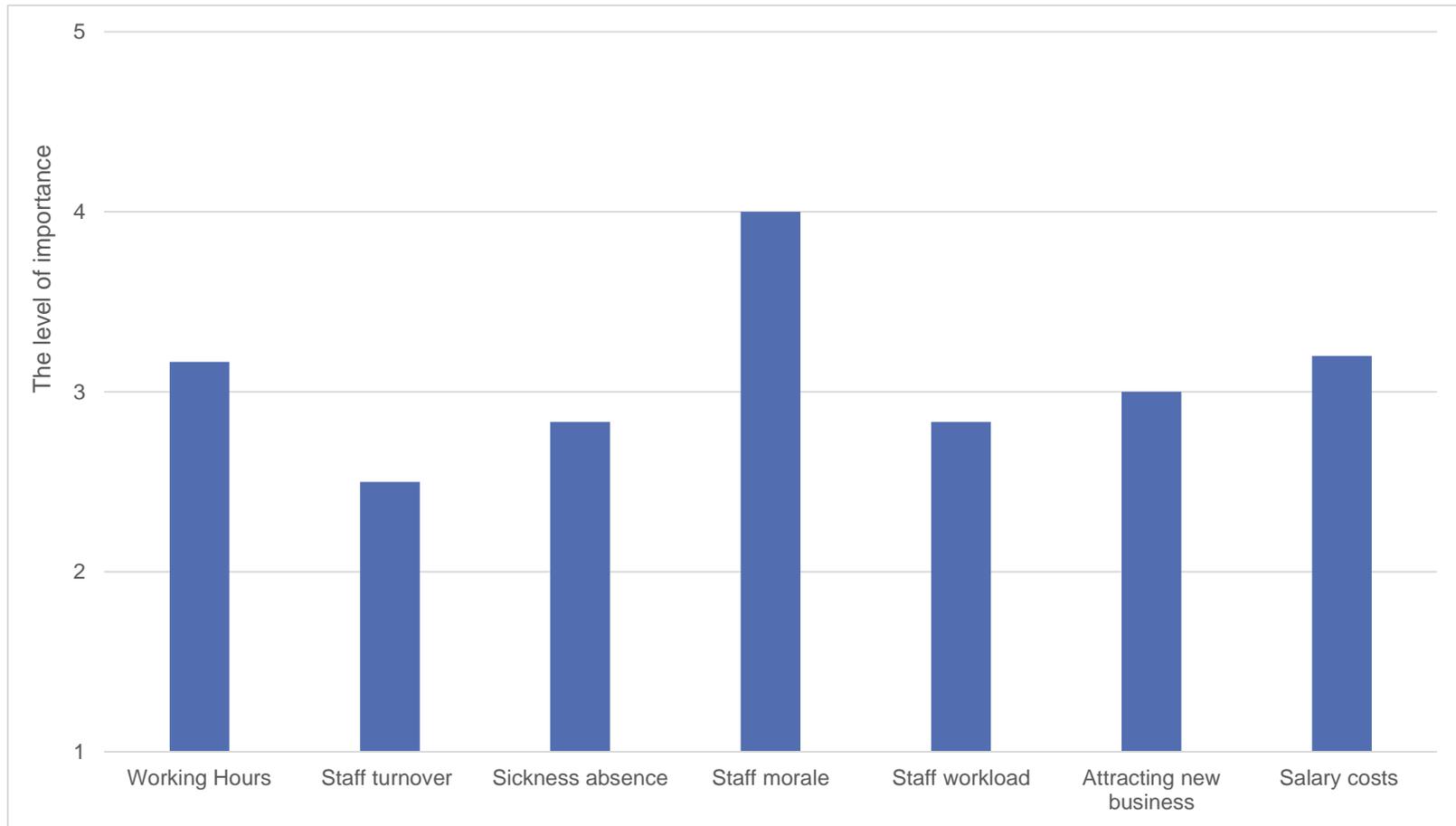
Employers were asked to measure the impact of the GLW on their firm using a scale where:

1 = Insignificant

5 = Significant



# FINDINGS FROM GLW EMPLOYERS



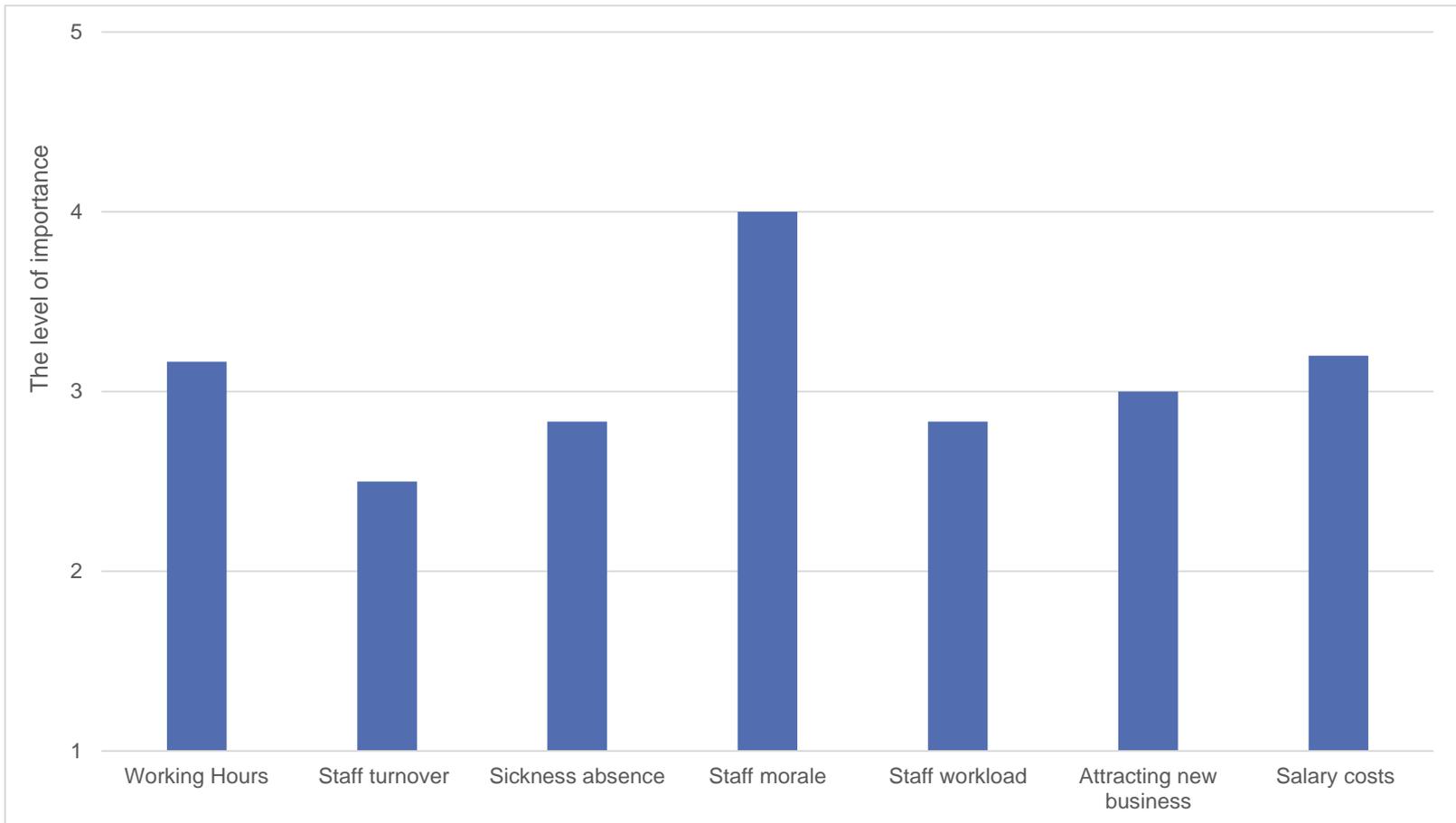
# FINDINGS FROM GLW EMPLOYERS

- A business owner described how:
  - *“I think the living wage fitted in with the ethos of the company. Employees are seen as important to the company. We’ve never sacked anyone in 23 years; a few people have left for various reasons”.*
- Another employer described business benefits to payment of the GLW:
  - *“I mean we win business in the external market...traditionally we were up against companies that don’t pay the living wage so we have to sell the whole package. We are trying to sell an awful lot harder in a more difficult market place than we would have been had we not been paying the Glasgow Living Wage”*

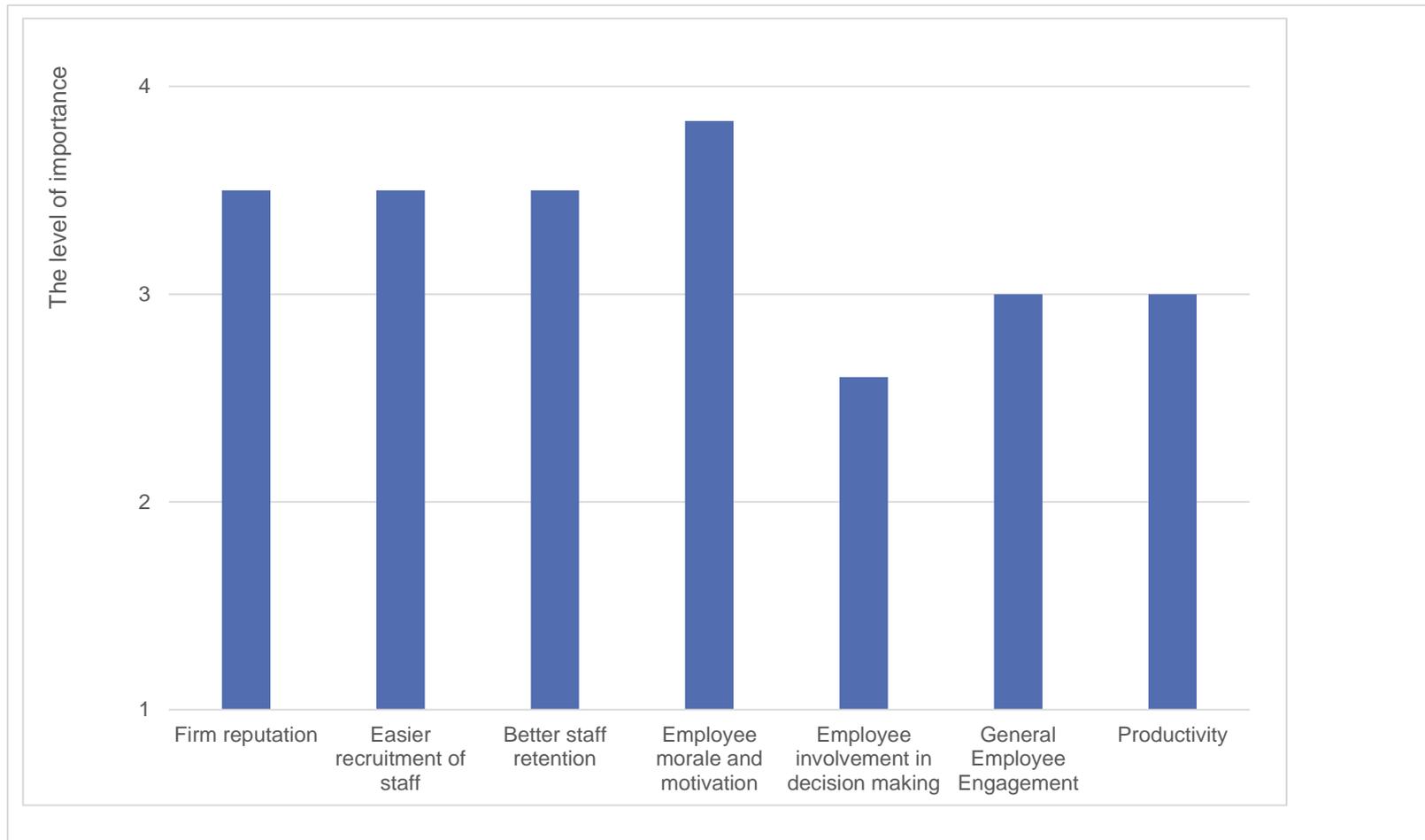
# FINDINGS FROM NON-GLW EMPLOYERS

- Employers that did not pay the GLW were asked similar questions to allow for comparability.
- Some were concerned about the impact on salary costs, but a similar number did not see this as an issue.
- Most thought that the GLW would improve staff morale and firm reputation, but were largely neutral on the anticipated impact in other areas of their business.
- Employers lacked awareness and understanding on what the GLW was and what it would mean for their business.

# FINDINGS FROM NON-GLW EMPLOYERS



# FINDINGS FROM NON-GLW EMPLOYERS



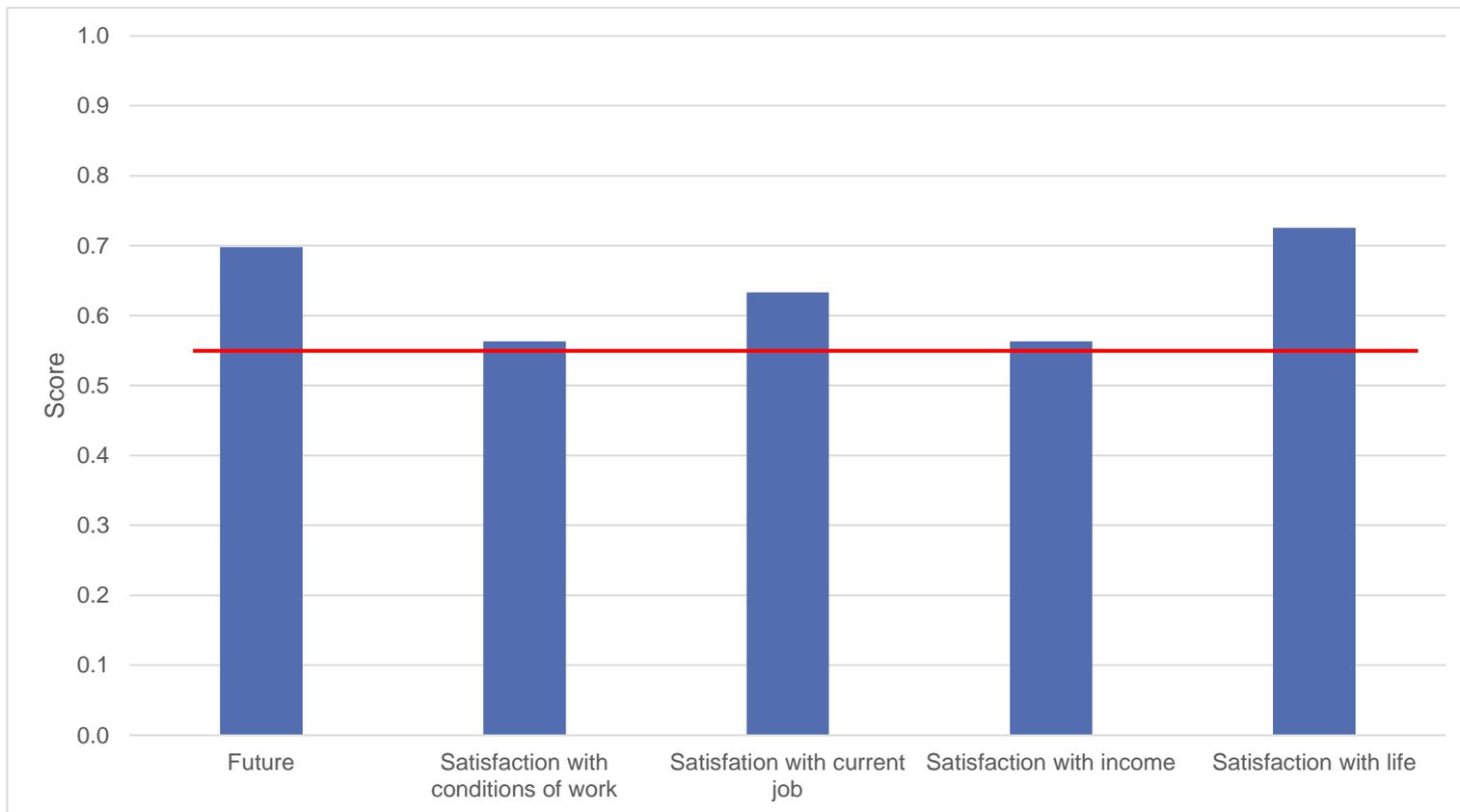
# FINDINGS FROM NON-GLW EMPLOYERS

- Some non-GLW employers described perceived negative effects on their competitiveness from introducing the GLW:
  - *“The jobs I’m bidding for are looking for the cheapest costs. They are not interested in the Glasgow Living Wage, in fact it would probably put them off as I would be a high bidder. If I had to introduce it, I’d have to look at other ways of squeezing money from other areas. My clients want the cheapest at the best quality”.*
  - *“All clients want is the cheapest cost, so I don’t see how it would give me a competitive advantage. If I was bidding for council jobs or public work maybe, but not private”.*

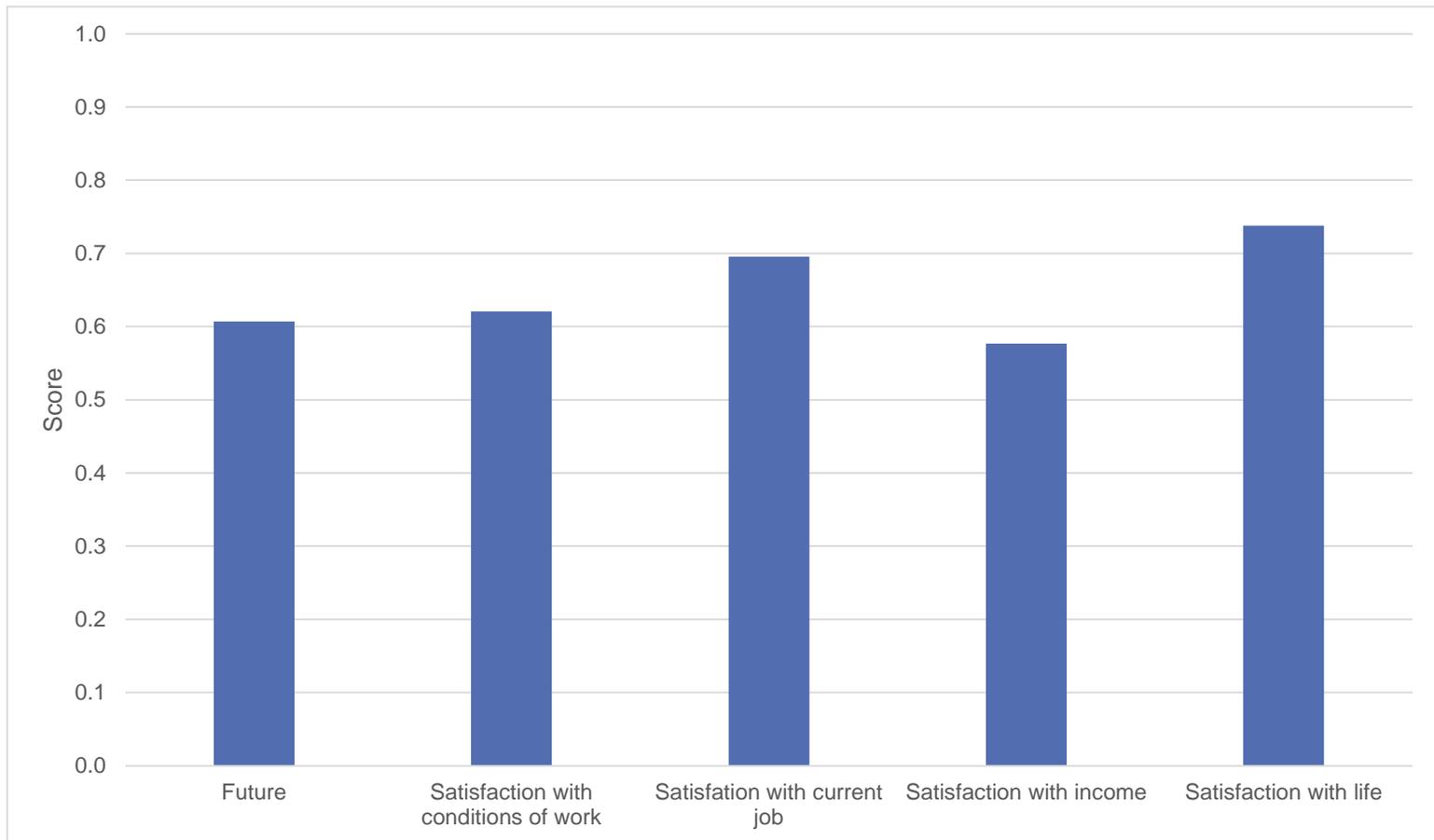
# FINDINGS FROM EMPLOYEES PAID GLW

- 58 employees paid the GLW and 84 employees not paid the GLW were asked their views on:
  - How do you think you will manage in the future?
  - How satisfied are you with your conditions of work?
  - How satisfied are you with your current job?
  - How satisfied are you with your income?
  - How satisfied are you with life?
- Comparison of responses from GLW and non-GLW employees shows limited differences in their outlook

# FINDINGS FROM GLW EMPLOYEES

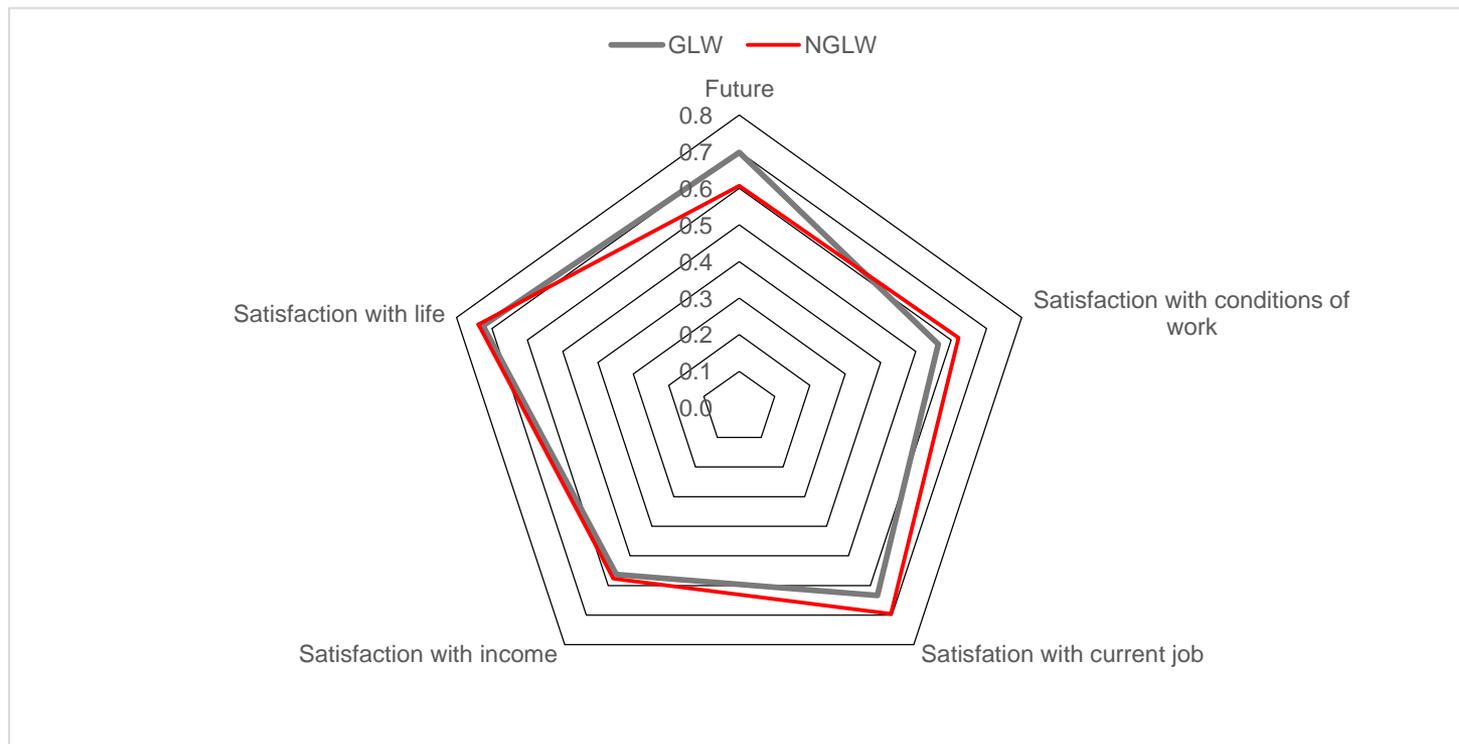


# FINDINGS FROM NON-GLW EMPLOYEES



# EMPLOYEE COMPARISON

- Comparison of the GLW and Non-GLW employee groups shows little difference between the groups on the range of factors explored



# PERFORMANCE OF GLW FIRMS

- Using data from Companies House, the financial performance of companies that pay the GLW was compared with those that do not.
- Comparison was made of turnover per employee, profit margin, number of employees, average salary and value added index (profit before tax and salaries/number of employees).
- There was little to distinguish between the performance of GLW companies and their peers.
- Comparing performance data from companies paying the GLW is not statistically significantly different from peer companies who do not pay the GLW.
- There is insufficient evidence to support the statement that 'paying the living wage is detrimental to company performance'.

# COMPARISONS

- There are no statistically significant differences between the GLW firms and the peer group firms.
- However average salary in the GLW firms marginally is lower.

Performance measure	Living Wage Company	Peer Group	P - value
Turnover per employee	164089.6	145900.0	0.451
Profit margin (%)	4.4	7.8	0.146
Numbers Employed	286.3	146.9	0.103
Average Salary (£)	30510.6	31360.6	0.674
Value added Index	31690.1	41772.0	0.125

# IMPACT OF GLW ON THE HOUSEHOLD

- The relationship between income tax, benefits, tax-credits and wages were modelled to understand the effects of the GLW in the household.
- In households where the majority of income is derived from earned sources, then the shift from National Minimum Wage to GLW can increase annual income by £1,428.
- In households where Working Tax Credits are an important source of household income, payment of the GLW can reduce household income as income from WTC falls and tax paid rises

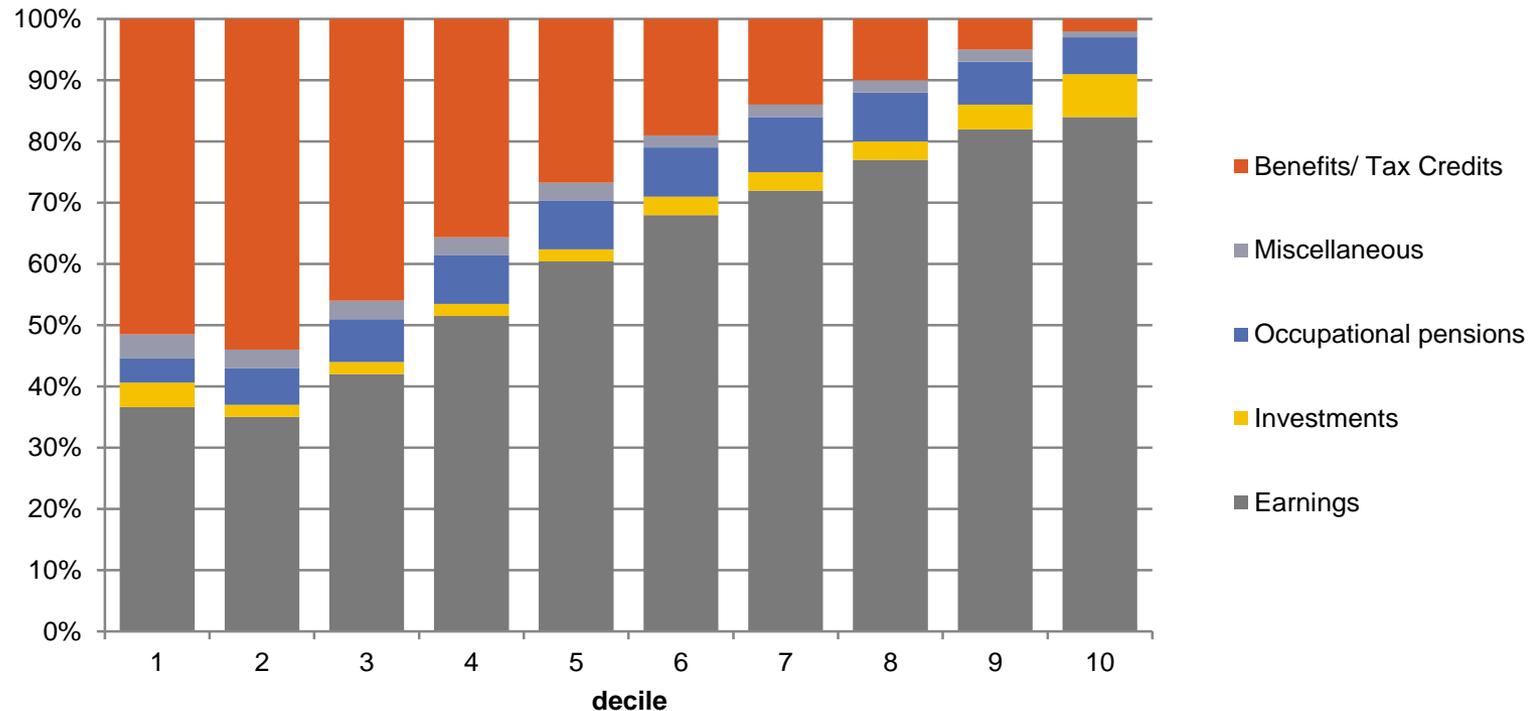
# IMPACT OF GLW ON THE HOUSEHOLD

Taxation and benefit income based on financial year 2014 - 2015	Single Male paid National Minimum Wage, no children	Single Male paid Glasgow Living Wage, no children
Pre-tax, earned income	12,831.85	15,556.82
Income tax paid	556.37	1,111.35
National Insurance paid	582.47	909.47
Net earnings after tax and NI	11693.01	13536
Working Tax Credit	115.93	0
Child Tax Credit award	0	0
Final Tax Credit award for period	115.93	0
Housing Benefit	298.55	0
Total Entitlements	414.48	0
Wages + Tax Credits + Benefits - Taxes	12,107.49	13,536.00
Difference (GLW – NMW = Difference)	*	1,428.51

# IMPACT OF GLW ON THE HOUSEHOLD

Taxation and benefit income based on financial year 2014 - 2015	Couple, 2 children, both paid National Minimum Wage, one in full time work and one in part time work	Couple, 2 children, both paid Glasgow Living Wage, one in full time work and one in part time work
Pre-tax, earned income	18,096.18	21,939.11
Income tax paid	566.36	1,111.35
National Insurance paid	582.47	909.47
Net earnings after tax and National Insurance	16947.35	19918.29
Working Tax Credit:	8119.17	4426.58
Child benefit	1770.6	1770.6
Total Entitlements	9889.77	6248.94
Wages + Tax Credits + Benefits - Taxes	26,837.12	26,167.23
Difference (GLW – NMW = Difference)	*	-669.89

# IMPACT OF GLW ON THE HOUSEHOLD



Percentage of income from different sources by income decile.

Source: The Scottish Government 2014.

# CONCLUSIONS

- The GLW has positive effects on employee retention and recruitment and staff morale. However, these findings are from qualitative samples of a relatively small number of employers.
- The main reason for not implementing the GLW was the perceived negative impact on cost and competitiveness.
- However, companies who pay the GLW do not appear to perform worse than those who do not pay the GLW.

# CONCLUSIONS

- A living wage can improve household income for some household types. However, in the poorest households earned income represents a comparatively small proportion of total income thereby reducing the ability of living wages to bring about change.
- There is considerable scope within Glasgow for the expansion of the GLW as a mechanism alongside other approaches to address in-work poverty. Presently, a relatively small number of employers are participating in the GLW scheme.
- Occupational sectors with low-pay jobs should be targeted for inclusion in the scheme.

# LAST WORDS

*“I think it’s important for a companies’ reputation to recognise the valuable work that the employees do, and they are working for the money, and the job that they do could be very challenging and demanding, I think you have to recognise that commitment from the staff”.*

Owner of a care home that paid the GLW

*“I work really hard in a demanding job and can't afford things that others take for granted”*

*Female, 46, care worker. Not paid the GLW*