



Equality NW

In Place of Pay Inequality:

*How Local Authority Pay Policies can help
make Greater Manchester more equal and
sustainable, and why it matters*

By Benjamin Irvine

A joint report by:

Steady State Manchester and Equality North West, March 2014

(Large Print Version)

About this Report

This study by Steady State Manchester and Equality NW investigates the pay policies of Local Authorities in the North West. The objectives are to scrutinise the basis of Local Authorities' pay policies and to encourage them to implement stronger policies to reduce pay inequality within their workforce and within that of their suppliers.

About us

Steady State Manchester is a campaigning organisation working to get ideas of the Steady State Economy and Society understood and implemented by decision-makers and the wider public within Greater Manchester. We aim to encourage a groundswell and coalition for change through our general awareness-raising and education. We also support and encourage development of projects that demonstrate the alternative framework we espouse. Our three intersecting areas of concern are the ecological, the social and the economic.

www.steadystatemanchester.net

Equality North West is a regional campaign group affiliated to the Equality Trust . It promotes more equal societies on the basis of research evidence that they perform outstandingly better on measures of social cohesion, human development and reported well-being and happiness.

www.equalitynw.bligoo.com

With infinite economic growth incompatible with environmental limits and global justice, a reduction in income inequality is essential to enhance real well-being and bring us closer to living within a safe and just space for humanity.

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Introduction

Local Authorities in Greater Manchester have displayed leadership on issues of inequality by implementing Living Wage Policies¹ for their lowest paid employees. We argue that despite cuts to local government budgets, Local Authorities still have the power to effect substantial positive change in their local economies through reducing income inequality.

With an acute lack of adequate action from national government to reduce income inequality it is even more necessary to adopt bold and creative local government spending policies, which can safeguard and improve local prosperity and well-being. Such an approach can produce double or even triple dividends in social value creation, above and beyond the value of the good directly procured. In this way the social, environmental and local economic value created by reducing inequalities would outweigh any marginal increases in employment and procurement costs.

We argue that Local Authorities should see themselves as 'local economic activists' by setting internal pay multiples with employees, and in line with their responsibilities and aspirations for sustainable development and local economic well-being. We also urge them to harness their purchasing power to raise low incomes and place downward pressure on pay multiples in private sector procurement partners, through broadening Living Wage policies to cover employees of external contractors.

Reducing pay inequality and raising lower incomes not only alleviates hardship, it has the potential to invigorate more virtuous local economies through increased local re-spend and create jobs, whilst bringing us closer to living well within ecological limits.

1: The Environmental and Social Costs of Inequality

Inequality in the UK

In the 10 years to 2008 the top 20% of earners in the North West increased their incomes at roughly double the rate of the bottom 20%, in line with wider UK trends,

¹ As of June 2013, 82 of 400 Councils in England and Wales and all 32 Scottish Councils pay the Living Wage Foundation rate or a locally determined living wage to their employees. Source: '82 Councils Pay Living Wage', <http://www.gmb.org.uk/newsroom/councils-pay-living-wage>.

by 9% compared to 4%.² Amongst the Northern regions, inequality is increasing most in the North West. Income polarisation in the Manchester city-region is also the third highest in the Northern city regions.³

Whilst most people are aware of rising income inequality in the UK over the last 30 years it may come as surprise that this has been accompanied by an increase in the proportion of employees who are earning below the OECD low pay threshold.

- The number of people earning less than two thirds the median average wage has nearly doubled, from 13% in 1978 to 20% in 2011.⁴

The growth of inequality in the UK has not, therefore, just been a case of runaway high pay and stagnating wages for the rest of the workforce; the distribution of income for the lower 50% has also become more unequal. Low pay is more prevalent now than it was in 1978.

High pay is of course also part of the inequality story:

- Over the same period the share of national income going to the top 1 per cent has more than doubled from 6% to 14.5%.⁵
- Last year pay for FTSE 100 chief executives increased by an average of 12% to £4.8million.⁶
- A cut from 50p to 45p in the top rate of tax in April constituted a tax break of between £1 billion and £2.7 billion to the highest-paid 0.9 per cent of the pay scale.

The latest data shows average earnings continuing to fall in real terms when compared to increases in the Consumer Price Index.⁷ We are in the fourth year of consecutive real wage decline which is the most extended period of wage decline since the 1870's according to Bank of England data.⁸ At the same time taxpayers

2 Jenni Viitanen and Katie Schmuecker, 'Richer Yet Poorer', 2011, IPPR North, p.6

3 *Ibid.* p.8

4 Kayte Lawton and Matthew Pennycook, 'Beyond the Bottom Line: The challenges and opportunities of living wage' January 2012. IPPR, Resolution Foundation. p.21

5 Landman Economics, 'Top to Bottom: Understanding fairer pay', 2013(a). *High Pay Centre*. p.11

6 *Ibid.* p.7

7 Average total pay increased by 0.7% compared to an increase in the CPI of 2.7%. Retrieved from: <http://www.ons.gov.uk/ons/rel/lms/labour-market-statistics/october-2013/statistical-bulletin.html#tab-Earnings>

8 See: <http://touchstoneblog.org.uk/2013/06/real-wages-back-to-the-70s>

currently subsidise low-paying employers by around £4 billion in in-work cash transfers.⁹

A report by the High Pay Commission questions this situation where taxpayers subsidise low paying employers, whilst executives and shareholders claim a greater and greater share of income. The authors found that if those earning more than £150,000 took a 10 per cent pay cut and it went directly to the bottom 25 per cent, they would get a 55 pence per hour pay rise to £7.35, taking them closer to the national living wage of £7.45(at the time of the study).¹⁰ Unsurprisingly there is wholesale public support to reduce pay inequality, a study by IPPR found '82 per cent in favour of government intervention to close the pay gap.'¹¹

Not only are these income disparities arguably unfair, inequality produces large social and environmental costs. Reducing inequality is a necessary requirement to repair the economy, society and the damaged ecosystems on which we depend.

Social Costs

The social costs of inequality have been most strikingly presented in Richard Wilkinson and Kate Pickett's *The Spirit Level*.¹² The authors find strong evidence that income inequality produces a myriad of negative health and social outcomes for societies. They find a strong positive correlation between nations with high income inequality and an index of health problems (mental illness, shorter life expectancy, obesity) and social breakdowns (such as; high rates of imprisonment, homicide and teenage motherhood).

*Figure 1*¹³

9 Commission on Living Standards 'Gaining from Growth: the final report of the commission on living standards' 2012, Resolution Foundation p.9

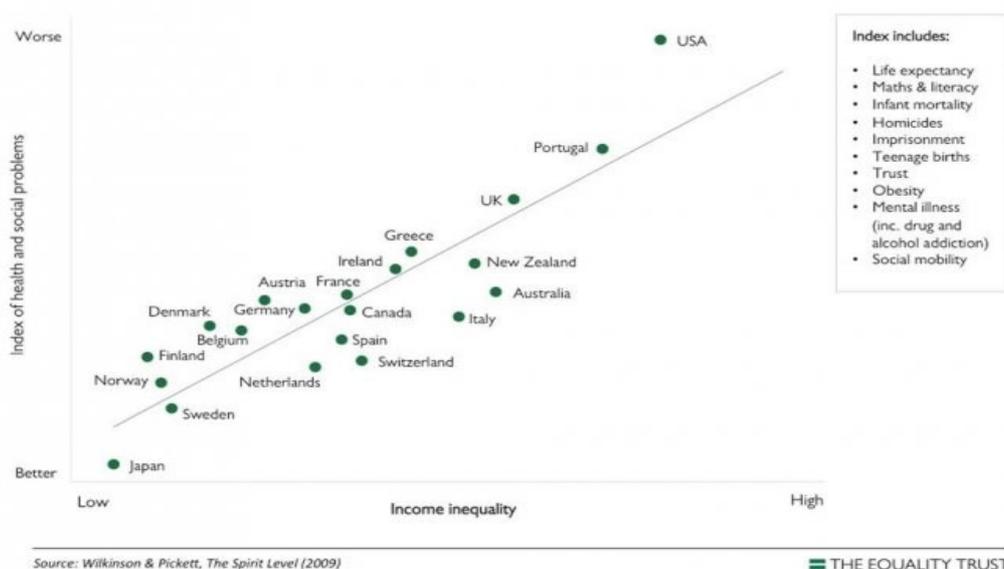
10 The Living Wage Foundation rate outside London is now £7.65 as of November 2013.
<http://www.livingwage.org.uk/calculation>

11 YouGov-IPPR Poll results in: 'Getting what we deserve?', 2011. IPPR

12 R. Wilkinson & K. Pickett, *The Spirit Level: Why More Equal Societies Almost Always Do Better*. 2009. London, Allen Lane.

13 Reproduced from: <http://www.equalitytrust.org.uk/resources/spirit-level>

Health and social problems are worse in more unequal countries



The authors also identify psycho-social effects of unequal societies; more status anxiety and feelings of superiority and inferiority. They identify the resulting status competition as a major driver of consumerism.¹⁴ Addressing income inequality has the potential to reverse these damaging cultural trends, enhance an equality of respect amongst people and mitigate the unsustainable trend towards excessive and unnecessary 'over-consumption'.

These social problems should make governments concerned to reduce income inequality for the inherent public good, but they also result in a significant, and perhaps unnecessary, cost for the government and for taxpayers. Addressing income inequality is an opportunity to reduce public expenditure on social 'costs', freeing it up for investment in much needed social 'benefits'.

In fact, in modelling the transition of the British economy to a sustainable low-carbon future the New Economics Foundation find that reducing income inequality will be absolutely essential.¹⁵ Committing the country to the necessary carbon emissions reductions in the period to 2050 they reduced projected economic growth, the challenge of how to pay for key public services was overcome by introducing levels of equality found in Denmark which dramatically reduced the cost of social ills, making up for the loss in revenue.

14 See: <http://www.equalitytrust.org.uk/research/equality-and-global-warming>

15 S. Spratt et al. 'The Great Transition: A tale of how it turned out right'. 2009. London: nef.

Increasing equality should be the foremost economic policy goal for developed nations on social considerations alone, never mind environmental. With environmental limits to continually growing the economic cake, a more equal distribution will be essential if social and environmental problems are to be tackled together.

Environmental Costs

The cost of unequally divided benefits from economic growth, is the depletion and undermining of the various environmental life support systems on which our economy and society depends.

A comprehensive study of the excessive burden the economy is placing on the biosphere was undertaken by the Stockholm Resilience Centre which concludes that globally we are exceeding three of seven key planetary boundaries; CO2 induced Climate Change, Biodiversity Loss and the Nitrogen Cycle.¹⁶

- Other estimates suggest that our global ecological footprint surpassed 'planetary carrying capacity', the planets ability to regenerate resources and absorb waste, in the mid 1970's.¹⁷
- Global annual human use of materials; biomass, fossil fuels and minerals, has increased 4 fold since 1950.¹⁸ Over a similar period global income inequality between the top and bottom fifth of countries has increased from 30:1 in 1960 to nearly 80:1 today.¹⁹
- Analysis suggests that for every £100 of extra global growth only £0.60, or 0.6%, goes to the poorest.²⁰ The economy has grown larger than the planet can sustain and yet developed nations contain only 16% of the global population, 40% struggle to subsist on less than \$2 a day.²¹

16 Johan Rockström et al., 'Planetary Boundaries: Exploring the Safe Operating Zone for Humanity,' *Ecology and Society* 14, no. 2, 2009, p.32

17 Rob Dietz and Dan O'Neill *Enough is Enough*, 2013, London: Routledge/Earthscan, p.21

18 Fridolin Krausmann et al. 'Growth in Global Materials Use, GDP and Population during the 20th Century' *Ecological Economics* 68, no. 10, (August 2009) Cited in: Dietz and O'Neill, 2013, *Op. Cit.* p.19

19 Andrew Simms and David Boyle, 'The Ratio', 2011, London: nef. p.6

20 Andrew Simms and David Woodward, 'Growth isn't Working', 2006, London: nef. Cited in: Burton, 2012, *Op. Cit.* p.17

21 United Nations Development Programme, *Human Development Report 2007/2008: Fighting Climate Change:*

The developed world is consuming drastically more than its fair share of resources. And, as argued in SSM's *In Place of Growth*, there is no evidence base that economic growth can be decoupled from further absolute increases in material and energy use.²²

This is why Steady State Manchester, along with many ecological economists and sustainable development organisations, argue that further economic growth in developed countries, growth in aggregate production and consumption, is incompatible with social justice and climate safety.

A post-growth economy means that inequalities can no longer be hidden by an expanding cake (although actually, growth increases inequalities). This brings the question of equality into the spotlight. Responsible, sustainable development means a reduction in inequalities between and within countries. If we are to address issues of poverty, deprivation and disadvantage in Manchester, and allow ecological space for essential development in the majority world, we simply cannot afford the levels of income inequality that prevail.

When considering levels of income inequality, what is fair and what is sustainable, it is worthwhile to consider notional estimates of the average income that is compatible with using planetary resources sustainably. Whilst such large calculations are problematic and multifaceted, an informed estimate suggests that, at current levels of resource use intensity, the earth can safely sustain 6.2 billion with an average income of \$5,100 (2008 prices).²³ Global population is currently around 7 billion and increasing. This is a humbling and challenging figure. It reveals the scale of the challenge for economies to develop towards ecological prosperity and starkly demonstrates how ballooning high pay is grossly unsustainable and incompatible with practical solidarity with the majority world.

Current mechanisms for determining levels of pay in the public and private sector are based on justifying principles which are a world away from considering the limits to individual claims over finite ecological space. We would argue that public pay

Human Solidarity in a Divided World. 2008. p.25

22 Mark Burton, 'In Place of Growth' 2012, Steady State Manchester. p.18-20

23 Erik Assadourian, 'The Rise and Fall of Consumer Cultures', in *State of the World 2010: Transforming Cultures*, Linda Starke and Lisa Mastny, Eds. (Washington, DC.: Worldwatch Inst. 2010) p.6. Cited in: Dietz and O'Neill, 2013, *Op. Cit.* p.35

policies should take social and ecological value creation (and destruction) into account and this would imply a convergence of pay dispersion towards a socially just and ecologically fair level where variations of reward based on worker skills and role requirements would be more modest.

The Benefits of More Equality, Moving Towards Shared Ecological Prosperity

Social costs associated with inequality are a strain on national and local government resources, the good news is, taking actions to reduce it would result in considerable gains towards Local Government goals. These include reductions in the social costs associated with inequality but also some opportunities for sustainable economic development including increases in the proportion of money re-circulated in the local economy, job creation and development towards a localized low-carbon/high-well being economy.

Equality as a Stimulus for Local Prosperity

Moves to address inequality have, in recent history, been rejected on the basis that they are detrimental to economic growth. Indeed the rise of inequality is arguably the result of the erosion of restrictions on, and taxation of, economic activity and the erosion of labour union power, on the assumption that they constrained growth.

There is increasing evidence that inequality is a barrier to the social goods we otherwise hope to derive from growth and that it is inhibiting the kind of selective growth needed to rebalance the economy to bring local prosperity and ecological safety. As a report by the High Pay Commission observes, the rich and the low paid use their incomes very differently. The rich tend to save or invest their incomes, particularly in property. Disproportionate levels of investment in, and loans for, non-productive property assets has contributed to the rise of house prices and high mortgage/rental burdens for average earners. This has been at the expense of investment in other productive areas of the economy and at the expense of low income household consumption power in the productive economy.²⁴ Ballooning incomes at the top can be seen as both cause and effect of the detrimental *financialization* of the British economy.²⁵

In their report, the High Pay Commission model a redistribution of income from top to bottom through increasing low incomes and conclude that this would not only

24 High Pay Centre, 2013. *Op. Cit.* p.19

25 Nick Shaxson and John Christensen, 'The Finance Curse' 2013, Tax Justice Network.

save the Treasury money but inject some spending power into the bottom end of the income distribution and result in a higher percentage spend in the productive area of the economy (that is, spend on food, goods and services).²⁶

This evidence would seem to debunk the myth that we need to promote growth at all costs to enable alleviation of hardship and raise living standards. Starting policies to tackle income inequality now would take us closer to shared prosperity and, with the right complimentary policies, boost knock-on processes of job creation and economic re-balancing; that is, producing more of the things we need for a prosperous low-carbon future, closer to home. This includes new low carbon technology and services but just as importantly sustainable food production, clean manufacturing and ensuring the benefits of existing economies serve people and places more equally.

This resonates with recent research here in Manchester advocating economic development which is attentive to the health and character of the 'foundational economy', the everyday economy, of non-high-tech, 'mundane' goods and services which make up a large employment base, and a complimentary re-localization of production through import substitution.²⁷

More equality can therefore be a stimulus for local economic development that is genuinely compatible with prosperity within ecological limits. More equality is a necessary step towards the transition to a 'steady-state-economy', an economy which stabilizes and maintains its rate of material throughput and pollution within ecological limits. A commitment to sustainable development in developed countries requires nothing less than this, as set out by Professor Tim Jackson in his report for the Sustainable Development Commission.²⁸

If we are to achieve an economy that increases well-being within ecological limits in the near future, a reduction in income inequality is required. Increased spending power for, and investment in, re-localized production of the basic things we need is also a positive step in this direction.

26 High Pay Centre, 2013. *Op. Cit.* p.19

27 See: Karel Williams et al. 'Against New Industrial Strategy', 2013, CRESC Working Paper 126., Manchester: Centre for Research on Socio-cultural Change. And: Karel Williams et al. 'Manifesto for the Foundational Economy', 2013, CRESC Working Paper 131. Manchester: CRESC

28 Tim Jackson, 'Prosperity without Growth?' Sustainable Development Commission Final Report, 2009.

This report investigates what steps have been taken in Local Governments to reduce income inequality through their direct role as employers and their ability to affect pay inequality in the private sector as commissioners of services.

2: Tackling Income Inequality: Local Government Pay Policies

Recent Background to Fair Pay in the Public Sector: The Hutton Review of Fair Pay and Pay Policy Statements

The Government commissioned The Hutton Review of Fair Pay amid growing concerns about income inequality and runaway high pay.

The review found that median top salaries in local government grew at a considerably faster rate than entry salaries in the period 2001-2008 (an average annual growth of roughly 5% compared to 3%).²⁹ The ratio between the incomes of chief executive and the lowest paid in local authorities therefore increased over this period. Hutton recommended that all public sector bodies publish an annual pay policy statement which detailed and justified their pay policies for executives, non-executive staff and the lowest paid employees including the relationship between executive pay and that of the rest of the workforce in the form of a top:median pay multiple; which expresses top pay as a multiple of the median average salary, (the salary at the the 50th percentile of the pay range). These recommendations were intended to tackle the disparities in pay in the public sector and increase fairness, transparency and accountability in pay setting.

Subsequently sections 38 to 43 of the Localism Act 2011 require Local Authorities to publish their pay policies including pay multiples each year. In accordance with Hutton's emphasis on the value of setting chief officer pay in the context of non-chief officer pay it explicitly requires authorities to 'explain what they think the relationship should be between the remuneration of chief officers and its employees who are not chief officers.'³⁰

The Act stopped short of enforcing a maximum pay multiple³¹ in favour of retaining

29 Will Hutton, 'Hutton Review of Fair Pay in the Public Sector: Final Report'. 2011. p.9.

30 The Department for Communities and Local Government, 'Openness and accountability in local pay: Guidance under section 40 of the Localism Act'. 2012, p.7, par:20

31 (The relationship between top pay and bottom pay or median pay can be expressed as a multiple e.g. a top to median multiple of 1:10 would express that the top salary in an organisation is 10 times the median salary.)

the autonomy of local authorities to set pay in a way that is, 'appropriate to local circumstances and ensures value for money for local taxpayers.'³² It does however allow for local policies to be formulated relating to setting and maintaining specific pay multiples.

*'while they are not required to develop local policies on reaching or maintaining a specific pay multiple by the Act they may wish to include any existing policy.'*³³

The Localism Act also indicates room for local authorities to develop local policies towards the pay of staff working for external contractors and for this to form part of public pay transparency.

*'an authority which has or develops a local policy towards the pay of staff working for external contractors with whom the authority has contracted to perform services, may wish to articulate that policy in their pay policy statement.'*³⁴

We undertook this study to determine current levels of pay dispersion within Local Authorities in Greater Manchester and their suppliers and to determine the extent to which substantive policies are in place to assess, reduce or control internal (public sector) and external (private sector) levels of pay inequality.

Methodology

The methodology of this study was as follows.

- 1) We collected the most recent Pay Policy Statements that were available for all Local Authorities in Greater Manchester in order to assess:
 1. The respective levels of pay dispersion within these authorities; the top:bottom and top:median pay multiples.
 2. The existence of policies towards setting and maintaining specific pay multiples, or substantive policies for justifying them.
 3. The existence of policies towards the pay of the lowest paid employees: i.e. Living Wage Policies.

32 DCLG Guidance, 2012, *Op. Cit.* p.4

33 DCLG Guidance, 2012, *Op. Cit.* p.7, Section: 21

34 DCLG Guidance, 2012, *Op. Cit.* p.9

4. The existence of policies towards the pay of staff working for external contractors with whom the council has contracted to perform services.

- 2) We also separately requested any information collected by Greater Manchester Local Authorities relating to the pay dispersion of their contractors. We also requested whether they had any policy or guidelines in place in relation to the pay policies of organisations they contract to perform services, such as a consideration of contractors' pay multiples or requirement that suppliers pay the Living Wage.

Findings: The State of Pay Fairness in Greater Manchester

The results of our study are summarised in tables 1 and 2. Table 1 provides a summary of salary levels and pay multiples as published in the most recent pay policy statements available for Local Authorities in Greater Manchester.

2.1: Levels of Pay and Pay Dispersion in GM Local Authorities

Table 1

Pay multiples of Greater Manchester Local Authorities listed by size of top/median pay multiple. The UK Local Authority Average is given for comparison. Data is from each authority's most recent Pay Policy Statement available at the time.

Authority	Top/Median	Top/Bottom	Median/Bottom	Top Salary	Bottom Salary	Median Salary	Year
Manchester	9.2	15.95	1.73	203934	12786	22167	2013/14
Salford	8.4	12.62	1.50	175096	13874	20858	2013/14
Tameside	8.3	13.00	1.57	166929	12841	20198	2013/14
Bolton	8.2	14.00	1.71	170000	12145	20803	2013/14
Oldham	8.1	12.06	1.49	163920	13589	20237	2013/14
Wigan	8.06	13.13	1.63	165000	12562	20448	2012/13
Trafford	8	13.61	1.70	170000	12489	21250	2012/13
Bury	7	12.16	1.74	147822	12160	21117	2013/14
Rochdale	6.4	9.86	1.53	130000	13189	20186	2013/14
Stockport	6.1	13.81	2.26	170051	12312	27849	2012/13
UK LA Average	7.53	-	-	157950	12826	-	2012/13

Source: All data is from respective local authorities pay policy statements for the year shown, apart from the UK Average, which is from a report by One Society³⁵.

³⁵ One Society, 'Leading the way on fair pay: an assessment of principal local authorities in England and Wales', 2012, London: One Society

Table 1 Analysis

- Despite instances of voluntary pay reduction and general top pay restraint 8 out of 10 Chief Executives in Greater Manchester were in the top 1% of earners in the UK at the time of research, earning at least £150,000pa.
- 8 out of 10 GM Local Authorities have top salaries higher than the UK LA average, average top pay is therefore higher in Greater Manchester Local Authorities than for UK Local Authorities as a whole.
- 7 out of 10 GM Local Authorities have top:median pay multiples greater than the UK Local Authority average. Average pay multiples in Greater Manchester are consequently marginally greater than for the UK as a whole.

These findings tentatively suggest that despite pay moderation in the face of budget cuts and many councils introducing Living Wages for their employees, Local Authorities in Greater Manchester still have higher top salaries and pay gaps than the average for UK Local Authorities. This would affirm the need for stronger commitments to reducing pay inequality from Greater Manchester Local Authorities.

- Manchester has the largest top:median and top:bottom pay multiples and this is largely the result of having the greatest top salary. Given the size of the authority and the city it serves, a higher level of remuneration for the chief executive is inevitable, if salary levels are set in the context of the external labour market, with a view to attracting and retaining the skills required for the role. There is arguably a debate to be had about the absolute size of skills based pay increases at higher salary levels in Local Government and whether these should progressively decrease as total remuneration approaches absolute upper limits, as defined by social and environmental concerns.
- There is significant variation in the top:bottom pay multiples with a maximum of 15.95 in Manchester and a low of 9.86 in Rochdale. The low top to bottom figure for Rochdale reflects a combination of the most moderate top salary in the region (at the time) and a living wage for the lowest paid employees.
- Comparisons of the bottom salaries across different authorities are imperfect as the Localism Act does not impose a specific definition of 'the lowest paid employees' but allows individual Local Authorities to define it however they see fit; some Local Authorities define lowest paid employees as apprentices

whilst others ignore apprentice rates and new starter/induction rates and define the lowest paid as those who have been through competency assessments. This has similar implications for cross comparisons of top to bottom pay multiples.

- There is strong evidence to suggest that top:median pay multiples should not be considered as conclusive evidence of an Local Authorities pay fairness. Stockport has the lowest top:median pay multiple but the third largest top:bottom pay multiple as the result of an unusually high median wage and relatively low bottom pay. This could be the result of the unique structure of the organisation but very possibly suggests that a large portion of the low wage workforce has been outsourced to external contractors. The observed median wage is significantly higher than that observed in every other Local Authority in GM which strongly suggests that the authority is employing less low wage workers than others in the study. A focus on reducing an authorities headline pay multiple in isolation could therefore produce a perverse incentive to outsource low paid work where terms and conditions are likely to be less favourable, foiling attempts to reduce pay inequality. This confirms the necessity for Local Authorities pay policies to extend to and influence the pay setting of external contractors if they are to be effective at reducing pay inequalities.

Limitations of the data

It should be noted that the data do not show the pattern of actual earnings, take home pay, nor net disposable income. The picture of low pay suggested here is therefore limited. This is partly because, despite requesting data on part-time employment from all GM Local Authorities and their suppliers, none was received. This is significant as it makes the possibility of involuntary part-time employment invisible. Data on actual earnings coupled with an index of living costs across the conurbation for boroughs would have given a more detailed picture of the low pay landscape, and would likely have revealed larger variation as well as flagged up the worst cases of in-work poverty. Unfortunately, with the data and resources available to us, this was beyond the scope of this study. As such, it functions as a rough map of Local Authority pay multiples across the region. It does, however, reveal a fair degree of variability in these and in the approaches to pay fairness detailed in the following section. In both cases the findings still indicate specific areas where improvement can and should be made.

2.2: Policies which Demonstrate a Commitment to Pay Fairness

Table 2 summarises policies included in GM Local Authorities Pay Policy Statements which demonstrate an approach to pay fairness. Three principle categories are considered; living wage policies, pay policies towards commissioning contracts and policies for assessing, justifying and achieving an appropriate pay multiple. In the absence of any policies to reach and maintain a specific pay multiple, the substantive explanation for the relationship between executive and non-executive pay has been considered. It also includes and summarises the results of our request for evidence of pay policies relating to contracts (policies towards the pay of staff working for external contractors), the full responses to which are provided in Appendix 1. (Where additional information has been obtained from other sources this is indicated by a footnote.)

Table 2

Local Authority	Living Wage Policy for Council Employees, including Coverage for Apprentices	Pay Policy for Contracts	Policies for Assessing, Justifying and Achieving an Appropriate Pay Multiple (**: Indicates principles being used to assess, justify or achieve appropriate pay multiples which are recurring and problematic. These are treated below.)	Year
Manchester	<p>Yes: Manchester Minimum Wage Agreement adopted in 2008, rates reported are:</p> <p>New starter, induction (apprentice) rate: £7.00ph, £12'785pa FTE</p> <p>Employees on Grade 1, who have been through competency assessment: 7.15ph, £13'056pa FTE.</p>	<p>None included in Pay Policy Statement.</p> <p>None declared at request.</p>	<p>Statement recognising the link between employment policies and the local economy and community. Commitment to reflect its broad social and economic policies in its employment strategy and make best use of these to deliver against the City's agreed objectives.</p> <p>No target pay multiple and does not propose to set one for the foreseeable future, asserting that the Hutton Review concluded that they 'serve no useful purpose.' Commitment to monitor this relationship to ensure it is 'not excessive' but no stated means by which to make judgements on this.</p> <p>The ratio is explained as the result of the pay policies set out in</p>	2013/14

	The Council has since made provision in it's most recent budget to increase the MMW to the National Living Wage Foundation rate of £7.65ph with effect from April 2014, subject to approval by full council on 26th March 2014. ³⁶		the statement. Executive remuneration is set to reflect the requirements and circumstances of the role that is sufficient to attract and retain staff. Therefore largely aligned to external labour markets.**	
Salford	<p>Yes: Following a comprehensive pay review, undertaken collectively with trade unions The Living Wage was implemented as the minimum hourly rate for any employee in the council including apprentices.</p> <p>Rate or salary reported: £7.45ph, £13'874pa FTE.</p>	<p><i>None included in Pay Policy Statement.</i></p> <p><i>Policies declared in response to request:</i> The Salford Employment Charter sets minimum standards for people in work in Salford including the Living Wage. The Council aims to agree the charter with employers and state that they are 'in talks with a number of our partners' about their introduction of a living wage. At the time of the request, the council did not, 'currently specify in any tenders that the living wage is required.' But was considering what</p>	<p>Reference to the 'recommendation' in the Hutton Review 'that the Chief Executive's salary should not be more than 20 times that of the lowest paid employee.' Justification of the current pay ratios as 'well within the 1:20 ratio recommended by Hutton. ***</p> <p><i>(Note: This is problematic as the Hutton Review concluded that 1:20 ratio was not an appropriate benchmark against which Local Authorities should compare their individual pay multiples.)</i></p> <p>Senior leadership Team voluntarily accepted a 3 year pay freeze as part of the comprehensive pay review. Although a target ratio is not stated, combined with the Living wage guarantee, the council has effectively committed not to exceed current pay ratios until 2016.</p>	2013/14

36 http://www.manchester.gov.uk/news/article/6833/manchester_minimum_wage_set_to_increase

		procurement freedoms to this end the Social Value Act will give them as a commissioner of services.		
Oldham	<p>Yes: In April 2012 the council introduced a 'living wage' of £7.11ph. Which is 'the lowest amount paid to any person employed under a contract of employment with the Council . '</p> <p>Rate or salary reported: £13'589pa FTE</p>	<p>None included in Pay Policy Statement.</p> <p>Policies declared in response to request: The Council has developed a Social Value Framework, some elements of which are included in all tenders. Although this may not be related to pay in every tender, one of the intended outcomes is 'a local workforce which is fairly paid and positively supported by employers', which would lead to expectations from prospective suppliers such as a living wage minimum or specific training and support packages.</p>	<p>The ratio is not independently justified but 'determined by the processes used for determining pay and grading structures, as set out earlier in this policy statement.' (Including through pay setting to attract and retain staff with adequate skills, knowledge and experience and including the use of recruitment agencies in recruiting chief officers to 'objectively determine the market rate for the role ').**</p> <p>As part of its overall and ongoing monitoring of alignment with external pay markets, both within and outside** the sector, the Council will use available benchmark information as appropriate.</p>	2013/14

Trafford	<p>Yes: As of April 2014 a 'Trafford Living Wage' of £7.20ph will be introduced as a minimum.³⁷</p> <p>The most recent available pay policy statement states the salary of the lowest paid employees is above NMW: £12'489pa FTE. Apprentices are not counted and employed below the national minimum wage, it is unclear whether living wage will extend to apprentices.</p>	<p>None included in Pay Policy Statement.</p> <p>None declared at request.</p>	<p>The ratio is not independently assessed or justified but explained as the result of the implementation of the pay policies set out in the statement.</p> <p>'As part of its overall and ongoing monitoring of alignment with external pay markets, both within and outside** the sector, the council will use available benchmark information as appropriate. In addition, upon the annual review of this statement, it will also monitor any changes in the relevant 'pay multiples' and benchmark against other comparable local Authorities.'</p>	2012/13
Stockport	<p>Yes: As of April 2013 the council is in the process of implementing a living wage policy, it is yet to be determined if this will be the National Living Wage or locally set.</p> <p>The most recent pay policy statement did not include this, lowest paid employees salary at 1 April 2013, was £12,312 per annum. Not including apprentices.</p>	<p>None included in Pay Policy Statement.</p> <p>Declared at request: That the Council is considering the implications of stipulating the Living Wage to be paid as a minimum, suppliers have been included in discussions but at present there is no firm policy decision.</p>	<p>The ratio is not independently assessed or justified but explained as the result of the implementation of the pay policies set out in the statement.</p> <p>'As part of its overall and ongoing monitoring of alignment with external pay markets, both within and outside** the sector, the council will use available benchmark information as appropriate.'</p>	2012/13
Wigan	<p>Yes: Made a commitment to implement the Living Wage</p>	<p>None included in Pay Policy Statement.</p>	<p>The ratio is not independently assessed or justified but explained as the result of the implementation of the pay policies set out in</p>	2012/13

37 <https://democratic.trafford.gov.uk/documents/s3351/5%20Employment%20Committee%20Report%202nd%20December%202013%20-%20Staff%20Terms%20and%20Conditions%20V3%200.pdf>

	during 2013 which will increase the lowest earner rate to £7.45 per hour. Once implemented this will increase the salary of 411 staff.	<i>None declared at request.</i>	the statement. As part of its overall and ongoing monitoring of alignment with external pay markets, both within and outside** the sector, the council will use available benchmark information as appropriate.	
Bury	No: The salary of the lowest paid employees as at 1st April 2013, is £12,160 per annum. The Council employs Apprentices who are not considered within the definition of 'lowest paid employees.'	<i>None included in Pay Policy Statement.</i> <i>None declared at request.</i>	The ratio is not independently assessed or justified but explained as the result of the implementation of the pay policies set out in the statement. 'As part of its overall and ongoing monitoring of alignment with external pay markets, both within and outside** the sector, the council will use available benchmark information as appropriate. In addition, upon the annual review of this statement, the Council will also monitor any changes in the relevant 'pay multiples' and benchmark against other comparable local Authorities.'	2013/14
Rochdale	Yes: rate set by Rochdale council of £7.26ph as of 1st September 2013. ³⁸	<i>None included in Pay Policy Statement.</i> <i>None declared at request.</i>	The ratio is justified as 'within the 1:20 ratio recommended by the Hutton Review.' ^{***}	2013/14
Tameside	Yes: The Council Leader stated having taken the decision to pay The Living Wage to directly employed staff and intending to achieve Living Wage Foundation Accreditation in his 2014 Keynote address. ³⁹	<i>None included in Pay Policy Statement.</i> <i>None declared at request.</i>	The council declares, 'No formal policy on the relationship...' between the remuneration of Senior Managers and other employees. Reference to the 'recommendation that the Chief Executive's salary should not exceed 20 times that of the lowest pay in the organisation.' Justification of the multiple as 'well within this range'.*	2013/14

38 <http://www.manchestereveningnews.co.uk/news/local-news/rochdale-council-staff-pay-rise-6086856>

39 <http://www.tameside.gov.uk/keynote/2014>

	<p>Most recent statement did not include this: 'In this policy we use the definition of lowest paid employee as being those paid on spinal column point 6 of the National Joint Council for Local Government Services. ' Pay policy towards apprentices not declared.</p>			
Bolton	<p>No: When NJC pay structure was introduced the council 'sought to establish the bottom of the pay structure at the highest affordable point' . This was 58p above NMW at the time however this gap has now reduced to just a 19p difference because of a lack of pay increases in the local government sector since 2009. The council is currently reviewing this position.</p>	<p><i>None included in Pay Policy Statement.</i></p> <p><i>None declared at request.</i></p>	<p>The only statement expressing consideration of the relationship between chief officer pay and that of the rest of the workforce is: 'It should be noted that [the pay multiples] are well within the 1:20 ratio recommended by Hutton .'*</p> <p>The Pay and Grading structures of the council are determined by a comprehensive pay and grading structure review undertaken in 2009 based on National Joint Council Pay and Grading Structures for the majority of employees covered by NJC terms and conditions in consultation with Trade Unions, for employees covered by Joint National Council terms and conditions (chief officers) the pay and grading structure was established with consultation with the Hay group using the Hay job evaluation methodology.</p>	2013/14

Table 2 Analysis

Living Wage Policies

- 8 out of 10 Local Authorities in Greater Manchester have implemented a 'living wage policy' of some sort for their own employees. As employers of residents who are also council service users these councils recognise that it does not make sense to pay wages that aren't enough to provide for an acceptable standard of living.
- There has been significant variation, however, in the “living wage” rates, with some Councils such as Salford paying the Living Wage Foundation rate of £7.45ph⁴⁰ and others such as Oldham, Trafford and Manchester City Council determining their own rates, the 'Manchester Minimum Wage' (MMW) was £7.15ph in the Councils 2013/14 statement. Fragmentation of the living wage initiative, through the establishment of locally determined rates, is sub-optimal and reduces the traction of the concept. There are positive signs that these lower regional rates are being consolidated to the level calculated by the Living Wage Foundation; with Manchester including provisions to raise the 'MMW' to this level in their most recent budget. Local Authorities should, further to this, seek to become Living Wage Foundation accredited 'Living Wage Employers'. Salford is the only council in our study to be accredited, there are currently a total of 27 accredited Local Authorities in the UK. Accreditation requires employers to actively promote Living Wage uptake in their suppliers.⁴¹ This provides a safeguard, to some extent, against the creation of perverse incentives to outsource (or not in-source) low paid work.
- Salford's Living Wage policy covers apprentices fully, others at a lower rate and some not at all. Some councils did not include their pay policy towards apprentices at all in their pay policy statements.
- Bury and Bolton had no living wage policy at the time of our study.

Pay Multiples: Policies on the relationship between top pay and that of the rest of the workforce

40 The LWF rate is now £7.65ph as of November 2013 and Living Wage Employers have 6 months to implement it.

41 See: <http://www.livingwage.org.uk/how-become-living-wage-employer>

Poor Assessment and Justification of Pay Multiples

Despite the requirement in the guidance notes for LA Pay Policy Statements to clearly state what they think the relationship should be between the pay of chief officers and staff who are not chief officers, there is a lack of policies for assessing, justifying and achieving appropriate pay multiples.

Rather than creating independent policies to assess what fair and justifiable pay ratios might be and how to achieve them, they are almost unanimously justified as following from the 'objective' and uncontrollable processes which are used for setting pay and grading structures. A recurring justification in statements is that the pay multiple 'results from the detailed implementation of the pay policies as set out earlier in this statement'. This leaves pay multiples to follow from the use of recruitment consultant's to 'objectively determine the market rate' for senior roles, therefore reflecting the broad finance led high pay inflation in the external labour market,⁴² and whatever pay settlement has been achieved, or more often has not been achieved, through the National Joint Council which is the basis of most LA pay setting for the majority workforce. There has been no pay increases agreed through the National Joint Council since 2009, in fact there has been a real terms 18% reduction.⁴³ (This has led those Local Authorities dissatisfied with the stance of Local Government Employers in Collective Bargaining to make more equitable settlements locally through Living Wage policies.⁴⁴) The intended purpose of pay policy statements; to force Local Authorities to disclose and examine their internal pay inequality, is therefore failing as statements are leaving high pay inflation and low pay reduction unexamined. This is compounded by Council's incorrect use of Hutton Review guidance, absolving pay multiples from interrogation by comparing them to an arbitrary upper limit of 1:20, which was not recommended.

The external benchmarking of top pay in the context of unexamined finance-led high pay inflation in the external labour market and the use of an arbitrary 1:20 limit to absolve pay multiples from further explanation, represent the two main recurring and problematic principles being used to assess and justify pay multiples which are signified in the above table by red asterisks (**). Both have malign consequences which prevent council's from genuinely assessing their multiples and actively managing them and should be removed from top pay setting and pay policy

42 "...the 'disproportionate influence' of the financial sector is thought, over many years, to have driven the huge increases in executive pay ." Simms and Boyle, 2011. *Op. Cit.* p.4

43 'Local Authority National Joint Council Trade Union side Pay Claim 2014-2015' p.30

44 <http://www.theguardian.com/local-government-network/2013/jul/29/living-wage-should-be-bottom-rate-of-pay>

statements respectively.

1: The use of an upper limit of 1:20 against which to compare LA pay multiples.

The recurring phrase included in many Pay Policy Statements 'multiples are well within the 1:20 ratio recommended by Hutton' is highly misleading, it implies that the Hutton Review and DCLG guidance recommends that as long as multiples do not exceed 1:20 they are fair and need not be examined. It is factually incorrect to suggest that The Hutton Review recommended that Local Authorities should compare their ratio's to this limit. Although this was included in the terms of reference of the review it concluded that the use of such a limit was not advisable, it didn't take diversity of organisational structures into account and was actually higher than most pay multiples observed across the public sector, especially in Local Authorities. It would only have effected 70 senior managers and could have therefore created a perverse incentive and 'even become a target for executives [who are currently] earning less' .⁴⁵

A one-to-twenty pay ratio is not the government-recommended acceptable maximum top-to-bottom pay ratio, nor was it recommended by the Hutton Review. Therefore it should not be invoked as a reference point in Local Authority Pay Policy Statements. This issue has been raised previously in a nationwide report on Local Authority Pay Policy Statement reporting.⁴⁶

2: The use of external benchmarking in monitoring pay levels and pay multiples.

Many Local Authorities in our study referred to external pay market benchmarking when setting pay and monitoring pay multiples. 7 out of 10 Local Authorities included the phrase :

“As part of its overall and ongoing monitoring of alignment with external pay markets, both within and outside the sector, the council will use available benchmark information as appropriate.”

Some Local Authorities also referred to the use of recruitment agencies in recruiting chief officers to 'objectively determine the market rate for the role '. Whilst many expressed the need to balance value for money with setting Chief Officer pay at the

45 Hutton, 2011. *Op. Cit.* p10

46 One Society, 2012. *Op. Cit.* p.22

right level to attract and retain staff with adequate skills, knowledge and experience. The practice of external benchmarking, that is the use of labour market data from outside the local government sector will, in the absence of substantive policies on pay fairness, mean that pay inequality will only increase. Private sector executive pay, and the pay gap, is grossly higher than in the Local Government sector. By way of example, the average estimated total awards made to FTSE 100 CEOs in 2011 was 408 times the National Minimum Wage and 219 times UK median earnings.⁴⁷ The growth in private sector top pay shows little sign of reversing and was the underlying cause of public sector top pay growing faster than entry salaries in the first place, through external labour market competition effects.

Public Sector pay dispersion has been relatively insulated from the polarisation of pay rewards in external labour markets by virtue of public accountability and the retained level of worker unionisation. As such it remains a comparative beacon of pay equality and should work pro-actively to reverse the broader trend by ceasing to benchmark outside of the sector when setting Chief Officer Pay. Commitment's to social cohesion should outweigh anxieties concerning the tenuous link between pay and performance. Comprehensive research evidence suggests financial incentives have a zero or negative effect on performance.⁴⁸

Even benchmarking to ensure parity across the sector will only keep pay multiples stable and not address the widened pay gap between top and entry salaries which occurred in the 10 years prior to the Hutton Review. Unless the pay gap is addressed simultaneously by all Local Authorities, whenever a pay gap does shrink for an incidental reason in an individual LA, practices of benchmarking and job evaluation by Recruitment Consultant's will soon justify top salary increases. This was recently the case in Rochdale, which had the lowest top-to-bottom pay multiple when we collected Pay Policy Statements but subsequently commissioned a pay review which found that the Chief Executives salary was the lowest in the region and proposed a £40k increase. The Local Authority was pressured to reduce the increase to just £1,300 following public outcry from residents and criticism from Rochdale MP Simon Danczuk.⁴⁹

There is therefore a need for Local Authorities to assert a firm position in relation to

47 One Society, 'A Third of a Percent', 2011, London: One Society. p.11

48 Daniel Pink, *Drive: The Surprising Truth About What Motivates Us*. 2010. Edinburgh: Canongate.

49 <http://www.bbc.co.uk/news/uk-england-manchester-25341842>

pay setting, do they think current pay multiples should go up or down? Had Rochdale genuinely endeavoured to set a pay multiple that was, 'appropriate to local circumstances and ensures value for money for local taxpayers',⁵⁰ it would have been unlikely to recommend an increase and would have avoided some embarrassment, as well as the cost of the pay review. This is obviously the result of a passive approach to pay multiples and pay setting. Examples of a pro-active approach to pay setting in the context of widening pay inequality are Kingston upon Thames and North Somerset , which have reported that they have 'moved from seeking to pay at mid-market rates to lower-quartile and ten per cent below median respectively'.⁵¹

Absence of target pay multiples

No authority in our study explicitly stated a commitment to reduce or maintain their pay multiple at a specific level. Far from the apparent tendency of Greater Manchester Local Authorities to see multiples as not directly controllable, over 10 percent of UK LA's have set clear goals to reduce their pay multiples, including Newcastle and Brighton and Hove.⁵² Others such as Reading and East Sussex committed to maintain current pay multiples.

Despite reporting a small decrease from 9.4:1 to 9.2:1 in the top:median pay multiple, Manchester City Council stated that it does not have a target pay multiple and does not propose to set one for the foreseeable future, asserting that the Hutton Review concluded that they 'serve no useful purpose'.⁵³ It has been argued elsewhere that such statements by Local Authorities are a misreading of the Fair Pay Review.⁵⁴ The review concluded that a hard cap of 1:20 would be inoperable across a diverse public sector but did not oppose pay multiple targets within individual bodies.⁵⁵

We would recommend active management of pay multiples, through commitments to reduce or maintain them for the reasons outlined above; passive management fails to redress the pay gap that opened up in the 10 years prior to the Hutton Review and higher external levels of pay inequality exert a continuing magnetic

50 DCLG Guidance, 2012, *Op. Cit.* p.4

51 One Society, 2012, *Op. Cit.* p.12

52 One Society, 2012, *Op. Cit.* p.13

53 'Manchester City Council Pay Policy Statement 2013-14' p.9

54 One Society, 2012, *Op. Cit.* p.23

55 Hutton, 2011. *Op. Cit.* p.4

effect on top salaries.

Salford has notably effectively fixed the top:bottom pay multiple until 2016 by committing to the full Living Wage and no senior officer pay increases until then, but this is not explicitly stated in the language of pay multiples. We would argue there is a value in organisations coming to a democratic agreement about what constitutes a fair and appropriate pay multiple target and making clear commitments not to exceed it.

Other Issues

- It is notable that many Local Authorities have significantly reduced the number of senior management posts in response to large budget reductions and have noted this in their policy statements to demonstrate the reductions in costs associated with senior pay. In Rochdale senior posts were reduced by over a half. 'This represents a 58% reduction in the senior management team and these changes to the structure have contributed significant savings towards the Council's overall budget reduction.'⁵⁶ There is a danger that reducing the overall cost of senior pay by deleting posts is seen to negate the need to look at moderating salary levels for senior managers. With many managerial roles abolished, the few that remain have much greater responsibilities which are likely to justify increases in remuneration in the near future. (This is in fact precisely what occurred in Rochdale during the course of this study⁵⁷). In the face of budget reductions exploration of options to work share would be preferable from a Steady State Economic perspective; to reduce unemployment through the sharing out of the available work that is necessary and worthwhile, encouraging fulfilling, well-rounded and sustainable work and consumption lifestyles. This reduces the need to create jobs which are based on unsustainable consumption. A reduction in work time should lead to higher well-being, the ability to better participate in the caring economy and in communities more broadly, and greater productivity whilst working.
- Sometimes the existence of living wage policies and comparisons of pay multiples does not capture the finer details of controversy around pay levels across the workforce. Salford's plan to implement the full living wage included

56 'Rochdale MBC Pay Policy Statement 2013/14' Rochdale Metropolitan Borough Council 2013. p.2

57 <http://www.bbc.co.uk/news/uk-england-manchester-25341842>

median income workers taking a pay cut whilst top pay stayed the same and was accused of 'robbing poor peter to pay poorer paul'.⁵⁸

Policies towards the Pay of Staff Working for External Contractors

The Localism Act indicates room for local authorities to develop local policies towards the pay of staff working for external contractors and for this to form part of public pay transparency.

*'an authority which has or develops a local policy towards the pay of staff working for external contractors with whom the authority has contracted to perform services, may wish to articulate that policy in their pay policy statement.'*⁵⁹

No authority in Greater Manchester included a pay policy towards external contractors in their most recent pay policy statement.

To clarify whether levels of pay inequality in procurement partners was in any way considered in the procurement process we submitted Freedom of Information Requests to Local Authorities in the North West requesting details of the pay structures of their suppliers and asking explicitly about the existence of any procurement guidelines in place in relation to the pay of staff working for external contractors. The pay data of suppliers was unanimously not collected by Local Authorities. This meant we were unable to assess the levels of pay inequality and the prevalence of low pay within contractors which provide public services in GM. This is a legitimate concern for residents, the publication of pay multiples by contractors who provide outsourced public services was also recommendation of the Hutton Review.

8 out of 10 Councils stated that they currently had no policy or procurement guidelines in place in relation to the pay of staff working for external contractors. Stockport said it was considering the implications of stipulating the Living Wage to be paid as a minimum but there was no firm policy decision at the time. Salford and

⁵⁸ <http://www.bbc.co.uk/news/uk-england-manchester-21195787>

⁵⁹ DCLG Guidance, 2012, *Op. Cit.* p.9

Oldham are the only two councils in Greater Manchester which confirmed in response to our request that they have procurement policies place in relation to the pay of staff working for external contractors. These are detailed and assessed in the following section.

3: Catalysing Equitable Pay in the Private Sector: Equitable Pay as Procurement Criteria

Salford: Towards a Living Wage City

In response to our FOI request Salford stated that although it did not currently specify in any tenders that the living wage of £7.45 an hour is required, 'The City Mayor is currently developing an Employment Charter which will set minimum standards for people in work. This will include the Living Wage. The city council hopes the Charter will be agreed with a wide range of employers.' The Council claimed to be in talks with a number of partners about their introduction of the Living Wage and was, 'also carefully considering what extra procurement freedoms the new Social Value Act will give us as both an employer and commissioner of services in improving the terms and conditions of working people in Salford.'⁶⁰

In the launch of the City's employment charter the City Mayor has expressed the intention to create 'A Living Wage City' where the full Living Wage is a minimum and is in talks with major contract partners to implement it, with the promise of more announcements to come. He states that the council's responsibilities as a Living Wage Employer includes rejecting, 'the commissioning of services which embed poor pay and poor conditions', and expresses the intention, 'to use the Employment Charter to lift local pay levels in our commissioned services and amongst our contractors in Salford.'⁶¹

There is some evidence of this in Salford's Procurement Strategy. On the introductory web page to trading with the council, is the statement:

'We recognise the role that procurement has to play in achieving our social, economic and environmental objectives. The City Mayor's employment charter also

60 Salford City Council response to FOI request (See: Appendix 1)

61 See the article by Ian Stewart, Salford City Council Mayor, 'Becoming a Living Wage City – An Ambition Worth

encourages companies to sign up to the Living Wage.'⁶²

In Salford's procurement strategy document for 2013/14. Corporate Procurement commits to 'actively promote' the 'Salford Employment Charter'.⁶³ There is also a commitment to 'examine potential partners' past record in respect of the treatment of transferred staff', and to take employment practices into account in the procurement of services.⁶⁴

However, in the summary of key procurement objectives the only stated commitment to act on employment conditions is to, 'Encourage contractors to support the Salford Employment Plan [distinct from the Employment Charter] where it can be demonstrated to support the principles of Value for Money.'⁶⁵ Although these key objectives and actions may be updated during the course of the year, it appears that at this time, apart from efforts to 'promote' the Employment Charter and an aim to achieve: 'A more ethical and egalitarian approach to procurement within the Council and the development of a like-minded supply chain',⁶⁶ the 2002 Salford Employment Plan (which does not include the Living Wage) is the framework to which procurement currently refers when taking employment practices into account.

This demonstrates some commitments in the procurement process to 'promote' supplier uptake of the Living Wage and a consideration of pay and conditions more generally. However there are no apparent means by which to 'lock-in' a requirement to pay the Living Wage and no reference to the levels of pay inequality within a prospective supplier. As such it would appear that the Salford Employment Charter has not been fully integrated as a requirement in commissioning services. At the time of research there was also no evidence available to confirm that any private sector suppliers have yet agreed to implement the Living Wage.

There may well be valid reasons why commitments to the Employment Charter are not more strongly integrated into the procurement process, as there appear to be

Having': <http://labourlist.org/2013/05/becoming-a-living-wage-city-an-ambition-worth-having/>

62 See: <http://www.salford.gov.uk/procurement.htm>

63 'Salford City Council Procurement Strategy 2013-14' Salford City Council, 2013. p.10

64 *Ibid.* p.7

65 *Ibid.* p.35

66 *Ibid.* p.35

legal issues about imposing wage levels as conditions of contracts, as such most Local Authorities navigating this new terrain appear to be using broader 'social value' frameworks to favourably appraise tenders which pay living wages on the basis of securing social value from contracts. (This may be under the Quality of Service element of tender appraisal.) At the GM level, it may be valuable for Local Authorities to share knowledge on the best way to secure living wages, reduce inequality and secure social value more broadly in the commissioning of services.

Example 2: Oldham, Procuring Social Value.

In response to our request Oldham Council stated that 'going forward' they now include assessment of impact on the desired outcomes of the Oldham Social Value Framework in the procurement process. They, 'now include some elements of the Council's Social Value Framework in all tenders'. Whilst this, 'may not be related to pay in any given tender', one of the desired outcomes is:

*'a local workforce which is fairly paid and positively supported by employers.'*⁶⁷

The workforce planning and measurement department informed us that this 'could' mean that the council would expect prospective suppliers to take the following sorts of actions in relation to the employment of staff on the contract:

- *Pay staff the Living Wage*
- *Increase rates of pay for the lowest staff by x%*
- *Improve the skills level of existing staff by training x% of the workforce to Level 2/3/4 (for example)*
- *Reduce average sickness absence by x% through an improved health, well-being and support package for staff*
- *Identify all staff who are carers and ensure flexible working practices are implemented to support these responsibilities within x weeks of contract start date*⁶⁸

We requested further details on how this is implemented, how the targets of x-value's are established and how it is decided whether or not staff pay considerations are taken into account in a contract but received no response. As it

67 Oldham Council response to FOI request (See: Appendix 1)

68 Oldham Council response to FOI request (See: Appendix 1)

stands this constitutes a positive attempt to generate more social value through procurement generally but is weak in that it is not prescriptive enough to guarantee the same level of fair pay from suppliers which the Council has implemented for its lowest paid direct employees.

There is evidence now that Oldham is seeking to embed a wider range of criteria in the council's procurement criteria including the Living Wage.⁶⁹ This should be done in a way which embeds equal internal/external pay conditions procedurally and is not susceptible to manipulation or erosion over time. Failure to do so effectively will leave indirect incentives to outsource based on lower labour costs to prevail, undermining progress on pay equality.

It is significant that Oldham's plans to embed Living Wage criteria into contracts is part of a wider plan to achieve greater social value from procurement, the council plans to build on progress they have already made by encompassing 'a broader range of social value considerations in what we do'.⁷⁰ This is welcome from an ecological perspective of social value as it can appraise the value of more equality beyond the tendency to focus only on raising the wages of the lowest paid. A broader approach to social value considerations in procurement therefore has greater scope for other equality considerations such as a suppliers pay multiple being integrated into procurement criteria.

Example of Best Practice: London Borough of Islington

Having considered the steps taken towards the pay of staff working for external contractors by Local Authorities in Greater Manchester it is worth examining the experience of a Local Authority that has achieved exemplary success in this area. The London Borough of Islington was the first Local Authority to achieve accreditation as a Living Wage Employer in 2012, securing the London Living Wage for its direct employees was achieved in part by reducing the council's top:bottom pay ratio to 10:1.⁷¹ Further to this, in 2013 it has achieved London Living Wage rates on 92% of its contracts and is working towards 100% compliance.

Islington began working towards a Living Wage when it established a Fairness

69 'Briefing: Co-operative Council Ethical Approach' <http://oldhamlabourgroupp.wordpress.com/2013/03/24/briefing-co-operative-council-ethical-approach/>

70 Oldham Council Website: 'About the Council; Co-operative Oldham; Co-operative Oldham' http://www.oldham.gov.uk/info/200572/co-operative_oldham/1192/co-operative_council

71 As reported here: <http://www.theguardian.com/local-government-network/2013/nov/04/islington-living-wage-week>

Commission in 2010 to examine inequalities and develop recommendations to tackle them. The top recommendation was that employers in Islington and specifically the Council should pay the Living Wage and also:

'review their procurement, contract and best value policies to ensure that, as far as possible within UK and EU law, the London Living Wage is the minimum paid to all their contracted staff as well.'⁷²

The recommendation's of the commission form a key part of the Local Authorities Corporate Plan which includes a commitment to, 'work to ensure LLW is paid by all contractors' in accordance with the criteria for accreditation as a Living Wage Employer.⁷³ This in turn has led to a revision of the council's procurement rules, Section 2.7 states:

'As a matter of policy, London Living Wage (LLW) must be considered on all contracts where the Citizen's UK accreditation criteria for contracts apply. LLW shall be adopted on all contracts insofar as this is permitted by law.'⁷⁴

The caveats 'in so far as this is permitted by law' in these policies are instructive, both of the challenges for implementing Living Wages for contract staff and how these are being overcome.

There are concerns that requiring contractors to pay a living wage may infringe European Union procurement rules. Particularly, whether a blanket requirement is open to litigation as a potential violation of the European Union's Posted Workers Directive, which is intended to support the free movement of labour and services in the common market.⁷⁵ Case law suggests employers need only pay workers posted abroad the rate they would receive in the home country and therefore requiring the Living Wage rate as an award criterion for contracts could be deemed discriminatory. Legal opinion varies however, and there have been no legal cases against UK Local Authorities on the basis of Living Wage Policies.⁷⁶

Islington's policy towards guaranteeing a Living Wage for contract staff is, therefore,

72 Islington Fairness Commission, 'Closing the Gap: IFC Final Report' 2011, London: IFC, p.8

73 London Borough of Islington, 'Towards a Fairer Islington: Corporate Plan 2012-2015', 2012a, London: LBI, p.8

74 London Borough of Islington, 'Procurement Rules', 2012b, p.6

75 Andy Hull, 'Policy Briefing: Living Wage and Local Authorities', January 2013, Local Government Information Unit, p.3

76 *Ibid*, p.4

not a blanket requirement but a combination of a policy commitment; to always consider the Living Wage in procurement decisions, and a corporate objective; to achieve 100% compliance with the Living Wage from contractors. The Local Government Information Unit recommends Islington's example of enshrining a Living Wage into procurement policy on a case-by-case basis, as a 'legally sound' approach.⁷⁷

This advice is confirmed elsewhere. General guidance from local government legal advisers suggests that it is problematic to require contractors pay a Living Wage as a *contract award criterion*. Where social considerations are used in assessing the 'most economically advantageous tender' (MEAT) they must be 'relevant to the subject matter of the contract' and 'proportionate to the needs of the contracting authority'.⁷⁸ It would seem it would be difficult to justify a blanket requirement as a relevant and proportionate measure across diverse contracts.

Furthermore they must be 'contract conditions' not selection or award criteria; tenderer's ability to comply should not be assessed as part of selection but they must undertake to comply with the conditions if they are appointed.

The EU parliament provided further clarification in response to a parliamentary question regarding Living Wage contract conditions, confirming that they, 'may be included in the contract performance clauses of a public procurement contract', must be clearly stated in tender documents and importantly, 'concern only the employees involved in the execution of the relevant contract, and may not be extended to the other employees of the contractor'.⁷⁹ EU Commission guidance on socially responsible procurement confirms that, 'Contract performance clauses are generally the most appropriate stage of the procedure to include social considerations relating to employment and labour conditions of the workers involved in performance of the contract'.⁸⁰

So while Local Authorities appear to be currently prohibited from only awarding contracts to contractors who pay a Living Wage as a minimum to all their employees, they are able to require that the staff employed in the delivery of the

77 *Ibid*, p.3

78 Deborah Ramshaw, 'The Living Wage and EU Procurement': http://www.localgovernmentlawyer.co.uk/index.php?option=com_content&view=article&id=13811:the-living-wage-and-eu-procurement&catid=57:employment-articles

79 *Ibid*. The author Deborah Ramshaw refers to the: 'EU Parliament Clarification of 2009'

80 European Commission, 'Buying Social: a guide to taking account of social considerations in public procurement', 2010 Luxembourg: EU Publications Office p.44

contract are paid a Living Wage as a contract performance clause, where this can be established as relevant and proportionate. The Social Value Act 2012 places authorities under a duty to consider at the pre-procurement phase, how what is being procured might improve the economic, social and environmental well-being of an authority's area and how, through the procurement, it can secure that improvement.⁸¹ Islington appears to have achieved its 92% compliance rate by asserting that the Living Wage is a proportionate and relevant consideration in all service contract tenders due to the integration of the Living Wage as a central priority in its strategy for improving the areas economic and social well-being, demonstrated by its prominence in the authority's corporate plan. It is a condition of Living Wage accreditation that the Authority must work with contractors to secure the Living Wage which further strengthens the ability of the authority to assert the Living Wage as a contract performance criteria.

Procuring Social Value vs. In-sourcing

Finally, it is worth noting that taking pay issues, such as the Living Wage, into account in procurement represents a sea change in attitudes to commissioning services, as Lela Kogbera, Islington Director of Strategy notes, 'For 25 years the public sector has driven down costs through competitive contracting, from waste collection to adult social care. We have celebrated the "efficiency gains" of ever-cheaper contracts and distanced ourselves from the wider consequences of low wages.'⁸² Whilst techniques for securing local, social, economic and environmental benefit from contracting and procurement should be promoted and improved, once this more holistic and nuanced horizon of value for money is established; that is, once total social and economic value impacts are taken into account, procuring services is not necessarily the best way to get 'social-value-for-money'. Whilst Islington has succeeded in working with private contractors to gain Living Wage compliance in many cases, the objective of securing Living Wages for cleaning service employees was achieved by bringing the contracted service 'back in-house', raising wages at no extra cost to public funds 'by cutting out exorbitant management fees.'⁸³ It is argued that there are strong pressures on Local Authorities to continue outsourcing and that, without authoritative action otherwise, this will inevitably result in low pay depression as well as worse gender equality

81 'Public Services (Social Value) Act 2012'

<http://www.legislation.gov.uk/ukpga/2012/3/enacted>

82 See: <http://www.theguardian.com/local-government-network/2012/jan/17/islington-pay-living-wage>

83 As reported here: <http://www.theguardian.com/local-government-network/2013/nov/04/islington-living-wage-week>

outcomes.⁸⁴

Recommendations

The key recommendations which emerge from this basic study is to get more public debate and accountability on pay inequality in Greater Manchester, to improve information gaps of reporting in Pay Policy Statements and for Local Authorities to implement stronger policies for assessing and reducing pay inequality both internally and in their contractors. The specific recommendations are as follows:

1. Local Authorities should develop explicit policies to justify their pay multiples and set specific goals to reduce or maintain them.

Local Authorities should be pressed to better justify their pay multiples and set specific goals to reduce or maintain them with participation from accountable representatives and workers. Justification of pay multiples was a recommendation of the Hutton review as a way to reduce pay inequality but which has been sidelined despite being a requirement of Pay Policy Statement publishing guidelines. The practice of benchmarking outside the sector when setting executive pay should be stopped. Local Authorities should be leading by example through setting lower pay multiples rather than responding to what is happening externally if they wish to reduce income inequality in their communities. Progressive Local Authorities which are taking the most action on low pay have also reduced their internal pay ratios by lowering top pay.

Evidence suggests that levels of income inequality are a major driver of further growth in unsustainable consumption behaviour in advanced countries. Public sector bodies with commitments to sustainable development should see income inequality reduction as a key part of sustainable development and create policies to set and maintain internal pay multiples which can be proven to be consistent with environmental limits.

2. Local Authorities should seek Living Wage Employer Accreditation and use their purchasing power to raise bottom wages in procurement

84 Damian Grimshaw, Stefania Marino and Jill Rubery , 'Public Sector Pay and Procurement in the UK', 2012, EWERC, Manchester Business School, University of Manchester, p.72

partners.

Given the much greater levels of pay inequality in the private sector it is perhaps most important that public sector accountability is leveraged to reduce inequality in private sector pay practices. Salford is so far the only LWF accredited Local Authority in our study, Tameside have stated a commitment to obtain accreditation in the near future and Oldham has made some progress towards living wages for employees of contractors. We should ask why more Local Authorities haven't developed policies in relation to the pay of staff working for external contractors. Following Islington Council's example, Local Authorities can require all their external contractors to pay Living Wage levels as a minimum by integrating the Living Wage as a corporate objective and performance criteria. This should form part of Pay Policy Statement reporting.

If it is deemed just by the majority of GM Local Authorities that council employees should receive living wage rates as a minimum, it would be consistent to extend this minimum to the employees of private sector procurement partners, when they provide services with public funds. This is of paramount importance to the strength of Living Wage policies and to prevent indirect incentives towards outsourcing and pay depression in low wage work.

3. Local Authorities should use their influence in procurement and commissioning to reduce pay gaps in their suppliers and explore the possibility to give positive preference to lower pay multiples in suppliers when procuring goods and services.

Local Authorities should consider the potential of a setting a maximum pay multiple for companies they award contracts to or for more equitable pay multiples to be given positive scoring in the tendering process. In this way, private providers of public services can be made more accountable for the use of public funds, helping to catalyse greater pay equality across the private sector.

Pay Multiples are deemed an important source of information for investors; the 'Dodd Frank Act 2009' in the US required listed companies to publish their pay multiples for this reason.⁸⁵ They are arguably even more of a relevant consideration when tendering for public contracts. A bill in US Congress (yet to be passed)

85 US, H.R. 4173--111th Congress, 'Dodd-Frank Wall Street Reform and Consumer Protection Act 2009'. Retrieved March 5, 2014, from <http://www.govtrack.us/congress/bills/111/hr4173>

entitled 'The Patriot Corporations of America Act of 2013' aims to give preference to bids for government contracts and preferential tax status to companies with a pay multiple of less than 1:100.⁸⁶

Basing contract selection criteria on some consideration of a suppliers pay multiple would:

- Help smaller local suppliers and social enterprises to win contracts.
- Prevent companies making excessive profits from government contracts. Supplementing other measures which ensure value for money for the taxpayer in commissioning services.
- Strengthen local economies. It is argued that increasing incomes at the lower end of the income distribution could have significantly larger knock on benefits, as a macroeconomic stimulus which would benefit local economies, than increased incomes at the higher end.⁸⁷

4. Explore the Potential for Greater Manchester to become a Living Wage City through the City Deal Arrangements.

Central Government and the Treasury are a major beneficiary of companies paying the Living Wage, it is estimated that the net gain to revenues could increase by between £2bn⁸⁸ and £4bn⁸⁹ if the Living Wage was paid to all workers in the UK as a minimum, due to reductions in in-work benefits which currently subsidise low paying employers.

A comprehensive and influential report by the Resolution Foundation and IPPR therefore recommended that the Treasury should be reimbursing Local Authorities which are taking action on living wages, in light of the relief they have taken off payments related to in-work benefits, and drawing forward future savings to encourage Living Wage take up in the local Private Sector, particularly through

86 US, H.R. 929--113th Congress, 'Patriot Corporations of America Act of 2013.' Retrieved March 5, 2014, from <http://www.govtrack.us/congress/bills/113/hr929>

87 Landman Economics, 'The economic impact of extending the Living Wage to all employees in the UK', October 2013(b), Unison

88 Lawton and Pennycook, 2012 *Op. Cit.*

89 Mike Brewer and David Philips, 'IFS analysis on the "Living Wage"', 2010, Institute for Fiscal Studies, www.ifs.org

incentives for SME's.⁹⁰ It is recommended that this is organised through the City Deal architecture creating 'Living Wage City Deals'.

The Greater Manchester Living Wage Campaign, supported by Church Action on Poverty and the Mayors of Salford, Bury and Wigan is calling for Greater Manchester to become a Living Wage Zone.⁹¹ The integration of a 'social city deal' into the City Deal, to give more control to Local Authorities over a local welfare agenda, was also a key recommendation of the GM Poverty Commission.⁹²

By taking a progressive approach to eliminating poverty wages Local Authorities can demonstrate the viability and social advantages of more evenly divided benefits and can then demand, with legitimacy, the resources saved by central government to further develop a local and inclusive character of economic development.

Conclusion

This study has attempted to draw together the social and ecological implications of income inequality, assess the current state of Local Authority pay policies in Greater Manchester and present possibilities for strengthening them.

Local Government pay policies are by no means a dominant source of inequality, rather pay equality has been relatively sheltered from more extreme private sector trends. The argument for strengthening policies toward pay equality is to increase the strength and influence of principled approaches to pay equality in Local Government, both as a counterweight to the broad increase in inequality and to catalyse more equitable pay in the private sector as a commissioner of services.

We found that pay multiples are marginally larger in GM Local Authorities than the UK Local Authority average, that policies for assessing, justifying and achieving appropriate pay multiples are lacking in substance, and pay setting is vulnerable to the magnetic effect of high pay inflation in the private sector. Although the majority of authorities have implemented living wage policies, the rates have initially varied and coverage has been patchy. There are, however, positive signs of councils adopting living wage policies as an emerging norm and as well as seeking accreditation and convergence towards the Living Wage Foundation rate.

90 Lawton and Pennycook, 2012 *Op. Cit.* p.6

91 See: <http://blog.church-poverty.org.uk/2013/10/30/challenging-low-pay-in-manchester-launch-of-a-new-campaign/>

92 See: <http://www.povertymanchester.org/>

A Living Wage for council employees is just a start, low pay in the private sector is more extreme and more prevalent. Although Salford and Oldham have made steps towards extending Living Wage Policies to the employees of contractors, as a whole, GM Local Authorities have yet to fully employ the weight of their purchasing power to raise low pay and reduce inequality in the private sector.

It is clear that a hands off approach to pay inequality will not suffice to reverse the trend towards an increasingly unequal, fragmented, dysfunctional and unsustainable society. There is a strong case for, and practical examples of, progressive Local Authority action to reduce internal pay inequality as a counterweight to external labour market trends, and of Local Authorities using their purchasing power to place downward pressure on pay inequality in the private sector.

Steady State Manchester and Equality North West hope that Local Authorities in Greater Manchester will take the recommendations of this study on board as important moves towards making Greater Manchester a more equal and ecologically sustainable place.

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Appendix 1

Local Authority responses to a Freedom of Information request by Steady State Manchester and Equality NW first made on the 11th of April 2013.

Responses to the question:

'Do you have any policy or procurement guidelines in place in relation to the pay policies of organisations you procure or commission goods and services? (For example a requirement for suppliers to pay the Living Wage of £7.45 per hour as a minimum or consideration of the organisations pay dispersion, or pay multiple, in informing procurement.)':

Manchester

'The Council does not have a policy in place in relation to the pay policies of external organisations.'

Salford

'the council does not currently specify in any tenders that the living wage of £7.45 an hour is required.

The City Mayor is currently developing an Employment Charter which will set minimum standards for people in work. This will include the Living Wage. The city council hopes the Charter will be agreed with a wide range of employers.

We are currently in talks with a number of our partners about their potential introduction of the Living Wage. We are also carefully considering what extra procurement freedoms the new Social Value Act will give us as both an employer and commissioner of services in improving the terms and conditions of working people in Salford. This is a high priority for the City Mayor.'

Trafford

'We do not hold pay data for organisations we commission or procure goods and services from. The only exception to this would be if TUPE* applies on a transfer of undertaking, however this would be classed as commercially sensitive data.

So with regret we are unable to provide any data in response to your request.'

(*The Transfer of Undertakings (Protection of Employment) Regulations protects employees' terms and conditions of employment when a business is transferred from one owner to another.)

Oldham

Going forward, we now include some elements of the Council’s Social Value Framework in all of our tenders, though this may not be related to pay in any given tender.

One of the outcomes of the framework is as below, with what this could mean in relation to our expectations from prospective suppliers below that.

Outcome; A local workforce which is fairly paid and positively supported by employers

Pay staff the Living Wage
Increase rates of pay for lowest-paid staff by x%
Improve the skills levels of existing staff by training x% of the workforce to Level 2/3/4 (for example)
Reduce average sickness absence by x% through an improved health, wellbeing and support package for staff
Identify all staff who are carers and ensure flexible working practices are implemented to support these responsibilities within x weeks of contract start date

Rochdale

We only request pay policies depending on the type of contract. We do state that they must comply with all current legislation and that would include paying minimum wage but we don’t have policies regarding an organisations pay policy in relation to living wage.

Wigan

'Wigan has no policy regarding Living Wage as this is only discretionary but we would require compliance with all relevant legislation which would cover minimum wage.'

Stockport

The Council is currently considering the implications of stipulating the Living Wage to be paid as a minimum but this has not yet been implemented. Suppliers have been included in discussions but at present there is no firm policy decision.

Bury

In response to your request for supplier/contractor pay data I write to advise you that this information is not held by Bury Council.

Bolton

As requested verbally on the phone yesterday, I have checked and it would appear that there are no discussions about Bolton heading down this route at the moment.

Tameside

'at this time we do not have a policy or procurement guidelines in relation to the pay policies of organisations we procure or commission goods and services from.'

Appendix 2

Pay Policy Statements

'Bolton Council Pay Policy Statement 2013/14 '

[no accessible web link, provided at request by Bolton Corporate Information Unit]

'Bury Council: Pay Policy Statement 2013 – 2014'

<http://www.bury.gov.uk/CHttpHandler.ashx?id=11751&p=0>

'Manchester City Council Pay Policy Statement: 2013/14 '

http://www.manchester.gov.uk/downloads/download/4872/pay_policy_statement_201213

'Oldham Council Pay Policy Statement: 2013/14 '

http://www.oldham.gov.uk/info/200682/salaries_and_allowances/1058/pay_policy

'Rochdale MBC Pay Policy Statement 2013/14'

http://www.rochdale.gov.uk/the_council/policies_and_plans/corporate/pay_policy.aspx

'Salford City Council Pay Policy Statement: 2013/14 '
http://www.salford.gov.uk/d/Pay_Policy_Statement_V1_220413.pdf

'Stockport Pay Policy Statement: 2012/13'
<http://democracy.stockport.gov.uk/documents/s25288/Report.pdf>

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<http://www.tameside.gov.uk/paypolicy.pdf>

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