

Report 2017.14  
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Committee Council  
Author Greg Campbell, Chief Executive

## Living Wage

### 1. Purpose

For the Council to consider matters relating to implementing the “Living Wage” for directly employed Greater Wellington Regional Council (GWRC) staff, employees employed via contractors who deliver Council services, or work in Council Controlled Organisations.

### 2. Background

At its meeting on 28 September 2016 the Council made the following resolution with regard to the Living Wage:

*That the Council:*

- 1. Notes that the Living Wage movement is gaining momentum around the world and in New Zealand, where there are nearly sixty accredited Living Wage employers in New Zealand.*
- 2. Notes that international research has demonstrated that employers who pay the Living Wage reduce costs associated with high turnover and absenteeism, and have higher morale and productivity in their workforce.*
- 3. Agrees that Greater Wellington Regional Council has a responsibility to be a good employer.*
- 4. Agrees in principle to become a Living Wage Council that pays its directly-employed staff a Living Wage, and develops a phased implementation of the Living Wage for employees employed via contractors who deliver Council services, or work in Council Controlled Organisations.*
- 5. Agrees in principle that contracting should not be used to reduce pay and conditions of employees employed by contractors who are contracted to deliver services to Council on a routine basis.*

6. *Requests officers to develop a framework for implementing a Living Wage by March 2017 that:*

- a) *Identifies what is involved in, and what are the implications of, becoming a Living Wage employer*
- b) *Provides a timeline for the phased implementation of a Living Wage for directly employed Council staff, staff employed by Council Controlled Organisations and contractors who deliver Council services on a routine basis*
- c) *Provides advice on the impact of a Living Wage on Council's procurement policy and tendering arrangements, and any changes that would be needed to existing contracting policy so as to ensure that tender processes protect employment security and pay and conditions for contractor employees.*

### **3. Comment**

The Living Wage Movement Aotearoa New Zealand was formed in 2012 by a diverse group of people from community organisations, churches and unions to campaign for a Living Wage for New Zealanders.

The Living Wage is defined by Living Wage Aotearoa as “*the income necessary to provide workers and their families with the basic necessities of life. A living wage will enable workers to live with dignity and to participate as active citizens in society*”<sup>1</sup>.

In New Zealand the Living Wage is calculated based on a family unit of two adults and two children, one adult working full time and the second adult working half time. It reflects the basic expenses of workers and their families such as food, transportation, housing and childcare, and is calculated independently by the New Zealand Family Centre Social Policy Unit<sup>2</sup>.

The Living Wage is updated annually and is based on wage movements as reported by Statistics New Zealand in the Quarterly Employment Survey. There will be a review of the New Zealand Living Wage every five years to analyse movements in expenditure items, wages and inflation to ensure that annual increases remain true to the New Zealand Living Wage methodology. The first five yearly review will take place in 2018.

The New Zealand Living Wage hourly rate is currently \$19.80 per hour and will increase to \$20.20 per hour as at 1 July 2017.

The Living Wage hourly rate excludes KiwiSaver contributions.

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<sup>1</sup> Living Wage Aotearoa new Zealand <http://www.livingwage.org.nz/about>

<sup>2</sup> The Family Centre Social Policy Unit operates independently in the Hutt community of greater Wellington with its own Trust Board. It works in collaboration with other groups to carry out social and economic policy research and evaluation. It was commissioned by Living Wage Aotearoa to undertake the economic analysis of the NZ Living Wage.

## **What is involved in becoming a Living Wage employer?**

Living Wage Aotearoa has an accreditation regime, described below. To become an ‘accredited Living Wage employer’ requires certain criteria to be met and an annual licence fee to be paid. GWRC would not have to be accredited to describe itself as a ‘Living Wage employer’ if, for example, GWRC paid its directly employed staff the Living Wage.

There are approximately 10 permanent staff<sup>3</sup> paid less than the Living Wage rate of \$20.20 per hour plus 3% KiwiSaver<sup>4</sup>. It will cost around \$10,000 to implement the Living Wage for these employees in the 2017/18 financial year. This cost does not include any increases for casual employees who will receive the Living Wage.

The Council wishes to apply the Living Wage to employees of Council Controlled Organisations (CCOs) 100% owned by GWRC. There is currently no cost involved in applying the Living Wage to these CCOs, as they do not employ staff.

There are potential legal constraints in relation to applying the Living Wage to employees employed via contractors who deliver Council services on a routine basis.

Under section 10 of the Local Government Act 2002, the purpose of local government includes “*to meet the current and future needs of communities for good-quality local infrastructure, local public services and performance of regulatory functions in a way that is most cost effective for households and businesses*”. Section 10(2) provides that “*good-quality, in relation to local infrastructure, local public services, and performance of regulatory functions, means infrastructure, services and performance that are –*

- a) efficient; and*
- b) effective; and*
- c) appropriate to present and anticipated future circumstances.”*

If the application of the Living Wage to contractors increases the costs of those services without a corresponding increase in their quality or effectiveness, there is an argument that pursuing such a policy would fall outside the purpose of local government as defined by the Local Government Act 2002. The implications include the possibility that any judicial review proceeding brought against the Council’s decision to pay the Living Wage to contractors in a specific case is successful.

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<sup>3</sup> As at January 2017

<sup>4</sup> New hourly rate coming into effect as at 1 July 2017

An alternative approach is to signal support of the Living Wage in GWRC's procurement policy, for example by providing that payment of Living Wage rates will be one factor considered in the procurement of contracts for the provision of routine services to GWRC.

Given the lack of certainty around the legality of GWRC requiring that contractors who deliver services to GWRC must pay the Living Wage to their employees, it is proposed that Local Government New Zealand be requested to seek, on behalf of the local government sector, a legal opinion as to whether, and the circumstances in which, payment of a Living Wage is within the power of a local authority under the Local Government Act 2002.

### **Accreditation as a Living Wage employer**

There is an accreditation programme run by Living Wage Aotearoa to become an accredited Living Wage employer. The programme is run by the Living Wage Aotearoa Accreditation Board. Accredited employers hold a licence from Living Wage Aotearoa and must pay an annual licence fee. The annual licence fee takes into account the number of employees employed in the organisation and the sector. For GWRC the current licence fee is \$2,500 per annum.

The criteria for accreditation includes:

- a) All directly employed staff are paid the Living Wage prior to accreditation.
- b) All indirectly paid workers employed by contractors, delivering a service to the organisation on a regular and on-going basis, are either on the Living Wage or on milestones agreed with the Accreditation Board as part of the license.
- c) Employers have provided employees with access to a union.
- d) Employees' terms and conditions have not been reduced in order to meet the Living Wage rate (i.e. no reduction in hours of work or holiday pay entitlement to increase the hourly rate).
- e) The employer must implement the new Living Wage within four months from the release of the new rate in order to continue to be a license holder.

In order for GWRC to meet the accreditation criteria in relation to directly employed staff, the advice we have received from Living Wage Aotearoa is that all staff must receive the monetary equivalent of a benefit if they opt out of that benefit. Also vehicle benefits are not included in the calculation of the hourly rate.

GWRC's staff remuneration structure is a base salary plus benefits package (known as "fixed remuneration"). For specific roles that require use of an organisational vehicle, a vehicle benefit is included in the remuneration package for those staff members. The benefit package also provides for a

superannuation benefit, which is greater than the employer contribution required for KiwiSaver.

When GWRC brought in its fixed remuneration structure in 2013, existing employees had their remuneration marked to the fixed remuneration market based on their existing package. In some cases, individuals had not taken the full component of their superannuation benefit. Employees employed after that date received a superannuation allowance if they opted out of the full superannuation benefit.

For GWRC to comply with criteria for accreditation GWRC would need to:

- a) in relation to directly employed staff:
  - buy out the vehicle benefit for specific staff who need to use an organisational vehicle (at a cost of approximately \$276,500), and
  - apply the superannuation opt out policy to all staff (at a cost of approximately \$96,000). This would effectively give these staff a remuneration increase and would affect relativities between individuals and/or roles in the organisation.
- b) have, or agree with the Accreditation Board, milestones for paying the Living Wage to contractors who provide regular and on-going services to the Council.

Due to the cost, equity as between equivalent staff members and potential legal implications of becoming an accredited Living Wage employer, it is recommended that the Council agree to not seek accreditation at this stage.

### **Timeline for phased implementation of a Living Wage**

- a) For directly employed staff, GWRC conducts its salary review process from July to September each year. It is recommended that any implementation of the Living Wage for directly employed staff be aligned with the salary review process and that permanent staff below the Living Wage rate of \$20.20 per hour at the conclusion of the salary review process, receive a Living Wage allowance to bring them up to the Living Wage.
- b) For CCOs 100% owned by GWRC, they would comply with any Living Wage policy immediately, as they currently do not employ staff.
- c) For contractors who deliver routine and on-going services to GWRC, it is recommended that officers review GWRC's procurement policy by the end of the year to reflect Council's support for the Living Wage, for example by providing for the payment of a Living Wage as one factor in the procurement process for those contracts. The procurement policy will need to define what is meant by "routine and on-going" services, and consider whether it is appropriate for tender processes to consider terms and conditions of employment of contractor employees.

## 4. Communication

A decision by the Council to implement the Living Wage will be conveyed to GWRC staff and to the public by media release.

## 5. The decision-making process and significance

The matter requiring decision in this report has been considered by officers against the requirements of Part 6 of the Local Government Act 2002 (the Act). Part 6 sets out the obligations of local authorities in relation to the making of decisions.

### 5.1 Significance of the decision

Part 6 of the Act anticipates that the Council's decision-making process will be tailored so that it is in proportion to the significance of the matters affected by the decision, as determined in accordance with the Council's significance and engagement policy.

Officers have considered the significance of the matter, taking the Council's significance and engagement policy and decision-making guidelines into account. While officers recognise that the matters referenced in this report may have a high degree of importance to some affected or interested parties, it is recommended that the matter be assessed under the Policy as having relatively low significance overall, including because the Council has the statutory authority to determine how to exercise its obligations as a good employer and to determine its procurement processes.

Officers therefore do not consider that a formal record outlining consideration of the decision-making process is required in this instance. By proceeding on this basis, the Council will be accepting this assessment of significance and that it has sufficient information to fulfil its obligations under the Act, including sections 78 and 79.

### 5.2 Engagement

In accordance with the significance and engagement policy, no engagement on the matters for decision is required. It is considered that the Council has sufficient information to give appropriate consideration to community views.

## 6. Recommendations

*That the Council:*

1. **Receives** the report.
2. **Notes** the content of the report.
3. **Agrees** that GWRC shall be a Living Wage employer.
4. **Agrees** not to seek Living Wage Accreditation at this stage.
5. **Requests** the Chief Executive to give effect to the implementation of the Living Wage for GWRC staff from the next scheduled organisational salary review process.

6. ***Agrees** that Council Controlled Organisations for which GWRC is the 100% shareholder should also be Living Wage employers.*

Report approved by:

**Greg Campbell**

Chief Executive