



Public Health  
England



UCL Institute of Health Equity

Local action on health inequalities:  
**Health inequalities  
and the living wage**



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Public Health England's mission is to protect and improve the nation's health and to address inequalities through working with national and local government, the NHS, industry and the voluntary and community sector. PHE is an operationally autonomous executive agency of the Department of Health.

### About the UCL Institute of Health Equity

The UCL Institute of Health Equity (IHE) is led by Professor Sir Michael Marmot and seeks to increase health equity through action on the social determinants of health, specifically in four areas: influencing global, national and local policies; advising on and learning from practice; building the evidence base; and capacity building. The Institute builds on previous work to tackle inequalities in health led by Professor Sir Michael Marmot and his team, including the 'Commission on Social Determinants of Health', 'Fair Society Healthy Lives' (The Marmot Review) and the 'Review of Social Determinants of Health and the Health Divide for the WHO European Region'.

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### About this evidence review

This evidence review was commissioned by PHE and researched, analysed and written by the IHE. There are related evidence reviews available in this series. There is a companion summary briefing note available on this and other related topics from the same series. This review is intended primarily for directors of public health, public health teams and local authorities. This review and the accompanying briefing are part of a series commissioned by PHE to describe and demonstrate effective, practical local action on a range of social determinants of health.

This evidence review was written for IHE by Ellen Bloomer.

We would like to thank all those on our advisory group who commented on the drafts of this briefing, with special thanks to Bola Akinwale, Jessica Allen, Matilda Allen, Rabbi Miriam Berger, Matthew Bolton, Dave Buck, Ann Marie Connolly, Angela Donkin, Sam Elliot, Nicola Kilvington, Emma Kosmin, Peter Goldblatt, Catherine Gregson, Shaun Lowthian, Andy Murray, John Paxton, Leo Trinick, Katherine Waugh and the Living Wage Foundation.

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PHE publications gateway number: 2014334  
September 2014

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## Key messages

1. Evidence shows that insufficient income is associated with worse outcomes across virtually all domains, including long-term health and life expectancy. Living on a low income is associated with a greater risk of limiting illness and poor mental health including maternal depression.<sup>1-3</sup> Children who live in poverty are more likely to be born early and small, suffer chronic diseases such as asthma, and face greater risk of mortality in early and later life.<sup>4, 5</sup>
2. As the main source of income for working families, adequate wages are vital for providing people with sufficient income to live a healthy life. Excluding pensioners, there are more households in poverty where at least one person is in work (6.1 million people), than there are workless households in poverty (5.1 million people).<sup>42</sup>
3. The living wage is an hourly minimum wage that is optional for employers calculated according to the basic cost of living. As long as the benefits system does not penalise wage increases, greater adoption of the living wage can help to reduce the number of working families on low incomes, improve public health and reduce inequalities.
4. Adopting the living wage has been shown to improve psychological wellbeing among employees.<sup>6,7</sup> Studies from the US have suggested that the introduction of a living wage is associated with significant improvements in life expectancy, self-rated health, depression, alcohol consumption, activity-limiting illnesses and a fall in mortality.<sup>8</sup>
5. Local authorities can lead by example as a major employer by paying a living wage to all directly employed staff and, where appropriate, contracted staff. Planning ahead to identify the best time to implement a change (for example, at the same time as major changes to job descriptions and pay grades) is advisable.
6. Innovative approaches to implementing the living wage in procurement, including applying the Social Value Act, might also be used. Systems to monitor compliance and ensure the living wage is sustained and raised along with annual uplift would also be needed.
7. These efforts can be supported by strong leadership and buy-in from the local authority, ongoing discussions with a range of local employers around adopting the living wage, using clear communication, assessing the costs and benefits and supporting employers with implementation.

# Introduction

The Marmot Review recognised the important role of achieving a “minimum income for healthy living” in improving health and reducing health inequalities: “An adequate and fair healthy standard of living is critical to reducing health inequalities. Insufficient income is associated with worse outcomes across virtually all domains, including long-term health and life expectancy.”<sup>9</sup>

This paper builds on that position and provides a summary of evidence on the health impacts of living on a low income. It assesses the evidence around how the living wage addresses low incomes, health and health inequalities. The living wage is an hourly minimum wage, optional for employers, calculated according to the basic cost of living.<sup>10</sup>

Local authorities and other organisations that have implemented the living wage for their staff are presented as case study interventions to show how it is possible, the challenges faced and how they were overcome and any reported income, health and business benefits. These actions have not been evaluated and this is one of the areas for further research identified in chapter 5.

Throughout, a ‘social determinants’ approach is taken. People’s individual characteristics are seen as shaped by, and related to, inequities in power, money and resources, and the conditions in which they are born, grow, live, work and age.<sup>11</sup> The purpose of this paper is to show that taking action to increase the number of people earning a living wage is possible and necessary – both to move people off low incomes as a goal in its own right, but also as an important way to improve public health and reduce inequalities.

This paper is part of a collection of evidence reviews for local areas commissioned by Public Health England (PHE) and written by the UCL Institute of Health Equity. A corresponding short briefing on this topic is also available, as are additional evidence reviews: the reviews on employment opportunities and working conditions, and fuel poverty, are particularly complementary to this review on the living wage.

Throughout the paper, we have highlighted certain evidence and resources in boxes such as this one. These are labelled in the following ways:

**Intervention** – an example of a strategy, programme or initiative, taken by a local area, organisation or national government, that it is felt may contribute to reducing health inequalities by acting on the social determinants of health. It has either been evaluated and shown to be effective, or is considered to be an example of promising action.

**Key message(s)** – summaries of the key findings or action proposed in this paper.

**Key literature** – summaries of academic studies or other reports which provide key information relevant to the chapter, often taking into account a range of different programmes or projects.

# 1. What is the living wage?

The living wage is an hourly minimum wage, optional for employers, calculated according to the basic cost of living.<sup>10</sup> In 2013 the UK living wage was set at £7.65 (£1.34 higher than the national minimum wage) and the London living wage was £8.80 per hour (£2.49 higher than the national minimum wage). It is championed and supported by Citizens UK and the Living Wage Foundation.

The living wage for UK employees outside London is set by the Centre for Research and Social Policy at Loughborough University, and is based their own research on the Minimum Income Standard for the UK (see box below for more information).<sup>12</sup> The living wage is set by the Greater London Authority, calculated by combining an assessment of the cost of an adequate standard of living with a 60% threshold of the median London income.<sup>13</sup> Around 4.8 million people across the UK, about 20% of the working population, are reported to earn an hourly rate less than a living wage.<sup>14</sup>

## Key literature: minimum income levels

A minimum income for healthy living has been developed which calculates the amount of income needed to live healthily in the UK, and this includes costs relating to nutrition, physical activity, housing, psychosocial interaction, clothing, transport, heating and hygiene.<sup>15</sup> People living below this level have a greater risk of poor health.<sup>15</sup> This amount was calculated to be £131.86 per week for a single man aged 18–30 in 1999; unfortunately the amount has not been updated using more recent data.<sup>15</sup>

The Centre for Research and Social Policy at Loughborough University, funded by the Joseph Rowntree Foundation, has developed the minimum income standard which calculates annually a level of income considered by survey respondents to be enough to live on for different household types.<sup>16</sup> For example, the total weekly minimum income standard calculated for a single person in 2013 was £273.85.<sup>17</sup> The minimum income standard has a similar focus to the minimum income for healthy living – it also includes sufficient resources to participate in society and maintain human dignity, consuming those goods and services regarded as essential in Britain today.<sup>16</sup>

## 1.1: Costs and benefits of the living wage

### Providing people with sufficient income to live a healthy life

The main objective of the living wage is to provide low paid people with sufficient income to cover their cost of living. The minimum income for healthy living and minimum income standard (see box above) are two measures of an adequate minimum income level, though neither proposes how to ensure it is obtained (eg, through increasing wages, benefits or other sources).

Wages, salaries and welfare benefits are the main sources of income. Many of those living on the lowest incomes in the UK are in work: excluding pensioners, there are more households in poverty

where at least one person is in work than there are workless households in poverty.<sup>18</sup> However, the main source of income for the 40% of households living on the lowest incomes was cash benefits and benefits in kind in 2007-08,<sup>19</sup> suggesting that action geared towards reforming the social protection system and locally to increase benefit take-up among eligible households is welcome alongside addressing low wages.

The impact of a wage increase on low income individuals is complex. Currently, the benefit system can mean that an individual employee is no better off with a wage increase to the living wage, because some of their benefits are taken away as a result (see for example the Epsom and Ewell intervention in section 4.1). Therefore, for many individuals the effect of a move to the living wage is zero or negative.<sup>i</sup>

However, it will have positive income effects for some. For those individuals who are not eligible for benefits, including some of the most excluded groups – notably vulnerable migrants, any increase of their wage to the living wage will be beneficial in terms of both their income and their health (see health benefits in section 2.2). Further, there are likely to be indirect benefits for all individuals in receipt of social welfare. If more employers pay the living wage, this will make more money available in the capped social welfare budget for these individuals to receive the benefits to which they are entitled. More research is needed on the relationship between the living wage and the benefit system.

Queen Mary's University London (QMUL) conducted a survey of all 359 living wage accredited employers, with a response rate of 63.5%. It used the results to calculate a conservative estimate that, between May 2011 and November 2013, almost 23,000 workers had accrued an additional £49 million because of the adoption of the living wage by these organisations.<sup>20</sup> However, the study did not take into account the impact of the welfare system on these employees' incomes.

It should be further noted that paying the living wage will not protect everyone against poverty or unhealthy levels of low income, because receiving a living wage is not the same as having a sufficient household income. The living wage is calculated at an individual level and the MIS at a household level, so achieving one adequate income level does not mean the other will automatically follow, even without considering the impacts of the benefit system. The household may remain below an adequate level of income and below the poverty line, even if their wage income does increase.

### **Costs and benefits to employers and the local economy**

The Resolution Foundation in the UK estimated that if firms move their in-house staff to the living wage, they face average increased wage bills of between 0.2% (banking) and 6.2% (bars and restaurants), though it is important to note that this does not take into account outsourced workers, who make up a considerable number of those on low incomes.<sup>21</sup> There are also short-term costs associated with renegotiating employment contracts.<sup>22</sup>

Interviews by the Greater London Authority (GLA) in 2009 with representatives from 11 living wage employers found that these employers felt the living wage significantly benefitted the organisational reputation, recruitment and retention of staff and worker morale and motivation.<sup>23</sup> An American

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<sup>i</sup>The move to Universal Credit has not been considered in this review as it has not yet been implemented. It is likely to alter the effects of the living wage on household income and further research is needed in this area.

review of published literature concluded that employers benefitted from lower labour turnover and increased productivity, while workers and their families benefitted with few if any negative effects<sup>24</sup> For example, a study of home-care workers in San Francisco found that turnover fell by 57% following implementation of a living wage policy.<sup>24</sup> The American review found that introducing a living wage had a low or moderate impact on municipal budgets.<sup>24</sup>

A 2013 report suggests that there is considerable scope for the living wage to stimulate the economy, which implies that local employers adopting the living wage may have positive economic impacts in the local area.<sup>25</sup>

## 2. The living wage and health inequalities

### 2.1: Low income and health inequalities

Living on a low income has negative health impacts. Bartley et al., used British Household Panel Survey data to show that households in the lowest third of incomes had a higher risk of experiencing a limiting illness compared with those in the highest third of incomes (hazard ratio 1.40 for men and 1.34 for women). This was after controlling for marital status, social class, employment status and educational qualifications.<sup>1</sup>

Income is a key factor contributing to poverty, and the risk of household poverty is about ten times higher among low earners than among workers paid above the standard low pay threshold.<sup>26</sup> Poverty is associated with poor mental health, including a greater risk of mental disorders, sleep deprivation, and depression in new mothers.<sup>2</sup> Mayhew and Bradshaw analysed data from the UK Millennium Cohort Study and found that the risk of maternal depression, after controlling for other factors, was almost 50% higher (hazard ratio 1.49) among poor mothers than non-poor mothers.<sup>3</sup>

Children who live in poverty are more likely to be born early and small,<sup>4</sup> and suffer chronic illnesses such as asthma,<sup>5</sup> and they face a greater risk of mortality in early and later life,<sup>4</sup> reflecting the long-lasting impacts across generations. Using self-reported interview data from the Swedish Level of Living Survey, and controlling for age, Lundberg found that those who had experienced psychological distress in childhood were more likely to experience economic hardship in adulthood (odds ratio 1.86.)<sup>27</sup>

The negative health impacts of living on a low income can be caused by material or psychosocial factors, or a combination:

**Material deprivation:** the inability to afford items necessary for a healthy life, such as nutritious food, fuel to heat homes or adequate housing, can lead to health problems. For example, living in a cold, damp home is associated with poor health outcomes including cardiovascular and respiratory disease, excess winter mortality, depression among children and adults and colds and flu.<sup>28</sup> Material deprivation can mean that people are unable to go out or travel, or are ashamed to invite people into their home, and this can lead to social isolation, which is a predictor of poor health and carries a greater risk of mortality.<sup>29</sup> In the literature on children's outcomes, the 'investment theory' explains that as parents' financial resources increase they are able to afford certain goods that improve children's outcomes.<sup>30</sup> Educational attainment is one of these outcomes, which is influenced by poverty<sup>31</sup> and has been shown to influence health.<sup>9</sup>

**Psychosocial factors:** there are a number of psychosocial factors that can cause stress and ill-health for those living with insufficient income and financial difficulties. Insufficient income reduces the autonomy an individual can experience and the control they have over their life which research suggests increases the risk of cardiovascular and self-reported poor health.<sup>32, 33</sup> A relative lack of income, or relative poverty, is a barrier to participation in society, and it is associated with well-

being.<sup>34, 35</sup> Another explanation of the damaging effects of relative income on health and well-being is ‘status anxiety’. This suggests that income inequality is harmful because it places people in a hierarchy that increases status competition and causes stress, which leads to poor health and other negative outcomes.<sup>36</sup> The ‘Family Stress Model’ holds that economic hardship causes stress for parents and in turn impacts on their parenting abilities, negatively affecting children’s outcomes.<sup>30</sup> Households with debt problems or other financial difficulties have been associated with worse mental health including increased likelihood of mental disorders, relationship problems and stress.<sup>2, 37-39</sup> An increase in financial capability leads to an increase in psychological wellbeing and a decrease in anxiety and depression.<sup>40</sup>

There is a graded relationship between income and health, not confined to those on the lowest incomes.<sup>9</sup> In general, material deprivation is more closely related to low absolute levels of income, while psychosocial factors are associated with a relative lack of income.

## 2.2: Health and wellbeing benefits of the living wage

Adopting the living wage has been shown to improve psychological wellbeing among employees, measured using the Warwick-Edinburgh Mental Wellbeing Scale (WEMWBS). One study carried out workplace interviews with service sector employees in London, finding that those working for Living wage employers scored an average 3.9 units higher on average out of a total of 70 compared with those who did not, after adjusting for hypothesised confounding factors.<sup>6</sup> Similarly, a questionnaire survey of 416 employees found a statistically significant difference in WEMWBS well-being scores, where the average score for those employed in a living wage workplace was 4.5 units (out of 70) higher than those employed in a non-living wage workplace, after adjustment for confounding factors.<sup>7</sup>

Studies from the USA have suggested that the introduction of a living wage is associated with significant improvements in life expectancy, self-rated health, depression, alcohol consumption, activity-limiting illnesses and a fall in mortality.<sup>8, 41</sup> A study of health improvements predicted to result from the adoption of an hourly living wage of \$11.00 in San Francisco estimated that premature death from all causes would decrease for adults (relative hazard 0.94 for men and 0.96 for women) and they would have a lower risk of early childbirth (relative hazard 0.78).<sup>ii</sup> The study estimated that their children would gain an average 0.25 years of completed education and a higher chance of completing high school (odds ratio 1.34).<sup>8</sup> This research should be viewed with caution when considering the impacts that might be relevant for England, because it is predicting rather than measuring the health effects and because it is based in the USA which does not have a universal health system. However, it does indicate the health benefits that might accrue with a rise for those on low wages.

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<sup>ii</sup> This was based on published observational models of the relationship between income and health, and on adults aged 24-44 years working full-time with an annual family income of US\$20,000.

### 3. Scale of the problem

#### 3.1: Individuals below the poverty line

A common measure of relative poverty is the percentage of households with incomes below 60% of contemporary median net disposable household income. In 2011-12, 16% of the UK population were in this category before taking account of housing costs and 21% after taking account of housing costs.<sup>42</sup> Figures 1a and 1b show how this differs between children, working-age adults and pensioners and how these rates have changed since 1998. Further, the figures show that high housing costs have a clear impact, given that average rates are higher and different patterns emerge in figure 1b after housing costs have been taken into account, compared with 1a. Relative poverty rates before housing costs have reduced considerably during and following the recession, as median incomes have also fallen meaning that a greater proportion of people are living on lower income and the poverty line is set at a lower level.

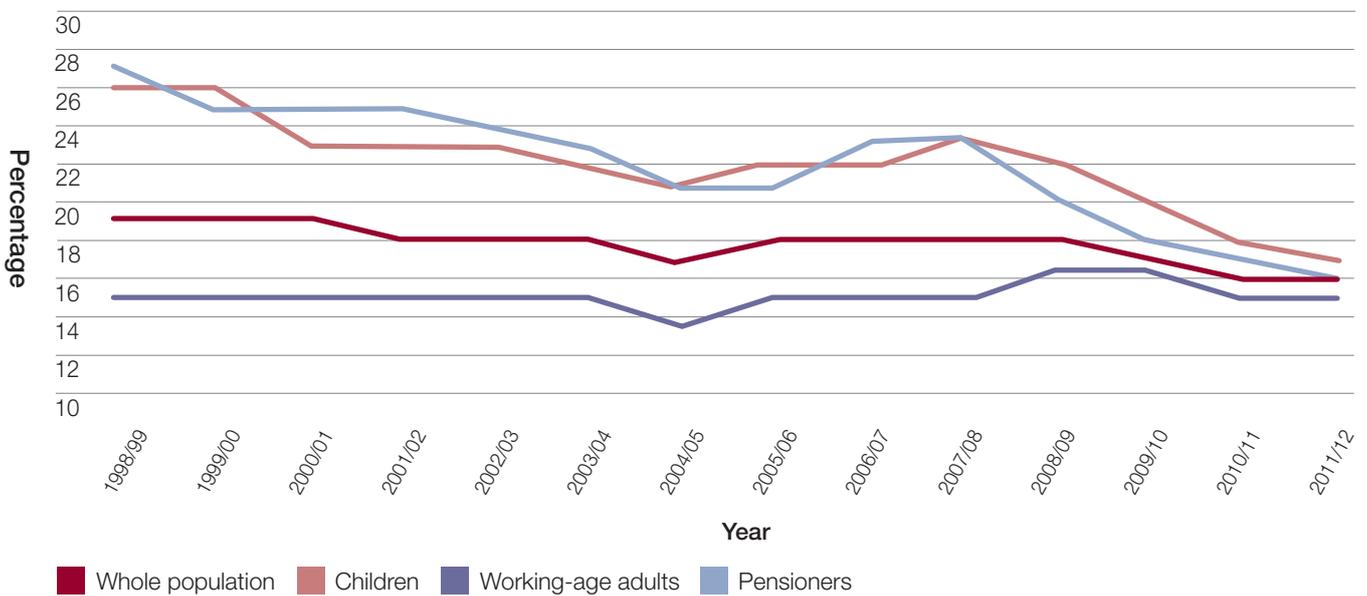


Figure 1a. Percentage of individuals on low income (below 60% of contemporary median income) in the UK, measured before housing costs, 1998-2012

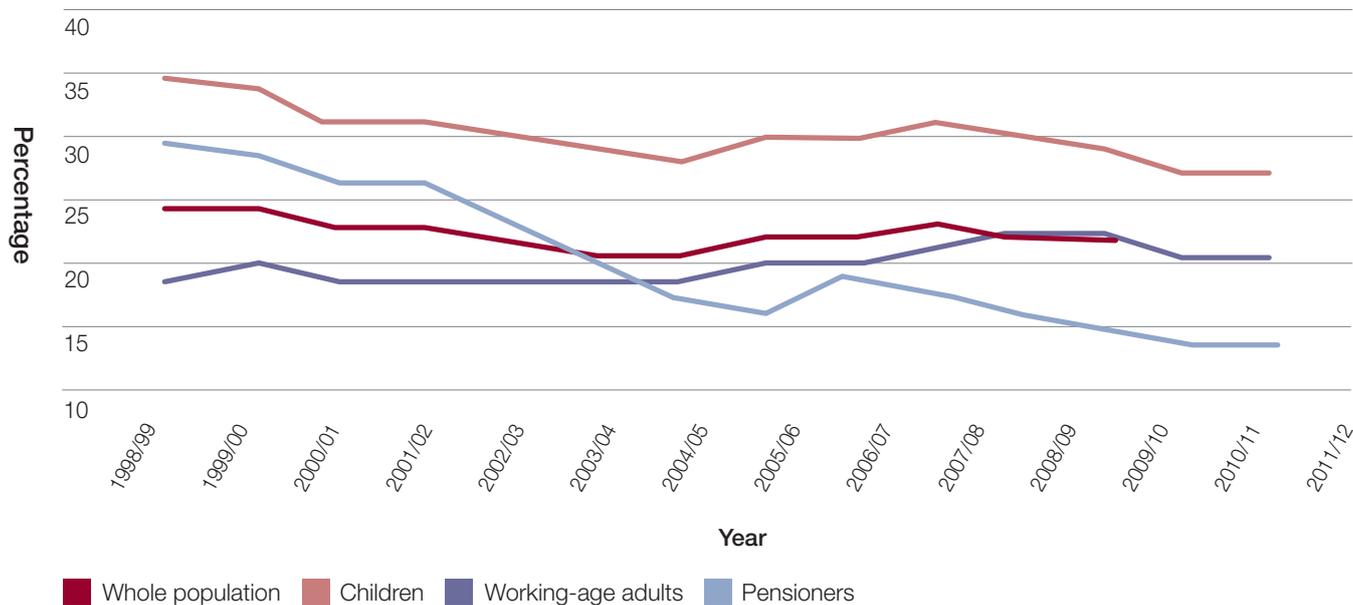


Figure 1b. Percentage of individuals on low income (below 60% contemporary median income) in the UK, measured after housing costs, 1998-2012

Excluding pensioners, there are more households in poverty where at least one person is in work (6.1 million people) than there are workless households in poverty (5.1 million people).<sup>43</sup> Though this report is concerned with the numbers of in-work households on low incomes, more research is needed to look at health inequalities among workless households, particularly the 5.1 million living below the poverty line.

### 3.2: Households below minimum income standard

In 2011-12, 21% of working-age households without children, 35% of those living in households with children, and 9% of pensioners, were living on an income below the minimum income standard in the UK.<sup>44</sup> The risk had increased for all household types since 2008-09, from 16, 31 and 7% respectively.

### 3.3: Average pay and numbers earning below the living wage and national minimum wage

The median gross pay across the UK in 2013 was £11.62 per hour or £21,905 annual salary.<sup>45</sup>

Research for KPMG has estimated that 5.24 million people, or 21% of the UK workforce, were paid less than the living wage in 2013, based on hourly rates (not taking into account other factors that contribute to minimum income).<sup>46</sup> This varied considerably across occupations, with around 85% of bar staff and waiters/waitresses paid below the living wage, while part-time workers were more at risk than full-time (43% as opposed to 12%) and London and the South East were the regions with the lowest proportion of those earning less than the living wage (17% and 18% respectively), despite high levels of relative poverty in London.<sup>46</sup> The Resolution Foundation made a similar estimate of the number of people earning an hourly rate below a living wage, of around 4.8 million people across the UK, or 20% of the working population.<sup>14</sup>

The national minimum wage was £6.31 per hour for over-21s in 2014 (and at the time of writing), and employers are legally bound to pay employees this rate. The Low Pay Commission estimated that in April 2012, 5.3% of jobs were paid at 5p or less above the national minimum wage.<sup>47</sup> It is estimated that around 1% of adults were paid below the national minimum wage in 2002-11, and the proportion was higher among those on the youth development and 16-17 year old minimum wage rates.<sup>48</sup>

## 4. What works to increase the number of employees receiving a living wage

This section looks at actions taken in local areas to increase the number of employees receiving a living wage. In the current economic climate, falling incomes and stagnating wages are significant issues and increasing the wages of the lowest paid may contribute to mitigating these impacts.

### Key messages: how local authorities can increase the numbers receiving a living wage

- lead by example as a major employer: pay a living wage to all directly employed staff and, where appropriate, contracted staff
- use innovative approaches for implementing the living wage in procurement, including applying the Social Value Act
- maintain ongoing discussions with a range of local employers around adopting the living wage, assessing the costs and benefits and supporting them with implementation
- ensure strong leadership and buy-in from the local authority
- use existing or create new partnerships to develop wider support for the living wage
- clearly communicate and promote the living wage
- plan ahead regarding the best time to implement (for example, at the same time as major changes to job descriptions and pay grades)
- establish systems to monitor compliance and ensure the living wage is sustained and raised along with annual uplift

A survey of all local authorities in England and Wales conducted by Unison found that 103 councils (27.5%) have adopted the living wage, and a further 38.4% were considering the move. Twenty seven local authorities have led by example and implemented the living wage. Many have also taken steps to encourage contractors to pay a living wage, through including the living wage as part of the procurement process. Finally, many local authorities have used their influence to encourage and support other local employers across all sectors to pay their employees a living wage.

There are legal barriers to awarding a contract on the basis that a contractor pays its staff a living wage. EU procurement legislation means that councils should award contracts based on either the lowest price or “the most economically advantageous tender”.<sup>49</sup> It is allowed to take into account non-economic matters, as long as these are not discriminatory and relate to the subject matter of the contract and are proportionate to the council’s legitimate requirements.<sup>49</sup> Therefore, councils are unable to include a commitment to pay a living wage as a condition for awarding a contract; rather, they must assess the benefits on a contract-by-contract basis to ensure that they are able to demonstrate value for money. However, as the examples below will show, there are effective ways of encouraging contractors to pay the living wage that are within EU law.

The following boxes provide examples of local authorities that have adopted the living wage, how they have implemented it within their organisation and their supply chain, and influenced other local employers to adopt it. Where possible, they highlight some of the challenges faced and how they managed to overcome these challenges, and the direct costs and benefits of adopting the living wage. Learning points from these interventions are summarised in section 4.2.

## 4.1: Interventions

### Intervention: Islington living wage

Islington Council in North London became one of the first councils to become an accredited living wage employer, in March 2012, following a recommendation of the Islington Fairness Commission that employers in Islington should pay all their directly employed staff and as far as possible their contracted staff, the London living wage (living wage).

**Employed staff:** all directly employed council staff and 16 to 19-year-old apprentices are paid above the living wage for their working hours. The overall salary costs of directly employed staff to the living wage was around £53,000 – less than 0.05% of the total pay budget. Paying agency staff the living wage cost £70,000.

**Existing contracts:** from 2011-13 the council implemented the living wage across its four main existing contracts (excluding social care). In three cases the providers agreed to pay the living wage – one without any and two with some additional costs to the council – and in the fourth case the service was brought back in-house. Across these contracts, 309 staff benefitted (44% of whom were from black and minority ethnic groups) who were previously paid below living wage, at a cost of £230,000 to the council.

Social care contracts are more difficult because of endemic low pay within the sector. The council has 25-year contracts with care home providers that are only a few years old and one provider is already currently running at a loss. Further, national care home providers also work with other boroughs, and the council often pays for spaces for their residents in bigger care homes – so there are questions around whether they would uprate the pay only of the staff looking after Islington patients, or all staff. Islington Council is continuing to have discussions with the providers on this issue. However, it is in the process of re-tendering contracts for domiciliary care and has found a provider who can fulfil the role while paying the living wage. The process is ongoing but the contract will be completed by the end of 2014.

**New contracts:** if new contracts are below the threshold for EU procurement legislation, the council inserts a condition that the living wage is paid in the delivery of the contract. If it is above the threshold, the council is unable to make this an automatic condition as it would not be regarded as always the best value for money. Instead, contracts are carefully assessed case-by-case as to whether it is legal and in the council's best interest to require the living wage on a contractual basis. The council asks at the pre-qualification stage, which highlights to employers that it is something the council is interested in. The living wage is inserted into the terms and conditions and can be negotiated. To ensure compliance of contracts that agree to pay living wage, especially after the annual uplift which takes place every November, the council puts a monitoring system in place.

**Encouraging others to pay the living wage:** the council is having ongoing discussions with local employers to get them to pay their staff the living wage. The strategy is to engage employers by getting them involved in discussions and to work out what the cost and benefit implications are to their organisation and have them see that it is a possibility. It appears to be having some success. Islington has the highest number of living wage employers of any local authority in the country. The council has spoken to school bursars and written to all head teachers. In some cases it is negotiating on schools' behalf with contractors especially where bulk contracts exist. It has also offered to cover school's costs of accreditation. The council is working with the private sector to encourage Islington based businesses to pay the living wage, working in partnership with Citizens UK where possible. The council has written to all major health employers and approached all tenant management organisations. It has also engaged and had positive conversations with all partners on its local partnership board, which is made up of local public sector providers.

Sources: (50), (51), (52)

## Intervention: Sheffield living wage

Sheffield City Council took the decision to implement a living wage across the council in November 2012 and began implementation in January 2013. The city also established the Sheffield fairness commission, which recommended that a living wage is paid to all employees in the city, with aspirations that this should happen by 2023, and annual reporting of employers on the proportion of employees on or above the living wage.

1,903 employees were anticipated to be affected by the introduction of the living wage, in addition to an average of 84 agency workers per month and 171 casual workers\*. The council estimates that adopting the living wage will incur the following costs per annum: £107,000 (£134,000 including on-costs) for council employees outside schools; £6,500 for 171 casual workers; £619,000 (£774,000 including on-costs) in and funded by schools; £20,000 (including on-costs) for apprentices employed in the council.

To ensure a greater impact on the local area, the council seeks a commitment to the living wage from potential partners and contractors through the procurement process. Further, the council promoted the living wage by writing to partners across the city in all sectors, explaining the benefits and the rationale for the council's decision, and to encourage other organisations to consider adopting the living wage.

\*The Living Wage Foundation describes a casual worker as a worker who is working on the employer's premises for two or more hours per week, for eight or more consecutive weeks in the year.

Sources: (53), (54)

## Intervention: Newcastle living wage

Newcastle City Council established a living wage commission in 2010 to identify the costs and benefits of introducing a living wage. The council decided to adopt the living wage and in 2011 created the living wage independent advisory panel to make recommendations on how best to implement it.

The panel visited other cities that had experience of adopting the living wage and consulted within Newcastle and further afield. Its final report emphasised the importance of council leadership in making the living wage a success. It suggested that the council should use existing or create new partnerships involving employers and others to develop wider support for the living wage; it should clearly communicate and promote a living wage; and it should lead by example as a major employer in the city. The visits also informed the panel that it was important to plan ahead and make an informed decision when to implement a living wage, most having implemented at the same time as changes to job descriptions and pay grades. It was also suggested to use the Social Value Act to include the living wage in procurement. In order to encourage other employers in the local and surrounding area to adopt the living wage, the panel recommended developing effective alliances with partners and a communications strategy to promote understanding and support for the living wage.

The living wage was implemented as a supplement for council employees in November 2012. Over 2,200 of the council's lowest paid employees had an increase in pay. This included cleaners, kitchen assistants, supervisory assistants and school crossing patrol officers. The council committed to reviewing the level of the living wage on an annual basis and as a point of principle it believes that the level should be equivalent to the living wage paid by other employers on a national basis.

Source: (505) (56)

## Intervention: Lewisham living wage

At a full council meeting in May 2008 it was resolved that the London Borough of Lewisham supports the establishment of the living wage and it was agreed at a further mayor and cabinet meeting in June 2009 that the mayor would implement the living wage. In letting all future contracts, due consideration will be given (to the limit legally allowed) to whether or not a contractor proposes to pay its staff the living wage.

As each contract came up for renewal or extension, the corporate procurement team ascertained whether staff involved in providing the services were paid above or below the living wage. If staff were paid below the living wage then the tender documents included two pricing schedules for the tenderer to complete: one which included paying all staff the living wage and one without. Evaluation of the bids was carried out and an award recommendation produced, identifying the proposed service provider and also whether the living wage should be implemented (the actual cost could be seen by the difference in the two price schedules). The Mayor of Lewisham has consistently chosen to implement the living wage option.

As of January 2014, the living wage has been implemented across all major contracts where the third party staff were paid below this amount, with two exceptions. One, the educational catering re-tender, commenced in March 2014 and included the requirement to pay the living wage. Legal advice was that to include the living wage in the second, the residential and nursing care homes contract, Lewisham Council would have been required to purchase all available rooms. The council only block-books a proportion of rooms or spot purchases individual units and the legal advice was that by paying the living wage in these circumstances it would be subsidising self-funders and placements by other councils, which is beyond the council's powers. Lewisham Council is also rolling out the implementation into smaller contracts as they become due, and is looking to include sub-contractors into the requirement, as part of the social value remit.

Sources: (57, 58)

## Intervention: Camden living wage

The Camden Plan 2012-17 is a five-year vision for the London borough. Adopting the living wage is an integral component supporting the delivery of the plan's objectives of tackling inequality, achieving economic growth and 'getting it right first time'. The decision was taken by the council to become a living wage employer and cabinet approved the approach to implementation in July 2012. The payment of the living wage is, subject to demonstrating best value, to be paid to all Camden council employees and those employed by the council's suppliers.

All council employees including agency staff are now earning at or above the living wage. Since the living wage was adopted, the council has awarded 88 contracts covering a range of services, of which 85 included the living wage. Challenges identified include: the financial pressures in service areas with high volumes of activity and substantial workforces (eg, homecare); the council purchasing places within a care home meaning that paying living wage would be deemed a subsidy to other non-living wage-paying boroughs or self-funders; direct payment users, enabling social care customers to exercise choice and control over their provision, making individual choices about paying living wage when arranging their own care.

The council has promoted the living wage to employers in Camden as part of its corporate social responsibility commitments and because of evidence suggesting benefits to productivity. The council has used its relationships with key businesses and employers, for example promoting the living wage to business contacts through its monthly business newsletter distributed to approximately 12,500 businesses, through the Camden Business Board which represents around 1,200 businesses in Camden; and through the Camden Business Awards. The council will be engaging local employers during 2014 to encourage them to become living wage accredited and will use this as a case study to encourage others. Schools are self-governing and have their own budgets. Paying living wage is a local decision for the school, though the council is working with governing bodies to explore implementing living wage.

The council works closely with other boroughs to support them in adopting the living wage. They provide guidance and advice, and share their approach and experience, including the benefits and challenges. It has worked very closely with the Living Wage Foundation. The council ran the first pan-London workshop in 2012 to review and share best practice in the implementation of the living wage.

Source: (59)

## Intervention: Epsom and Ewell Borough Council

Epsom and Ewell Borough Council in Surrey carried out a review of its directly employed staff and found that only two people were being paid less than the living wage. The council moved these two people onto the living wage and are now committed to paying all directly employed staff the living wage. The council did not seek accreditation because the annual subscription costs and officer time did not make it worthwhile.

The council found rolling out the living wage to its contracted employees to be a challenge, particularly for its facilities management contract, its biggest contract. A recent change of contractor has allowed the council to explore the living wage issue with that contractor, and they have had very useful negotiations which are progressing. It will incur additional financial costs to the council and a political decision will need to be taken around whether the council is willing to pay that additional cost.

A further challenge was identified for one individual employee, who had the council paid the living wage would actually have been worse off due to her particular benefit circumstances. The council has been able to resolve this, but a learning point is that looking into individual circumstances when applying the living wage is useful.

The council is an Investors in People gold employer and committed to the well-being of its staff. It is felt within the council that the move to the living wage makes a strong statement that the council is a good place to work.

Source: (60)

There are also lessons to be learned from experiences of other organisations that have implemented the living wage. The box below documents the actions and experiences of the Greater London Authority and the Mayor of London in implementing and encouraging others to implement the London living wage.

## Intervention: The Greater London Authority and the Mayor of London

Former Mayor Ken Livingstone pledged to establish a living wage unit in London as part of his 2004 election manifesto, in response to the high earning inequality and in-work poverty in London. This policy was continued by Mayor Boris Johnson when he took office in 2008. The Greater London Authority (GLA) and the Mayor of London have been instrumental as supporters of the London living wage campaign. GLA Economics has conducted the annual analysis calculating the London living wage and this is subsequently announced and endorsed by the mayor.

The GLA has applied the living wage across its supply chain, including the Metropolitan Police Authority, the London Fire Brigade and Transport for London, benefitting more than 3,000 workers. Over 2,000 of these workers work for cleaning companies and the rest are in facilities management,<sup>660</sup> security<sup>300</sup> and catering.<sup>160</sup>

**Procurement:** the GLA Group assesses services at the start of the procurement process to determine whether the living wage should be applied, considering issues such as the prevalence of low pay in the sector, whether staff will be working full time on their contracts, and based in London. This approach ensures that the living wage is only applied where it is relevant and proportional, which supports the GLA Group in meeting the requirements of the EU procurement directives. The approach has been to then include the living wage as a contract performance condition requiring compliance, with the living wage requirement clearly set out in the invitation to tender documents and in the terms and conditions of relevant contracts. In some service areas a cost-benefit sharing model for the living wage has been negotiated, while in others the supplier bears the cost. Monitoring of pay is undertaken by contract managers who are responsible for ensuring that at the very minimum the living wage is paid to the applicable employees.

**Influencing other employers:** the GLA and the Mayor of London use their influence to encourage local employers to pay the living wage. They work in partnership with the Living Wage Foundation, which supports businesses through the accreditation process once they have indicated an interest. The living wage is usually on the agenda for GLA meetings with businesses, and specific actions have also been taken to engage employees. For example, the mayor, on behalf of the GLA, has written to large employers and lobbied government to adopt the London living wage across Whitehall. The mayor set a target in his 2012 manifesto to increase the number of living wage employers to 250 by 2016, and expanded this aim in his '2020 Vision', that "by 2020 the London living wage should be the norm" across the city. He has repeatedly stated publicly his support for the living wage, for example in his Daily Telegraph newspaper column, 6 January 2014:

"My new year resolution for 2014 is to find even more supporters for the London Living Wage – and especially from those key sectors, such as retail, that have been hardest to win over; and if you happen to be a corporate titan, I hope you will feel the same."

Sources: (22), (7) (13), (61), (62), (63)

The boxes overpage show some examples of other organisations that have implemented the living wage.

## Intervention: Finchley Reform Synagogue

The Finchley Reform Synagogue, North London, became a Living Wage Foundation-accredited living wage employer in January 2014.

As a religious organisation, its main reason for adopting the living wage was out of a moral obligation it felt to ensure that its employees have sufficient money to afford a basic standard of living. After looking into what living on the minimum wage meant for employees in the local Finchley area, where prices are very high, they were surprised to find that people working full-time on the minimum wage could not afford the basic necessities of life. Further, given the high property prices in the area, those on minimum wage could not afford to live nearby so would need to commute long distances to get to work, further burdening their incomes and making their time-keeping less reliable due to public transport issues.

### What were the challenges faced and how were these overcome?

- during the discussions that led to the adoption of the living wage, there was some feeling that, as a charity, they should spend their money carefully and should not be seen to over-inflate salaries. However, when the costings were carried out, it became clear that the financial costs were not as high as anticipated, or significant enough to override the moral obligation
- the synagogue subcontracts its security services to an external firm and has agreed with them that the staff it sends to work for them should be paid the Living wage. This was a challenge because it caused additional difficulties and administration costs for the firm. The synagogue pays the firm slightly more to cover these costs. This could have wider benefits, encouraging the firm to pay the living wage to other staff

### What have been the benefits of adopting the living wage?

- there has been a change of culture within the organisation, giving those on low wages (security, cleaning and caretaking workers) more of a sense of identity and worth. They experienced more of a feeling that the organisation was there to support them and they felt positive knowing that other staff were fighting their corner even without being asked to do so. During the discussions around adopting the living wage, it was felt that some myths were dispelled around living on the minimum wage and what it means to have a proper job. The campaign has taught them that people working on the national minimum wage full time, sometimes even more than full time or for more than one job, still cannot afford the basic necessities of life
- the synagogue has been very public among its community about adopting the living wage, and this has influenced other organisations to consider doing the same. As one of around 40 reform synagogues in the country under an umbrella organisation, it has encouraged other reform synagogues to have conversations about adopting the living wage. It has also influenced other synagogues, with the liberal synagogue movement having subsequently become living wage accredited

Source: (64)

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

These two BIDs are taking a number of actions to promote the living wage. Both pay the living wage, and Vauxhall One is an accredited living wage employer. They also promote the living wage to their members through events, information and advice. For example, Team London Bridge has launched a new area-wide responsible business alliance. As part of an 'employability' work stream, businesses are encouraged to adopt the living wage for their own employees and to assess the living wage status of contractors.

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

Source: (65)

## Intervention: Faucet Inn

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

Source: (65)

## 4.2: What these interventions tell us

These interventions provide valuable information based on the experiences of local authorities and other organisations in adopting the living wage.

**Reasons for adopting the living wage:** employers are varied in their reasons for adopting the living wage. Islington Council and Sheffield Council did so in response to the recommendations of fairness commissions, while Newcastle Council created a commission to identify the costs and benefits of introducing a living wage, and Camden Council adopted the living wage in response to the Camden Plan, a high level five-year vision for the borough. Finchley Reform Synagogue adopted the living wage mainly out of a moral obligation that its employees should be able to afford a basic standard of living. This reflects that it is both financial and moral considerations, alongside the alignment of the living wage with other organisational strategies, that are important precursors to introducing the living wage for many employers.

**Financial costs:** Most employers found that the financial costs were not as high as anticipated. It is difficult to make firm cost estimates as they differ between organisations and are heavily dependent on the numbers of low paid staff. Islington Council found that the annual cost of paying directly employed staff the living wage was £53,000, less than 0.05% of the total pay budget. There was a further £70,000 for agency staff and £230,000 to the council for procurement. The annual costs to Sheffield City Council, excluding on-costs, were estimated to be £107,000 for directly employed staff, £6,500 for casual workers, £619,000 in schools (funded by schools) and £20,000 for apprentices.

**Benefits for the workforce:** across employers, it was low paid staff who found their wages increased following the adoption of the living wage. In Newcastle, this included cleaners, kitchen assistants, supervisory assistants and school crossing patrol officers. Out of more than 3,000 employees of companies in the GLA supply chain (including the Metropolitan Police Authority, the London Fire Brigade and Transport for London) benefitting from their move to the living wage, more than 2,000 work for cleaning companies and the rest are in facilities management,<sup>660</sup> security<sup>300</sup> and catering.<sup>160</sup> Further, representatives of the Finchley Reform Synagogue emphasised a change of culture within the organisation following its move to the living wage, where those on low wages experienced more of a sense of identity and worth. In Epsom and Ewell it was felt that the move sent a strong message that the council was committed to staff wellbeing and that it was a good place to work. However, reviewing individual employee circumstances, it has been shown to be important to ensure that paying the living wage does not make employees worse off once their benefits are taken into account.

**Implementation in new contracts:** employers faced challenges in implementing the living wage. EU procurement law was a barrier to awarding a new contract on the basis of paying a living wage and this was overcome in a number of innovative ways by different local authorities. Some negotiated each contract on an individual basis, carefully assessing each one, and highlighting early that it was something in which the council was interested (eg, Islington). Another approach was to include two pricing schedules for the tenderer to complete, one which included paying all staff the living wage and one without (eg, Lewisham). The Mayor of Lewisham, having adopted this approach, has consistently chosen to implement the living wage option. A third approach was to apply the Public Services (Social Value) Act 2012, which requires local authorities to consider how what is being procured might improve the economic, social and environmental well-being of the local area, when entering into procurement contracts. Local authorities must also consider how this improvement can be secured while acting proportionately and ensuring action is relevant. Paying the living wage might be viewed as improving the social and economic well-being of an area and so is likely to be a relevant consideration under the Act, where it is relevant to the contract and action is proportionate.<sup>66</sup>

**Implementation in existing contracts:** implementing the living wage in existing contracts commonly involves multiple conversations and negotiations between the local authority and the provider. Where the provider agrees to pay the living wage, this may result in the provider bearing the whole cost of moving to the living wage, or the employer bearing some or all of the costs. Another possible outcome is moving the service back in-house, as happened with one of the main existing contracts in Islington. Social care contracts are considered by many local authorities to be too complex and high cost to move to the living wage, primarily because of the high numbers of low paid staff in the sector, the use of national care home providers that also work with many other areas, and councils paying for individual rooms in much bigger care homes. However, it has been identified that it is important to keep discussions with providers ongoing in the hope that solutions will be found that allow the sector to adopt higher wages for its lowest paid staff.

**Sustainability:** to ensure sustainability of interventions, Islington has put a monitoring system in place to ensure compliance with the living wage, particularly after the annual pay uplifts. Where the living wage is included in a contract, the GLA has also included it as a contract performance condition requiring compliance.

**Engaging and supporting local employers:** local authorities have been active in engaging other local employers and encouraging them to adopt the living wage. This includes strong, sustained communications emphasising the rationale and benefits, through writing to partners across the area in all sectors (such as head teachers, major health and other employers), promoting to business contacts through, for example, newsletters, writing in the media, and lobbying the government and local community. Islington Council found that maintaining ongoing discussions with local employers was key, working out the costs and benefits for the organisations and allowing them to see that it was possible. Other approaches include offering financial support (e.g. covering costs of accreditation), or other forms of support such as negotiating with contractors on schools' behalf. Once employers have indicated an interest in adopting the living wage, the Living Wage Foundation offers support for implementation. Local authorities have also provided support to others, including Camden Council, which has provided guidance and advice to local areas and held the first pan-London living wage workshop in 2012.

### 4.3: How to mitigate the effect of low wages

Living on a low income in England is primarily a function of wages and benefits (which make up the majority of incomes), and prices (which determine outgoings). Therefore, mitigating the income effects of living on a low wage can be achieved if prices fall or benefits increase. The cost of living is a widespread concern at present as prices have risen substantially while incomes have fallen behind. Mismanagement of finances or lack of access to affordable sources of credit can create further barriers to having enough money for an adequate standard of living. The living wage is only one part of efforts that could be made to reduce poverty and implementing this policy on its own will not solve poverty-related health problems.

The living wage is a voluntary standard and there are no plans to develop legislation to enforce paying the living wage. Therefore, it is unclear whether or not the living wage will have a significant impact on low income at a population level. The level of the national minimum wage, combined with the generosity and structure of the social welfare system, will impact on the chances of having an adequate and healthy standard of living among many low paid employees. Recent announcements by the chancellor of the exchequer suggest that the government is considering raising the national minimum wage beyond inflation, which, similarly to the individual effects of the living wage, is likely to contribute to increasing incomes for some people who are affected.<sup>67</sup> This option can be considered a complementary intervention to address low incomes across the workforce within organisations that do not adopt the living wage.

## 5. Areas for further research

Given that the living wage is a relatively new concept in the UK, the evidence base in terms of its effects on employers, employees and the economy as a whole is not robust. There is some evidence from the USA as a campaign for a living wage has been underway there since 1994 and a number of cities have living wage laws or ordinances. However, the evidence has been used with caution given the significant differences in the living wage calculations and social policy between the US and UK. Though some research has been conducted in the UK of the effects on income and on health to a lesser extent, there remains insufficient UK evidence of the health impacts of implementing a living wage, or of the equity impacts. Further, the interaction between wages and the benefit system has not been sufficiently considered with regard to the living wage. More research is needed in these areas, particularly in relation to Universal Credit.

There is a further gap in the literature regarding best practice for local authorities who are implementing the living wage and how they can best use their influence to support, incentivise and encourage local employers to adopt the living wage. This report has drawn together information from communicating with and reading documentation provided by individual authorities and organisations that have had experience of adopting the living wage, but there have been no robust evaluations of factors that lead to successful implementation. This means that the case studies neither provide robust evidence of effectiveness nor a clear picture of best practice.

Further consideration of the amount at which the living wage is set would also be welcomed, with a greater focus on the minimum income for healthy living.

There should be an assessment of the potential risk that employers will level down the pay of those employees who would otherwise have received an hourly rate higher than the living wage. Given the reputational benefits of implementing a living wage, employers may consider it to be an adequate wage for a decent standard of living, there being no need to increase wages above this amount. However, there is no guarantee that the living wage is a sufficient amount for those of all household types, and it is important to protect against potential unintended consequences whereby some employees might receive a lower wage.

Future work might consider how local authorities can increase the chances of an adequate standard of living for their constituents by subsidising prices of certain goods and services, increasing the uptake of benefits and maximising council tax benefit, providing services to assist people with managing their household finances and providing support for and access to affordable sources of credit such as credit unions. Further research is needed to look at health inequalities among workless households who do not achieve a minimum income for healthy living, particularly the 5.1 million living below the poverty line. It could consider the role of local authorities in raising incomes and levels of financial security among these households.

## Conclusion

Increasing the numbers of people receiving a living wage has the potential to increase incomes among many low income individuals. Given the evidence of negative mental and physical health impacts of living on a low income, this should have positive resultant effects on their health. However, further research is needed to identify whether the living wage means a real increase in incomes, given the effects of the benefit system. Further work is also needed to determine the impact on inequalities.

Information from a number of local authorities and other organisations that have implemented the living wage for their staff have been presented as case study interventions in this report. Based on these experiences, a number of key features of success have been identified. Local authorities should consider leading by example, by paying a living wage to all directly employed staff and, where appropriate, contracted staff; and using innovative approaches to implementing the living wage in procurement. This may be supported by ongoing discussions with a range of local employers around adopting the living wage; strong leadership and buy-in from the local authority; using existing or create new partnerships to develop wider support for the living wage; and clear communication and promotion the living wage. To be successful, experiences from some local authorities suggest it is best to plan ahead and consider what time is best to implement; and to establish systems to monitor compliance and ensure the living wage is sustained and raised along with annual uplift. More research is needed to evaluate the extent to which implementing the living wage has business, health and income benefits for the employer and employees, and whether it is likely to reduce inequalities.

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