

### **Background – fairer pay, worker voice and better business**

The High Pay Centre's research and analysis focuses on the issues of fairer pay, worker voice and responsible business practice. There is considerable evidence to suggest that these issues should be policy priorities for the UK. For example, our recent research found that the average FTSE 100 CEO makes 119 times the typical UK full-time worker.(i) Similarly, our work with the think tank Autonomy showed how a more even pay distribution across the UK could benefit lower-paid workers – if total earnings in the UK remained the same, but with all annual pay above the threshold of £200,000 redistributed to low and middle earners, this would result in an increase in pay for over 9 million workers, with a median increase of about £1,400 or 4.5% of annual pay per worker.(ii)

Internationally, the UK is the 9th most unequal of the 40 countries that comprise membership of the OECD group of high-income economies. Other than the United States of America, it is only lower-income economies such as South Africa, Turkey and Bulgaria that have a worse record on inequality than the UK amongst the OECD member states.(iii) Perhaps relatedly, analysis by the European Trade Union Institution found that the UK has lower worker participation in business governance than every EU country, other than Latvia and Estonia.(iv)

This has potentially long-term implications regarding the impact on UK business. Surveys have shown that 53% of respondents think that capitalism does more harm than good in the world.(v) Polling looking at public attitudes to 21 different groups found that business executives were viewed the third most negatively.(vi)

The Covid-19 pandemic has exacerbated the problems of low pay and inequality in the UK. Lower-paid workers have been more likely to lose jobs, lose hours or to be furloughed, and Autonomy's 'Jobs at Risk Index' found a correlation between lower pay and higher risk of infection from the virus.(vii)(viii)

## **The role of subnational government**

Most policy and regulation on pay and worker voice is set by central government and regulators at the national level. The Corporate Governance Code, which sets standards for stakeholder voice in the decision-making processes at the UK's largest businesses, is issued by the Financial Reporting Council. Laws requiring companies to hold a binding shareholder vote on their directors' pay policy and to publish the ratio of their CEO's pay to that of their lower-paid employees were mandated by the Department for Business, Energy and Industrial Strategy and its predecessors. The National Living Wage is, as the name suggests, set by the national government and applied across the whole UK.

However, there is substantial scope for local and regional authorities to promote more responsible employment practices including fairer pay and greater worker voice. These include their own employment practices, strategic use of their procurement budgets and their wider local/regional economic strategies.

There has been considerable interest in the concept of 'levelling up' – essentially raising the economic performance and prosperity of the UK's poorest areas to the level of the richest. Initiatives to this effect have included a commitment to double the UK's spending on 'Research and Development' with a more even geographic distribution, and new infrastructure investment for under-served localities. The rhetoric around levelling up has largely related to productivity, but genuine levelling up will also have to be about power – enabling workers to achieve a more substantial share of the wealth generated by their labour. This is particularly the case in low-paying industries such as retail or hospitality, and at businesses owned and headquartered outside the regions in which they operate, where much of the value generated in a particular locality ultimately accrues elsewhere to the business owners and executives.

The role of local and regional authorities in shaping and delivering the 'levelling up' agenda and their prominent voice in the debate about geographic inequality gives them the opportunity to put fairer pay, worker voice and better business at the centre of the UK's economic model.

This discussion paper sets out some concrete ideas for how they might do this.

**We suggest that subnational authorities take the following steps to promote fairer pay, worker voice and better business in their local economies:**

**[1] Adopt a real Living Wage policy for all directly employed staff.**

Following a decade of local government funding cuts, the prospect of introducing a living wage may seem like a daunting financial challenge for subnational authorities. However, 125 local government bodies, including 65 upper tier or unitary local authorities, have been accredited as payers of the real Living Wage by the Living Wage Foundation. Accreditation requires companies to pay the living wage not only to directly employed staff but also to outsourced workers who spend the bulk of their working time on behalf of the contracting employer. The apparent cost of paying the living wage is likely to be at least partly offset by the benefits of paying it, since paying higher wages tends to result in increased retention and recruitment of staff as well as higher productivity. Paying the living wage also creates value for the local economy as employees are able to spend more: it can therefore come under the authority's 'value for money' considerations.

**[2] Disclose pay ratios showing the gap between the top and bottom decile of earners in the authority.**

Public bodies currently report the pay of their highest earners, but this should be substantiated by more detailed disclosures on how pay is distributed across the authority by showing the total spend on particular pay bands and the number of people that fall into each band. The highest paid public servants make a fraction of the pay packages awarded to top earners in the private sector, and high salaries in the public sector are largely a result of the perceived need to compete with the pay on offer at the top level of large businesses. Nonetheless, greater transparency over pay ratios, enabling calculation of the kind of pay increases that hypothetical re-balancing of pay in favour of low and middle income earners might achieve, would support a better understanding of the cost of top executives relative to the value they generate.

**[3] Develop an employment charter setting out standards to which local employers can commit.**

These standards should include requirements for businesses to pay the real Living Wage, recognise trade unions, avoid zero-hours contracts and disclose the pay levels across their workforce. The charter should be co-designed with unions, employees and businesses. Local government funding cuts will affect the resources that authorities can dedicate to employment charters. However, if resources are available, the potential of employment charters can be increased by publicising widely to enable local consumers to support signatory businesses, and by

implementing oversight measures to negate the considerable risk of signatory employers failing to enact their commitments.

Greater Manchester's Employment Charter was co-designed by the Greater Manchester Combined Authority, Greater Manchester's constituent councils, employers, employees and trade unions. The Charter covers 7 areas of good employment practice including secure work, the real living wage, and workplace engagement and voice. The Combined Authority and the constituent councils are working towards embedding the charter into procurement decisions.

**[4] Embed the standards from the employment charter into procurement policy, with the provision of fairly-paid work, genuine workplace voice and transparency over pay practices a condition of contract awards.**

Ensure that procurement teams have a strong understanding of, and the skills to engage with, the authority's objectives on fairer pay and worker voice, so that expectations can be made clear to prospective suppliers, and support provided in implementing practices in line with the charter.

**[5] Map local 'anchor institutions' and encourage them to adopt the charter's policies.**

Anchor institutions are those that are tied to a location, such as hospitals, universities or housing associations. As well as adopting the employment charter standards for their staff, these institutions should also be encouraged to implement the standards into their own procurement decisions.

Preston City Council is the best-known example of a subnational authority that has worked with anchor institutions. It has engaged with seven local institutions, including the University of Central Lancashire, Community Gateway Housing Association and Lancashire Constabulary, to encourage them to shift their economic activities more towards benefitting the local economy. Analysis of anchor institution expenditure in 2013 found that only 39% was spent in Lancashire, resulting in substantial leakage from the local economy. The City Council successfully encouraged these institutions to increase the proportion of their procurement budget spent on local goods and services. They also ensured that the anchor institutions become accredited living wage employers. This has had a major impact on job quality in Preston and has reduced levels of in-work poverty.(ix)

**[6] Use the subnational authority's role as property and infrastructure developer to enforce better employment standards.**

As with procurement practices and engagement with 'anchor institutions', planning and re-generation affords authorities the opportunity to influence the employment practices of those organisations using council space.

Sheffield City Council is running a high street redevelopment project called 'Heart of the City', for which it is acting in a property developer role. It is requiring tenants renting out retail, office and meeting space to pay their employees the Real Living Wage. Furthermore, in order to better meet the needs of local communities, it is weighting social value more heavily than financial value in evaluating which tenants can rent the space.(x)

**[7] Engage worker representatives in all decision-making processes relating to the fairer pay and worker voice agenda.**

Workers' perspectives should be incorporated into the local/regional policy-making process. Similarly, engagement with local economic stakeholders should include trade unions and workers' representatives, as well as local business groups.

One way to ensure that workers and businesses have equal voice is to appoint worker representatives to the boards of subnational authorities or local bodies that have influence over economic decision-making. This is currently not a widespread practice. For example, the West Midlands Combined Authority is the only Combined Authority to have appointed a Trades Union Congress representative (alongside business representatives) to its board. Similarly, in 2018 Sheffield City Region Local Economic Partnership (LEP) was the first LEP to appoint a trade union representative to its board.

**[8] Include policies on fairer pay and worker voice in all strategies across the authority.**

The objective of fairly paid work and the empowerment of local workers should be communicated to all authority staff, and ideally also to anchor institutions. Staff outside of procurement or economic development teams – for example working in licensing, environmental services, social care, planning or business support

services - may interact a considerable amount with local employers. There is the opportunity to involve workers and their representatives into service design, giving people greater say over their working lives, and to promote the living wage and trade union access to employers.

**[9] Use the subnational authority's rights as a shareholder to tackle inequality and low pay in the companies in which it invests its pension funds.**

Local authority pension funds are responsible for assets worth billions of pounds that exert considerable influence over the pay and governance practices of major international businesses. These pension funds have been key drivers of the responsible investment agenda on issues such as climate change and human rights, and can continue to advance investment industry practices. In the UK, businesses must now provide disclosures on their pay ratios and their social and environmental impact. This gives asset owners new information that they can use to measure fair pay, worker voice and responsible business practice at their investee companies.

**[10] Work across regions and with neighbouring councils to develop overarching goals and shared strategies around fairer pay and worker voice.**

The threat of losing investment to other territories has long been invoked as an argument against progressive business and employment policies at national level. Local and regional authorities can mitigate this threat on the subnational level by working together to extend the practices suggested above across different authorities, sharing resources and good practices, and co-operating through pooled resources or engagement with mutual stakeholders such as businesses and trade unions.

## Endnotes

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- vii. Resolution Foundation, The effects of the coronavirus crisis on workers via [The effects of the coronavirus crisis on workers • Resolution Foundation](#) (2020)
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## Acknowledgements

The authors would like to thank Abby Kimantas (Unison), Charlotte Morgan (New Local), Jon Richards (Unison), Lee Barron (TUC), Marcus Johns (IPPR North), Rayhan Haque (Local Trust), Rachel Bentley (CLES) and Councillor Sharon Taylor OBE (Stevenage Borough Council) for their advice on this discussion paper. However all views and recommendations expressed in the paper are the High Pay Centre's only.