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## **The London Living Wage and In-Work Poverty Reduction: Impacts on Employers and Workers**

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### **Introduction**

Over the past decade the living wage has emerged as a grassroots campaigning goal to reduce the scale and impact of in-work or working poverty in the UK. A living wage campaign was launched by London Citizens in 2001 and is now spreading across the UK. Organisations are invited to secure accreditation from the UK Living Wage Foundation, and can publicise compliance by using the living wage logo as part of their branding. To date the Foundation has signed up more than 1000 living wage organisations, covering thousands of workers in London and the UK (Jensen and Wills, 2013). The campaign has won support from London Mayors (Livingstone and Johnson), the 2012 Olympic delivery organisation, and the Labour Party (Miliband, 2013).

Since 1999 the National Minimum Wage (NMW) has set a statutory minimum wage rate, irrespective of regional price differentials, and taking into account effects on business costs, competitiveness, prices and employment (LPC,

1998). The NMW has had least impact in London (Mason et al, 2006) and despite calls for a higher London rate (Ussher, 2013), it has not been set at a high enough level to stem the rise of in-work poverty in London. In 2013 there were 1.1 million people living in low-income families where at least one adult was working, a 68% increase over the previous decade (London's Poverty Profile, 2014). Across the UK, there are now more poor people in work than are out-of-work (Lawson and Cooke, 2008).

The Living Wage (LW) is a voluntary minimum rate derived to allow a worker to support themselves and their dependents. Unlike the NMW it covers the cost of food, housing and basic needs that reflect the costs of living and social reproduction. The London rate is calculated annually by the Greater London Authority (GLA), and in 2014 the London Living Wage (LLW) was £9.15, some 41% higher than the NMW of £6.50 per hour, assuming full take up of any in-work benefit entitlements (GLA, 2013).

This article reports empirical evidence from primarily sub-contracted employers adopting the LLW and the benefits of this intervention as reported by their workers, particularly in reducing in-work poverty. Some potential theoretical implications of wage rate interventions in labour markets are initially discussed. This is followed by discussion of the research methods used and the comparison indicators developed. Employer 'before and after' cases studies are then used to show different implementation types, and the associated impacts on workers' jobs, hours and incomes. Worker questionnaire responses are used to explore improvements in LLW compared

with non-living wage (NLW) workplaces. The evidence suggests in-work poverty reduction was limited, as higher wage rates did not necessarily translate into higher incomes for all workers, due to variations in hours of work, both within and between workplaces.

### **The Potential Impacts of Wage Rate Interventions**

For policy makers wage rate interventions generate a number of hopes and fears. Advocates argue a moral case for market intervention as a way to lift people out of poverty, reduce the welfare bill, and provide ethical business benefits (LWF, 2013). In contrast, some economists warn that interventions may hurt small firms, squeeze profit, increase inflation, and potentially lead to job losses thus undermining the interests of those the intervention is designed to protect (Neumark and Adams, 2000).

Standard economic predictions, based on the cost-minimising behavior of producers, suggest that by raising the price of labour the living wage can have both 'substitution' and 'scale' effects. Employers tend to substitute away from more expensive inputs by employing fewer low-skilled workers and more high-skilled workers (or capital equipment). Scale effects may also occur as substitution raises the costs of production, increasing prices, reducing product demand, and scaling back employers' outputs and inputs, including the employment of low-skilled workers.

In relation to the adoption of a voluntary LW rate, coverage may be small, and there may be a large NLW sector. Workers displaced from the LW sector may seek employment in the NLW sector, driving down wages leading to lower costs of production, lower prices and higher employment in the NLW sector. However, in the UK, the NMW sets a wage floor and any substantial falls in wage rates in the NLW sector are unlikely. Among the intended beneficiaries of the LW, the main winners are likely to be the low-skilled workers in the LW sector whose wages rise. The main losers are any workers who lose their jobs in the LW sector and/or those who end up working for lower wages in the NLW sector (Neumark and Adams, 2000).

While any employment reduction will be moderated by low coverage and compliance, and offsets like profits reductions, other supply-side theories challenge this view. Under monopsony, unfulfilled vacancies at low wage rates may get filled at higher rates increasing employment (Manning, 2003). Institutionalist approaches also suggest that higher wages may motivate and retain staff, this will have efficiency effects, and higher productivity may offset higher wage rates, leaving employment levels the same or higher (Arrowsmith et al 2003; Akerlof and Yellen 1986).

For the state, workers in employment in the LW sector might pay more tax and claim less welfare benefit. Those that are displaced into the NLW sector, or lose their jobs, might pay less tax and claim more welfare benefit. The net effect on tax, welfare benefits and poverty rates depends on the extent of LW adoption and any job displacement over time. Moreover, if demand is scaled

back by higher prices, or profits fall through cost absorption, any tax revenue from profits on employers and clients may also be reduced.

Most studies evaluating the impact of the living wage are from the USA where many cities have passed ordinances, mandating employers to pay a locally-determined living wage in public procurement contracts only (Luce, 2004; Pollin and Luce, 1998; Swarts and Vasi, 2011). These studies suggest that in many cases employers are expected to bear some of the higher wage costs, moderating impacts on public budgets (Thompson and Chapman, 2006). Moreover, where wage costs are passed on to clients they are often low in relation to the existing costs of the service (Reich et al, 2005). On the production side, these studies find that employers benefit from reduced staff turnover (Reich et al, 2005; Howes, 2005), increased worker loyalty and productivity (Fehr and Falk, 2002), and marginal rates of worker substitution of low for higher skilled workers (Fairris et al 2005, Reich et al, 2003, 2005). Evidence of the impacts on hours and employment are mixed with findings of both job expansion (Reich et al, 2005) and contraction, with modest impacts on poverty rates (Neumark and Adams, 2000, 2003). In addition, evidence on the impact of other local state minimum wages policies in the US, find small reductions in hours and no adverse effects on employment (Dube et al 2010; Reich et al 2014).

In the UK research on the impact of wage increases on low paid workers largely relates to the NMW and its annual up ratings. The NMW has increased the real and relative pay of low paid workers, reduced the gender wage gap

and wage inequality for some 2 million workers in the UK. There has been little effect on employment levels and this is attributed to: employer wage setting where increasing wages make it easier to fill vacancies; overcoming labour market frictions related to job preferences (hours, travel time, childcare); wage off-sets via state welfare benefits; improvements in productivity; in-complete compliance and reductions in firms' profits (Leonard et al 2013; Metcalf, 2007). There is however, some evidence of downward adjustments on hours rather than employment (Stewart and Swaffield, 2008), and, there is some evidence of adverse impacts in the residential care home sector and on the employment opportunities for some low paid workers (Arrowsmith et al 2003; Ram et al 2003; Dickens et al 2012).

Under the UK voluntary adoption regime, self-selecting private and public organisations choose to pay the LW, and may be prepared to absorb costs from lower profits or increased prices to customers, with minimal expected adverse effects on in-house workers. Local government can require LW compliance for new service contracts providing EU procurement rules are not breached (Ramshaw, 2013). In subcontracted client/employer relations, impacts on workers may be different to those in-house. Depending on the level of support and/or coercion from clients, some subcontracted employers may be more reluctant to let the GLA control their annual wage costs increases. Some may be expected to adjust staffing levels, non-wage costs, increase productivity, pass on, absorb or evade cost increases, in order to reduce any deleterious spillover effects on higher grade staff and profits.

There is an estimated 750,000 jobs in London paid below the LLW in 2013 (GLA, 2013), an increase from 13% to 18% of all London jobs since 2005. While coverage is growing, it is difficult to estimate as not all firms paying the LLW affiliate with the Foundation, and some that do may lapse compliance. There are in excess of 18,800 employees in London (2%) estimated to have been directly affected by the campaign, and there is now a growing body of research considering the impact and potential for further growth of the LW in the UK (London Economics, 2009; Pennycook, 2012; Wills, 2004, 2008, 2009; Wills et al, 2009, 2010). In one study, manager opinion interviews with 11 adopting organisations in London, found that the main impacts concerned recruitment and retention, improved worker morale, motivation, productivity and the reputational impacts of being an ethical employer. More than 80% of employers believed that the living wage had increased the quality of the service (London Economics, 2009). More recent research has focused on the affordability to employers of the living wage and finds wage cost rises for in-house staff in different industrial sectors of between 1 to 6%, with the higher costs in the retail, food and hospitality sectors which employ larger numbers of low paid workers (Pennycook, 2012). In addition, higher psychological wellbeing has been found in LLW workplaces (Flint et al, 2013).

Extending living wage coverage in London to include all low paid jobs may reduce welfare spending as workers secure more income from wages and less from the state. UK estimates suggest that if all private sector employers increased wages to a 2010 living wage of £7.85 in London and £7.60 outside, the Treasury would gain 46p in tax, National Insurance (NI) and benefit

savings for every £1 spent on additional earnings (IFS, 2010). Estimates for London that included employment scale effects, based on our own survey data to model changes in household income when moving from a 2011 NMW rate of £6.08 to the LLW rate of £8.30, found this would redistribute an estimated £2.2 billion a year in extra income to low paid workers. Fiscal gains were estimated to be £955 million a year in Exchequer savings, and for every £1 spent on paying low paid workers in London the living wage, the Treasury gained 44p in welfare benefit savings and extra tax/NI revenue (Linneker and Wills, 2013). Shifting the burden of low pay from tax-payers to employers thus has the potential to secure significant fiscal benefits for the Treasury.

## **Research Methods**

The research involved a comparative case study methodology. Potential case study clients and sub-contracted employers who were known to have at least one living wage contract or to have signed up to the living wage for their staff, were approached to take part in the project. The research design depended upon being able to identify either: (1) a workplace where data could be collected for the year prior to the living wage being introduced in order to provide a pre/post case study of the same workplace or: (2) matched pairs of workplaces where the same employer had two contracts with similar work and staffing, where one was paying the LLW and the other was paying at least £1 an hour less (NLW). Each contract was workplace specific, and with the exception of the Housing contract, employers were subcontractors. With the



exception of the local authority Grounds contract, most jobs were in cleaning occupations (Table 1).

The research was undertaken in 2011 and used interviews with clients and employers, employer contract data, and a worker questionnaire survey to evaluate implementation and the distribution of costs and benefits among agents.

INSERT Table 1

The impacts on employers were explored using indicator comparisons derived from financial and employment data from 3 employers that provided data for 7 pre/post workplace contracts. One of these employers had 5 small pre/post contracts (G, H, GLN, Q and S) in the private finance sector. The derived indicators considered affordability, changes in wage cost, hours and employment, staff turnover, recruitment costs, and implications for productivity and profits. Contract data was obtained for the year before and after adoption covering client revenue/cost, wage rates and hours for different staff grades, staff leaving and starting, cost of recruitment and training, and sickness and absence. Data on non-wage costs and employer pension and NI contributions for staff was not available.

The 7 pre/post contracts covered two years and were largely unaffected by changes in non-wage rate factors, such as capital equipment, material costs

and service levels. From interviews with clients, service standards were generally maintained or improved with implementation.

A number of indicators were developed to explore the impact of the LLW on clients, employers and workers. The difference between *percentage contract revenue change and percentage wage cost change* (both expressed as a proportion of non-living wage contract cost) indicate how wage cost increases were being absorbed by the employer from profit, or were being passed on to clients and customers, and this had implications for absolute profit margins.

The analysis tracked impacts on the lowest paid operative staff who were the intended beneficiaries of the LW, and excluded temporary seasonal staff, and staff paid higher than the LLW, such as any TUPE (1) covered workers, supervisors and managers who were also employed on the contracts. The difference between the *percentage wage rate change and the percentage wage cost change* indicates the impact on workers hours and employment levels. All other things being equal, if the wage rate increase is greater than the wage cost increase, worker hours and jobs are being reduced, and imply labour productivity increases with implementation. In addition, any substitution of low for higher skilled workers was also indicated by the percentage change in the proportion of operative staff hours, among all grades of staff hours employed on the contract.

The staff turnover indicator is the *percentage change in staff leaving rate*.

Leaving rates were derived as the number of staff leaving or dismissed over

the period (excluding retirement), expressed as a ratio of the number employed over the period, irrespective of hours worked per week. Staff turnover benefits were cost savings from reduced staff turnover, and included employer-costed savings in recruitment, management time, administration and any work clothing/uniform costs.

In addition to the 7 pre/post LW contracts, medium term impacts on workers over a 2 to 5 year period were based on an additional core sample of 4 comparison contract pairs. At these 8 contracts the same employer's LW contract was matched to one of their NLW contracts. Contract pair selection was based on workers being paid at least £1 per hour less on the NLW contract for doing similar jobs. As much as possible, the contract pairs were matched by size, occupation, and client-sector in education, transport, and finance. While contract differences other than LLW compliance were controlled for as much as possible, impacts may not necessarily be caused by the LLW alone in all cases.

Impacts on workers were explored via questionnaire responses in all the workplaces, with the exception of the housing employer. In total, 416 face-to-face interviews were conducted in client workplaces. This comprised 218 workers in Living Wage and 198 in Non-Living Wage workplaces.

The analysis further split LW workers into Living Wage Transition (LWT) and Living Wage Joiner (LWJ) workers. Living wage transition workers comprised those who transitioned from being in a NLW workplace to a LW workplace upon living wage adoption (116 respondents). In contrast, living wage joiner

workers were those who joined the workplace when it was already living wage compliant (102 respondents). Significant differences between LW and NLW worker profiles were explored using Chi Square tests.

Only workers in living wage workplaces were asked questions relating to any beneficial improvements they had experienced relative to a previous NLW job. While this restricted exploration of NLW job benefits, logistic regression models were used to explore the types of workers reporting benefits (or not) from their LW jobs.

Three benefit dimension indicators were developed from workers' responses in order to capture impacts on work, family life, and finances. Improvements at work were captured from question scores about the impact of the living wage in terms of working harder; feeling happier; feeling more respected; feeling more valued; having more pride in the job; and being more likely to stay in the job. Family life improvements were captured by scoring the positive responses given to two questions that included: buying more goods; spending more time with family; sending remittances; having more leisure; and taking more holidays. Likewise, financial benefits questions included the ability to buy more goods; to save more; to send more remittances; and to use a different form of transport. Impacts on in-work poverty were based on the reported personal financial and family indicators of increased income and spending.

## Impacts on Employers

Overall, the move to adopt the living wage has been driven by clients who have made the living wage part of their procurement process. Rather unusually, the employer with 5 pre/post contracts had approached clients to advocate for LW rate increases, and this was largely successful. Most clients adopted for ethical reasons associated with their Corporate Social Responsibility (CSR) profiles (Wills and Linneker, 2012, 2014).

A number of different types of implementation strategy were identified within LW workplaces in the 7 pre/post contracts (Table 2). At the public sector Grounds case, contract revenues only rose by 1%, reflecting fixed price contracting, and additional wage costs (7% of the NLW contract revenue) were greater than increases in contract revenues. The inability to pass on full wage cost increases to clients, put the burden on the employer, pressurising the firm to absorb wage costs through redistributions of worker hours and reduced rates of profit (-6%).

In this case jobs were expanded by 11% (from 74 to 82) for permanent operative staff, and wage costs (20%) increased at a higher rate than wage rates (18%). Total hours worked increased by 7%, and operative hours as a proportion of all contract worker hours increased by 1%. While total operative hours worked and jobs increased, this reflected declines in average hours per job (-3%) for workers, with more staff doing jobs with fewer hours. Despite

employment expansion, the LW was associated with reductions in hours per job, undermining total income benefits for the intended beneficiaries.

The 5 small contract cases each had different implementation effects. At contract G, the client seemed willing to pay the LLW, as overall contract revenue (33%) increased by a higher rate than wage costs (0.2%), which could more than offset the maintenance of existing staff levels. However, staff numbers declined from 12 to 10, as wage costs (1%) rose at a lower rate than wage rates (21%) and largely remained neutral. Operative jobs and hours were also being substituted for higher skilled workers hours in contract restructuring, as the proportion of operative staff hours among all staff hours declined (-13%). Despite implied profit increases (33%), total operative staff and hours fell (-17%), and given fixed contract outputs, this suggests that labour productivity increases might also have been exploited with the reduction in staff. This is the only case to show staff turnover benefit savings (0.4%) being greater than the total wage cost increase (0.2%). However, this was being achieved at the expense of reductions in total hours and the number of jobs. This suggests the exploitation of productivity gains, to further increase profits, despite the client willingness to pay the LLW.

INSERT Table 2

At contract GLN the number of operative jobs (-1) and total hours declined (-20%) as wage costs (5%) rose at a lower rate than wage rates (31%). As staff numbers declined from 3 to 2 persons, hours per job increased (20%) for the

remaining workers. This case also showed labour substitution of less low for more higher-skilled worker hours, as the proportion of operative staff hours to all staff hours fell (-8%). Despite a wage costs rise (1.5%) contract revenue fell (-12%), suggesting higher wage costs were being fully absorbed in lower profit (-14%) in this implementation.

At small case Q wage rates increased at the same rate as wage costs (31%). For the 4 operative staff, total staff hours worked and hours per job remained the same. In this case the higher wage costs were being passed on to clients and were more than being absorbed from higher contract revenue (33%), adding to implied higher profit (18%). This was the only small case where profits were increased and jobs maintained with implementation.

Overall the research found that implementation types varied from: (1) those where employers fully absorbed the increased costs out of profits under fixed price contracting; (2) those where the client fully absorbed the increased costs and employer profits were maintained; (3) those where employers partially evaded full wage cost increases through reductions in total jobs and/or hours, and in some cases exploited productivity gains to further increase profits, despite clients willingness to pay.

In most cases implementation involved contract revenue increases with clients willing to share some, or all, of the wage cost increases. In most cases higher wage costs exceeded financial benefits from reduced staff turnover, reflecting the low cost of hiring staff. Two small contracts showed increased

profits with implementation, but in most cases, higher wage costs were partly absorbed by reductions in absolute profit.

From a policy perspective some implementation strategies are more preferable than others. Despite the recessionary context of the research, there were short-term scale effects with declines in employment in 2 small cases, but in 5 out of the 7 pre/post cases, employment levels remained the same or increased. Depending on client support, some larger employers were able to maintain or expand jobs, while some of the smaller contracts struggled to do this, and this may have implications for the 68% of enterprises in London that are between 1-9 employees in size (ONS, 2013).

### **Impacts on Workers**

As indicated in the methods section differences between LW and NLW workplaces were explored using Chi-square tests. All cross-sectional data shown in Table 3 were significant at the 95% confidence interval and above. NLW workers were similar to LW Transition workers, and LW Joiners were found to be producing most of the profile differences.

All workers earned above the NMW, and living wage workplaces on average paid significantly higher average wage rates at £7.83 per hour compared to £6.35 in NLW workplaces. Given that accredited organisations have 6 months to implement annual LLW increments, wage rates were compared against entitlement at the time of interview. Higher proportions of LW Joiners (21%)



were paid below the rate due, compared to LW transition workers (4%), suggesting larger compliance slippage for recent Joiners in some LW workplaces.

Low paid work across the London sample was mainly undertaken by foreign-born workers (86%). African born workers were more prevalent in NLW jobs (58%) than LW jobs (18%). In contrast, European Union (32%) and Latin American (29%) born workers were much more prevalent in LW jobs (61%), compared to NLW jobs (15%). Latin American-born workers were particularly concentrated among the LW Joiners (36%). Ethnicity was similarly differentiated, with greater proportions of workers identifying as ethnically Black (59%) in NLW workplaces, than in LW workplaces (20%). In LW workplaces greater proportions described themselves as ethnically White British, White European and Latin American (70%).

In the context of recent patterns of EU and Latin American in-migration to London, highly qualified recent migrants may have little choice than to accept low paid entry-level jobs, with few hours of work (McIlwaine et al 2011). The move to the living wage appeared to have made it easier for employers to attract recently arrived, higher educated workers. Living wage workplaces contained higher proportions of recent migrants with 61% having been in the UK for 5 years or less, rising to 77% among the LW Joiners. Greater proportions of higher educated workers were found in LW workplaces, with 35% of LW Joiners having a university degree, with the majority of LWJ (61%) having been in the UK for 5 years or less. The research indicated that

employers were privileging access for higher qualified recent migrants, who were first in line in LW employers' hiring queues bumping down less qualified, and possibly irregular workers (Wills et al, 2010).

The research found that higher wage rates were driving processes of both staff retention and substitution in LW workplaces. The substitution of less for higher qualified workers reflected processes of labour availability and employer filtering, while lower rates of staff turnover and increased retention seemed unable to limit the extent of substitution. Over the longer-term, staff retention is also related to workers future career aspirations, and a greater proportion of Transition workers in LW workplaces (48%) planned to stay in their current job and move up the career ladder compared to LWJ (31%) and NLW (30%) workers.

While having a LW job produced short-term staff turnover benefits, it did not necessarily produce long-term staff loyalty, as indicated by length of time with employer. For Transition workers, going through LW adoption seemed to produce medium term loyalty effects, as 63% of LWT workers had been with their employer between 1-3 years compared to only 28% of NLW. However, LW Transition workers were similar to NLW workers and had lower qualifications and less labour market mobility than LWJ, and more mobile workers may have left over the longer-run. Indeed, there was higher longer run loyalty in NLW workplaces where 36% of workers had been with their employer for over 3 years compared to LWT (30%) and LWJ (11%).

Most workers aspired to change job or career, with higher proportions in NLW workplaces (70%) and amongst LW Joiners (69%), suggesting a transient nature to job loyalty among more mobile LWJ workers, nearly half of whom had been with their employer for less than a year.

Transition workers were asked about the types of changes that had occurred in the workplace with adoption. Overall, there were twice as many positive as negative responses. The positive changes were that workers now felt happier; there was more training/supervision; the work was more productive; and they did a wider range of tasks. The most frequently mentioned negative changes were that the work was harder; people were less happy; and more people were leaving. Overall, some 52% of transition workers felt more loyal towards their employer, and this varied from 83% at one of the smallest cleaning contracts, to only 38% of those on the Grounds contract.

Proportions of full-time staff, working over 30 hours per week were similar in both workplace types (LW 56%, NLW 57%). However, there were large concentrations of part-time workers doing very few hours in LW workplaces, with 40% doing less than 16 hours per week, compared to 23% in NLW workplaces. These higher rates were being driven by LW Joiners (44% of whom were working less than 16 hours per week) and a significantly higher proportion of LWJ also had a second job 42% (LWT 27%, NLW 24%).

INSERT Table 3

The concentrations of part-time workers doing very few hours reflected the types of firms adopting and the research case studies available.

Concentrations of part-time jobs of up to 16 hours (43% LW, 22% NLW) were particularly evident in the same employer matched contracts where the LW workplace had a greater proportion of part-time jobs of less than 16 hours: 74% LW to 24% NLW in large office cleaning; and 68% LW to 50% NLW in University cleaning. In these cases, services were being delivered by very different job-hour structures in the LW contracts.

In some cases the hours available may be due to the nature of the work, and higher wages may make it easier for employers to attract reliable workers to do jobs with fewer hours, helping to overcome labour market frictions related to the fixed costs of work, such as transport and childcare. However, in some cases, the LW was also associated with reductions in the numbers of jobs and the hours of work as employers attempted to reduce wage cost rises. In the short-term, both full-time job hours, and part-time jobs, were reduced with adoption within the Grounds, small G, and small GLN cases. Over the medium term employers may also be able to off-set higher wage costs by increased use of part-time job structures of less than 16 hrs per week, avoiding additional employer-NI and pension contribution costs (HMRC, 2013; GOV.UK 2013). Some LW adopters seemed to be facilitating higher concentrations of part-time jobs with few hours, and despite being LW jobs, income potential was low in terms of meeting workers' overall costs.

### *Worker Benefits*

The living wage was found to be having a more positive impact on workplace experiences than on finances and family life, with 54% of workers reporting benefits to their working life. Other benefits were lower, with a minority (38%) reporting financial benefits and just a third (32%) reporting benefits to family life. Measures of benefit intensity showed that cumulatively 65% of workers in LW workplaces experienced one or more dimension of benefit, 38% reported two or more dimensions of benefit and 21% reported benefits in all three areas, work, family and finances. Some 35% of respondents experienced no reported benefits from the living wage.

Whether certain types of LW workers were more or less likely to report benefits than others depended on their comparative NLW job experiences. A number of categorical and binary regression models were used to explore the influence of different socio-economic and demographic factors on workers' reported experiences of beneficial improvements in LW workplaces. Similar significant factors emerged to those shown in Table 4. In categorical financial benefit models ethnicity, level of education, and second job were significant. In two and three benefit combination models education and aspirations were significant. In binary multi-dimension models, if one, two or three dimensions of benefit were reported the dependent indicator scored one, otherwise zero. Table 4 shows factors significant among LW workers in the sample, as well as amongst the foreign-born LW sub-group. Amongst those in LW workplaces the main significant factors decreasing the likelihood of experiencing benefits

were being UK born, having higher levels of education and self-identifying as ethnically black. All these worker types were less likely to report benefits from the living wage. Amongst foreign-born workers in LW workplaces, the main significant factors decreasing the likelihood of experiencing benefits were aspiring to change jobs or career, having higher levels of education, and self-identifying as ethnically black. These types of workers were less likely to report any benefits, and seemed indifferent between LW and NLW jobs.

Fewer ethnically black workers were found in living wage workplaces, and of those that were, they were less likely to report benefits. While there may be a constraint on lower qualified Black African or Caribbean workers securing some living wage jobs in the face of competition from more recent migrants, this may also represent a choice, reflecting the higher relative earnings potential from some NLW jobs.

Gender was not statistically significant in relation to reporting benefits in LW workplaces. While recent male migrants had taken up jobs in occupations where high proportions of women are usually found, the men responded in a similar way to the women. However, there were gender differences, and women reported slightly higher LW benefits rates than men, in work life (W 55%; M 54%), family life (W 35%; M 31%), financial benefits (W 44%; M 36%), and they had slightly higher cumulative benefit proportions from the LW.

INSERT Table 4

Workers with lower levels of education were more likely to perceive benefits from the living wage, perhaps reflecting a realistic assessment of their opportunities in the labour market. In addition, those with as-yet unfulfilled aspirations to change their career were less likely to report benefits from the living wage. While the living wage was found to have an impact on the quality of labour through substitution, increasing the opportunities proffered to European and Latin workers with higher levels of education, these workers may well be less likely to report benefits from the increased levels of pay. Employers thus face a tension in balancing the desire to recruit more qualified individuals while also benefiting from increased workplace morale, commitment and loyalty. More educated workers may well retain aspirations to do other kinds of work and remain less satisfied and/or committed than their less educated colleagues. There may be dangers in the substitution of one labour stream for another, and this may detract from the felt-benefits and wider ramifications of increasing levels of pay.

#### *Impacts on In-Work Poverty*

In work poverty reduction partly depends on workers securing higher incomes from LW jobs. Overall, average weekly net income from the present job, were only 13% higher at £23 in LW workplaces (£200) than NLW workplaces (£176). The reported impact of the living wage on reducing in-work poverty was limited for most of the workers affected. Some 38% of LW workers reported income benefits in relation to spending, saving or remitting money

back home. In addition, 32% reported household income benefits in relation to increased purchases, or more family leisure and holiday time.

In precise like with like jobs hours comparisons, within and between workplaces, LW jobs would increase incomes. Indeed, higher incomes were obtainable from some full-time LW jobs in 'between workplace' comparisons. In the Transport and Small Office cases most workers were full-time in both LW and NLW workplaces. The majority of LW workers on the contract had earnings over £250 per week, while on the NLW contracts most earned less, securing between £125 and £250 per week. However, within the Grounds case, workers complained that the implementation of the living wage had been associated with a cut in their full-time hours, reduced overtime and the consolidation of the bonus payment, all of which undermined the impact of the LLW rate. As this worker said: "Because they cut the bonus and the hours, I don't have more money than before." Many of the workers in this case felt that any increase in wages was not sufficient to really change their feelings about their employment. Indeed, reductions in hours worked with adoption of the LW was more important in reporting benefits than whether the LW job had either full or part time hours.

Furthermore, some LW jobs did not necessarily equate with higher incomes when compared to NLW jobs. Net incomes from LW jobs could be higher or lower than from NLW jobs. Higher proportions of LW workers (44% for Joiners) than NLW workers (34%) had incomes of less than £125 a week, while higher proportions LW workers (39%) than NLW (15%) workers also



had incomes of greater than £250 per week. Thus, in reporting income benefits, some LW workers may have preferred the higher incomes from previous NLW jobs due to the longer hours worked. In addition, welfare benefit reductions will have affected any income benefit reporting for some of the LW workers who claimed (27%).

In cases like the University and Large Office cleaning pairs, the NLW contract was being delivered by full-time mainly African born workers earning £125-250 and over per week, while the LW contract was being delivered by part-time workers doing less than 16 hours per week on lower incomes of less than £125 per week (mainly Latin, EU and African born). Some workers comparing earnings between workplaces were unlikely to report benefits from their LW jobs since they represented overall income reductions.

The large concentrations of part-time LW jobs with few hours also meant that many workers relied on second jobs (42% LWJ) and partner income streams (35% LWJ), with little change to household income from their LW job. In NLW workplaces higher proportions of workers were single, and the jobs had longer hours, often obviating the need for a second job.

A number of workers at the university living wage contract – many of whom worked just 10 hours a week – raised this issue and one explained that: “I only work here 2 hours a day. It’s not enough to make a difference.”

Workers also remarked about the level of the living wage in relation to the cost of living and while wages had increased, the cost of living had increased faster, and workers were not able to report a significant change in their overall financial situation, particularly those working part-time. As this Nigerian graduate on the LW transport contract put it: “It is very important that if you work you should be able to save for the future. But in fact, there’s no benefit of the living wage. It’s not enough because living in London the prices are very high. We need to improve our lives but we don’t get enough money to do this.”

The research thus highlighted a number of factors constraining the impact of the living wage on reducing in-work poverty. First, wage cost avoidance through reductions in hours undermined income increases from some living wage jobs. Second, large concentrations of part-time LW jobs with few hours necessitated reliance on second jobs and partner incomes streams, also likely to be paid less than the living wage. If workers were paid more, but worked very few hours, marginal income rises from LW jobs were insufficient to move them out of working poverty, especially if welfare benefits were reduced. Third, the small size of income increases obtainable from the higher wage rates, and the increasing costs of living in London, also reduced real income changes for low paid workers. Indeed, high inflation rates had led to large real wage falls for many workers over the research period (LPC, 2012).

The research suggests that while necessary, the LLW is not yet sufficient to reduce in-work poverty on a large scale, and a number of measures may be

required to increase its impact in future. Additional funding by clients and wider coverage to include a greater numbers of workers would improve incomes further. Though politically difficult, the research also highlighted the shallow bite of the LLW rate on the real incomes of low paid workers, and longer hours and higher wage rates are needed in future.

## **Conclusions**

To date living wage job coverage remains low but is rising, and the choice to adopt has mostly been driven by clients for ethical reasons. Convincing clients of the reputational, and other benefits, is crucial under a voluntary policy regime. The research identified different client and employer adaptations to living wage implementation. In some cases clients were willing to cover increased wage costs, but in others, there were associated reductions in employer profits, and/or hours of work and employment levels. While some theoretical economic predictions of reductions in jobs and hours did occur among small employers, this was not universal and the number of jobs increased among larger employers, despite the recession. Most employers experienced short-term retention benefits from lower staff turnover although longer-term loyalty benefits were less clear. Given recent patterns of in migration to London, strong substitution effects were identified. Adopting employers were able to substitute lower for higher-qualified recent Latin and EU migrant workers.

Income benefits were greatest among full-time workers on the LW contracts, but where working hours were reduced, any income benefits were undermined. Some workers earned low incomes from part-time LW jobs, and relied on second jobs or partner incomes to support themselves and their families. For some workers, non-living wage jobs may have been preferable to living wage jobs, as the longer hours increased relative incomes. The main positive impacts on workers were experienced at work where 'feel-good' factors such as feeling happier, more productive and valued, and having greater pride were reported. Only a minority of workers reported positive effects on personal incomes and family life, and the living wage was no 'magic bullet' for reducing in-work poverty, since higher wage rates did not necessarily translate into higher incomes for all workers involved. Indeed, contract monitoring may need to ensure Corporate Social Responsibility linked to client LW accreditation, is not obtained at the expense of subcontracted workers.

Better implementation, less evasion, longer hours of work, wider coverage, and higher wage rate increases, would all improve the impact of the living wage on in-work poverty in future. The LW is a useful intervention amongst other anti-poverty policy measures, and where employers can afford to pay the LW, they should be encouraged to do so. Indeed, the Treasury is a key beneficiary as workers secure more income from employers and less from the state. The evidence supports the case for voluntary adoption of the LW where possible, with further encouragement from government.

## **Footnotes**

(1) TUPE refers to the 'Transfer of Undertakings Protection of Employment' rules, which protect employees' rights when the organisation they work for transfers to a new employer.

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**Table 1 - Workplace Case Studies**

Workplace Contract NLW / LW Adoption Client Sector			Type of Occupation	Workforce Size	Sample Size
<i>Three Employer Contract Pre/Post Cases</i>					
1 - Grounds	NLW 2009: LW 2010	Local Government	Sub-contracted service	105	53
2 - Housing	NLW 2010: LW 2011	Housing Social	In – house Estate Cleaning	40	0
3 - Small G	NLW 2010: LW 2011	Finance	Sub-contracted Office cleaning	15	15
4 - Small H	NLW 2010: LW 2011	Finance	Sub-contracted Office cleaning	8	6
5 - Small GLN	NLW 2010: LW 2011	Finance	Sub-contracted Office cleaning	4	1
6 - Small Q	NLW 2010: LW 2011	Finance	Sub-contracted Office cleaning	5	5
7 - Small S	NLW 2010: LW 2011	Finance	Sub-contracted Office cleaning	7	7
<i>Four Employer Contract Matched Pairs</i>					
1 - Large Office	NLW	Media	Sub-contracted Office cleaning	130	108
	LW 2006	Finance	Sub-contracted Office cleaning	59	35
2 - University	NLW	University	Sub-contracted Office cleaning	37	30
	LW 2008	University	Sub-contracted Office cleaning	45	41
3 - Small Office	NLW	Finance	Sub-contracted Office cleaning	11	8
	LW 2007	Finance	Sub-contracted Office cleaning	10	9
4 - Transport	NLW	Transport	Sub-contracted Station cleaning	400	40
	LW 2009	Transport	Sub-contracted Station cleaning	900	42

Note: A few other worker interview cases were also included in the sample, but these employers could not provide financial data. NLW indicate Non-Living Wage and LW indicates Living Wage employer contract.

**Table 2 - Employer Impacts of the Living Wage**

Pre-Post Cases	Grounds	Housing	Small G	Small H	Small G L N	Small Q	Small S
Contract Revenue % Change	1	na	33	4	-12	33	4
Wage Cost % NLW Contract Revenue	7	na	0.2	7.2	1.5	15.4	6.6
Profit % Change	-6	na	33	-3	-14	18	-3
Wage Rate % Change	18	26	21	26	31	31	26
Wage Cost % Change	20	39	1	26	5	31	26
Staff Turnover % Change	-4	-6	-45	0	-67	-50	0
Staff Turnover Benefit % of NLW Contract Revenue	0.2	na	0.4	0	0.2	0.7	0
Employment Change (count)	8	4	-2	0	-1	0	0
Employment % Change	11	11	-17	0	-33	0	0
Hours % Change (total annual)	7	11	-17	0	-20	0	0
Hours per Job % Change (total annual)	-3	0	0	0	20	0	0
Operative hours % All Staff hours Change (total annual)	1	na	-13	0	-8	0	0

Notes: The negative sign (-) denotes a decline in the indicator or a fall in cost, 'na' data not available. Wage rate and cost change, staff turnover, employment and hours, are for the lowest paid permanent operative staff who were the intended beneficiaries of the LLW. Profit % Change is, Contract Revenue (CR) % change, minus Wage Cost % NLW CR, showing stylized absolute profit change.

**Table 3 – Differences between Living Wage and Non-Living Wage Workers**

Variable	Non-Living Wage Workers % (NLW)	Living Wage Transition Workers % (LWT)	Living Wage Joiner Workers % (LWJ)	All Living Wage Workers % (LW = LWT+LWJ)	Count
<b>Region of Birth</b>					
UK	9	28	6	18	56
EU	7	33	31	32	84
Latin	18	23	36	29	99
African	58	15	23	18	154
other	9	1	4	2	22
Total	100	100	100	100	415
<b>Ethnic Group</b>					
white	11	52	38	45	121
latin	10	18	32	25	73
black	59	17	23	20	160
other	20	13	7	10	61
Total	100	100	100	100	415
<b>Time in the UK</b>					
up to 1 year	16	5	27	17	57
1-5 years	27	36	50	44	122
> 5-10 years	27	23	7	15	72
over 10 years	31	36	16	25	98
Total	100	100	100	100	349
<b>Highest level of education completed</b>					
primary school	16	8	2	5	43
secondary school	33	30	32	31	133
advanced schooling	35	47	31	39	155
University (under/post graduate)	13	14	35	24	78
other	3	1	0	0	6
Total	100	100	100	100	415
<b>Number of years with employer</b>					
up to 1 year	36	7	45	25	124
1-3 years	28	63	44	54	172
>3-5 years	12	17	3	10	45
over 5 years	24	13	8	11	70
Total	100	100	100	100	411
<b>Aspirations</b>					
stay & move up	30	48	31	40	145
change job/career	70	52	69	60	266
Total	100	100	100	100	411
<b>Do you have another job?</b>					
yes	24	27	42	34	121
no	76	73	58	66	293
Total	100	100	100	100	414
<b>Total Weekly Hours</b>					
up to 16 hours	23	37	44	40	134
>16-30	20	4	2	3	46
over 30	57	59	54	56	236

Total	100	100	100	100	416
<b>Compliance</b>					
wage rate >= LLW due at interview	6	96	79	88	190
wage rate < LLW due at interview	94	4	21	12	204
Total	100	100	100	100	394
<b>Net Income Per Week Present Job £</b>					
<125	34	33	44	38	140
125-250	51	31	15	24	142
> 250	15	37	41	39	106
Total	100	100	100	100	388
<b>Have a Partner Income</b>					
Yes	18	29	35	32	105
No	82	71	65	68	311
Total	100	100	100	100	416

Note: Though not shown Chi-square tests between two way splits, NLW and LW (LWT+LWJ); NLW (NLW+LWT) and LW, and three way splits NLW, LWT, LWJ, are all significant at the 95% Confidence Interval and above in all tables above. Ns are given in the Total Count and relative to 416, indicate missing data.

**Table 4 – Workplace, Family Life, and Financial Improvements in Living Wage Workplaces**

Variables and Coding	Mean	All Workers			Foreign Born Workers		
		B	S.E.	Sig Exp(B)	B	S.E.	Sig Exp(B)
<b>Dependent</b>							
Experience one or more dimensions of improvement from work, family, financial: Yes=1, No=0	0.65						
<b>Independent</b>							
Constant		1.74	0.82	0.03	3.93	1.14	0.00
<b>Sex:</b> Male=1, Female=0	0.64	0.36	0.40	0.38	1.43	0.27	0.45 0.55 1.30
<b>Age:</b> Less than 30=1, Otherwise=0	0.27	0.28	0.39	0.47	1.32	0.35	0.49 0.47 1.42
<b>Place of Birth:</b> UK=1, Foreign=0	0.18	-1.93	0.74	<b>0.01</b>	0.15	na	na na na
<b>Ethnicity:</b> Black=1, Otherwise=0	0.20	-1.21	0.48	<b>0.01</b>	0.30	-1.18	0.55 <b>0.03</b> 0.31
<b>Time in the UK:</b> <=5 years=1, > 5 years=0	0.60	na	na	na	na	-0.52	0.53 0.32 0.59
<b>Health:</b> Good health or better=1, Poor or fair=0	0.87	-0.07	0.51	0.90	0.94	-0.75	0.64 0.24 0.47
<b>Education:</b> Higher A level+ = 1, Lower=0	0.64	-1.05	0.39	<b>0.01</b>	0.35	-1.16	0.49 <b>0.02</b> 0.31
<b>Family Type:</b>							
Single No Kid =1, Otherwise=0	0.33	-0.06	0.44	0.90	0.95	-0.37	0.54 0.49 0.69
Single With Kid =1, Otherwise =0	0.12	-0.03	0.61	0.96	0.97	0.18	0.86 0.83 1.20
Couple With Kid=1, Otherwise=0	0.26	-0.28	0.52	0.60	0.76	-0.72	0.65 0.27 0.48
<b>Housing Tenure:</b> Rent Private =1, Otherwise=0	0.65	0.05	0.39	0.91	1.05	0.20	0.52 0.69 1.23
<b>Claim Benefits:</b> Yes=1, No=0	0.27	0.02	0.45	0.97	1.02	-0.49	0.61 0.43 0.62
<b>Civic Participation:</b> Yes=1, No=0	0.43	-0.04	0.35	0.91	0.96	-0.57	0.45 0.21 0.56
<b>Weekly Hours:</b> Full-Time >=30hrs=1, Part-Time <30hrs=0	0.56	0.04	0.44	0.93	1.04	-0.04	0.50 0.94 0.96
<b>TUPE Protection:</b> Yes=1, No=0	0.14	0.44	0.50	0.38	1.55	1.47	0.77 0.06 4.34
<b>Second Job:</b> Yes=1, No=0	0.34	0.13	0.43	0.77	1.14	-0.21	0.50 0.68 0.81
<b>Aspirations:</b> change job/career=1, stay and/or move up=0	0.60	-0.32	0.34	0.35	0.73	-1.22	0.45 <b>0.01</b> 0.29
<b>Ground Worker:</b> Yes=1, No=0	0.24	0.34	0.68	0.61	1.41	0.43	0.79 0.59 1.53
-2 Log Likelihood		238				163	
Goodness of Fit		199				172	
N		201				159	

Notes: **Bold Sig** are Significant at 95% Confidence Interval ( $p < 0.05$ ) and above, na = not available, Means are LW sample variable proportions. B are regression coefficients, S.E. are standard errors, Exp(B) are Odds Ratios. TUPE protected workers had higher wages (£8.11/hr), worked fewer hours and had better employment conditions.