

	<b>REPORT TO CABINET TO BE HELD ON 20 OCTOBER 2015</b>
	<b>Key Decision</b> <b>YES</b>  <b>Forward Plan Ref No</b>
<b>Corporate Priority All</b>	<b>Cabinet Portfolio</b> <b>Cllr Jenkinson</b> <b>Holder</b>

**REPORT OF: CHIEF EXECUTIVE – 15/196**

**WARDS AFFECTED: ALL**

**SUBJECT: THE LIVING WAGE – ANNUAL REVIEW**

**RECOMMENDATION (S):**

Cabinet is requested to decide whether to continue with the Living Wage pay supplement and if so to consider retaining the current rate of £7.65 per hour noting the issues raised in this report.

**REASON FOR RECOMMENDATION (S):**

This report provides an update on the implementation of the Living Wage and invites Members to consider a number of issues as part of the annual review that is required to be undertaken in relation to the continued payment of the Living Wage and the payment of the increased hourly rate.

**HIGHLIGHTED RISKS:**

Failure to continue with the Living Wage pay supplement could have a negative impact on employee relations. In the longer term continuing with the Living Wage pay supplement in the future could potentially distort the Council’s pay and grading arrangements.

**1. INTRODUCTION**

1.1 The Living Wage is an hourly rate which is set independently by the UK Living Wage Foundation and updated annually in November according to the basic cost of living in the United Kingdom. Although adoption of the Living Wage is

optional a considerable number of both public and private sector employers have implemented it within their organisations.

- 1.2 The Living Wage is based on the concept of the amount of money that is needed to ensure that people are able to live both with dignity and provide a decent standard of living for their families. The Living Wage should not be confused with the National Minimum Wage (£6.50 per hour from October 2014), which is a legal requirement.

## **2. CORPORATE AIMS/PRIORITIES AND THE COMMUNITY PLAN**

- 2.1 This decision supports all of the Council's Corporate Aims/Priorities.

## **3. BACKGROUND AND ISSUES**

- 3.1 In November 2013 the Council agreed to implement the UK Living Wage with retrospective effect from 1 July 2013. It was agreed that the UK Living Wage would be paid through the addition of a temporary pay supplement to the hourly rates of pay for qualifying employees who were paid at Grade Scales 1A, B and C. At that time the UK Living Wage (outside of London) was £7.45 per hour.
- 3.2 In accordance with the decision of Members the Living Wage was implemented by the Council and this has resulted in 80 employees receiving a Living Wage payment the cost of which was approximately £25,000 to the Council (a full year cost of £32,000). This includes 38 seasonal employees, who are engaged from March to October, at an estimated cost of £15,000 for the Living Wage supplement.
- 3.3 As part of the implementation of the Living Wage the Council gave a commitment to undertake an annual review in relation to its continued payment. In accordance with this Members carried the first annual review of the Living Wage in July 2014. The outcome of the review was that Members agreed that the Living Wage pay supplement should continue and that the hourly rate be increased to the new rate of £7.65 with effect from 1 July 2014. In accordance with this decision arrangements were therefore made to implement the increased hourly rate.
- 3.4 This report provides an update on the implementation of the Living Wage and asks for consideration to be given to a number of issues as part of the annual review that is required to once again be undertaken in relation to the continued payment of the Living Wage supplement.

## **4. CONSULTATION**

- 4.1 The GMB, UNISON and Unite Trade Unions are all committed to the principle of the UK Living Wage and in favour of the Council paying the increased hourly rate. They accept that there are some advantages in applying it within the Council, including the achievement of a minimum standard of living, some

reduction in financial insecurity, an improved quality of life for the lowest paid staff, and it could potentially stimulate the local economy, by increasing the disposable income of those directly affected.

## **5. ASSESSMENT**

- 5.1 There are a number of issues that require consideration by Members in making their annual assessment as to the continued payment of the Living Wage pay supplement and details of these are set out below.

### **The Increased Living Wage Payment and Affordability**

- 5.2 In November 2013 the Living Wage was increased from £7.45 to £7.65 per hour (an increase of 2.7%) and, as outlined above, this rate was paid to eligible Council employees with effect from 1 July 2014.
- 5.3 In November 2014 the Living Wage was again increased from £7.65 to £7.85 per hour (a further increase of 2.7 %). Therefore, based on a full-time employee working 37 hours per week, the new Living Wage would be £15,104 per annum for Council employees, compared to be £14,719 per annum for Council employees in 2014. The next increase to the Living Wage will be announced in November 2015.
- 5.4 In applying the previously agreed Living Wage criteria, this would result in no change in the number of employees receiving the increased Living Wage pay supplement. In addition to the increase in basic salary costs, the continued adoption of the Living Wage pay supplement will increase employer pension and national insurance contributions. It is also important to note that whilst the Living Wage is focused on gross hourly pay, the Council does also offer additional benefits to support our employees, most notably:-
- A defined benefit pension scheme.
  - Sick pay entitlement.
  - Holiday entitlement.
  - Childcare voucher scheme offering significant tax/national Insurance reductions.
  - Enhanced payments for weekend, Bank Holiday and night working.
- 5.5 The overall cost would be difficult to assess as it depends upon the Service usage of casuals and/or seasonal workers, based on the current practice since appointment. The total annual cost of the Living Wage to the Council is currently approximately £43,000 based on the current rate of £7.65 per hour and this is already included in the Council's base budget. The total annual cost of paying the Living Wage at an hourly rate of £7.85 per hour is likely to be in the region of £59,600, an additional cost of £16,600. This would be paid for from the General Contingency fund.
- 5.6 Another factor to consider is the recent Central Government announcement of a new compulsory National Living Wage for employees aged 25 and above which will be introduced on 1 April 2016. This will commence at £7.20 per

hour and is projected to rise to at least £9.00 per hour by 2020 according to the Local Government Association (LGA). Although this change will have no immediate financial impact, as the Council already pays the UK Living Wage rate which is in excess of the April 2016 figure, there will be an increasing issue of affordability over the coming years. The LGA has calculated that the new National Living Wage would cost local authorities nationally up to £1billion a year by 2020.

- 5.7 The Living Wage which the Council currently pays is an informal benchmark promoted by the UK Living Wage Foundation and is not a legally enforceable minimum level of pay. Therefore in view of this latest development, those organisations already paying the Living Wage as a pay supplement will have a choice to make as to which wage level they choose to use in future.
- 5.8 Figures from the LGA predict that the UK Living Wage will reach £10.35 per hour by 2020. The Government will ask the Low Pay Commission to suggest a figure for the National Living Wage in 2017 at which point the rate of pay can be compared with the UK Living Wage hourly rate applicable at the time. Employers will then need to consider the impact on this in terms of affordability and pay differentials (see paragraphs 5.9 to 5.15 below).
- 5.9 Taking the new developments into account the Council's Director's Team would recommend therefore to Members that the Living Wage should remain unchanged at £7.65 per hour until such time as the new National Minimum Wage catches up with this rate.
- 5.10 The Council's settlement grant for 2016/17 is expected to reduce by a further £1.082 million. Taking this into account and allowing for anticipated budgetary growth and investment, projections show that the Council will need to identify savings of at least £2.4 million to balance the 2016/17 budget. Members will therefore be required to again consider the impact on future budgets of continuing with the Living Wage pay supplement and as part of the 2016/17 review and budget setting process.

### **The Council's Pay and Grading Structure and the Impact on Pay Differentials**

- 5.11 The Council's grading structure has, within it, breakpoints to separate one grade from the next and has been established robustly through a job evaluation process to ensure there are differentials between grades. All employees currently paid on salary grade scales 1A, B and C, spinal column points (SCP's) 5 to 10, are eligible to receive the Living Wage pay supplement and this has had an impact on pay differentials in some areas, with supervisors being paid almost the same salary as those they supervise.
- 5.12 Since the Council implemented the increased hourly rate for the Living Wage in July 2014 a national pay award covering the period 1 January 2015 to 31 March 2016 has been implemented for Local Government employees. This increased SCP's 11 and above by 2.20%, gave higher percentage increases on SCP's 5 to 10 to provide a new minimum hourly rate at SCP 5 of £7 per

hour and made non-consolidated lump sum payments of between £100 and £325 on all SCP's. The impact of this on grade scales 1A, B and C was as follows:-

GRADE	SPINAL COLUMN POINT	HOURLY RATE	ANNUAL PAY
Scale 1A	5 (To be removed 1.10.15)	£6.9974	£13,500
	6	£7.0565	£13,614
Scale 1B	6	£7.0565	£13,614
	7	£7.1088	£13,715
	8	£7.1897	£13,871
Scale 1C	8	£7.1897	£13,871
	9	£7.2954	£14,075
	10	£7.4318	£14,338

- 5.13 The implementation of the national pay award resulted in scales 1A, B and C being lower than the new Living Wage hourly rate. Scale 2, which incorporates spinal column points 11 to 13 however remains unaffected as the minimum hourly rate continues to be above the Living Wage hourly rate (£7.8822).
- 5.14 It is anticipated that future national pay award offers are likely to be limited in the next few years and therefore if the annual Living Wage increase were to remain at 2.7%, then by 2016/17 there could potentially be further significant pressure on the Council's existing grading structure as it would start to overlap with scale 2 rates. The impact of continuing with the Living Wage pay supplement could therefore have the potential to significantly distort the pay and grading arrangements in the future and compromise the current job evaluation process. Differentials at the lower level would therefore be lost and groups of employees would be bunched together on the same pay rate doing different jobs where the perceived values were different.
- 5.15 Differentials will be further affected in future years by the new National Living Wage as referred to in paragraphs 5.6 to 5.9. Analysis by the LGA has found that based on current national pay scales, assuming that an employee works a 37 hour, five day week; the bottom 13 spinal column points will be lower than the £9.00 per hour National Living Wage by the end of the decade. The LGA also point out that it took 13 years for the lower rates between spinal column point 5 and 10 to increase by £2.00 per hour, and it is expected that within just 4 years rates will have increased by a further £2.00 per hour. This will therefore have a significant impact on employers in terms of affordability in an already challenging economic climate.
- 5.16 The impact on pay differentials will need to be closely monitored to see if there are any recruitment and retention issues that need to be addressed. Furthermore if the Living Wage is increased annually and pay awards are small or not being offered at all, this could increase the number of staff who will become eligible for the Living Wage supplement in the future. Choosing to retain the Living Wage supplement at its current hourly rate of £7.65 until the new National Living Wage catches up would help to relieve further

additional budgetary challenges to the Council in the near future. Members will therefore be required to again consider the impact on the Council's pay and grading structure and pay differentials as part of the 2016/17 review of the Living Wage pay supplement.

### **The Benefits of Continuing to Apply the Living Wage**

5.17 There is a body of research which identifies benefits of a Living Wage not only for the individual but also employers and society in general. Research identified that in addition to the reputational benefits of being an ethical employer, the most significant impacts of paying the Living Wage were found to be:-

- An improvement in the quality of work.
- Reduction in absenteeism.
- Easier recruitment and retention.
- Consumer awareness and reputation.
- Reduction in turnover of contractors.
- Improved morale motivation and commitment.

### **The Impact on Employee Relations**

5.18 In the event that the Council decided to remove the payment of the Living Wage supplement the authority would lose the opportunity to continue to demonstrate the value it places on the work undertaken by its lowest paid employees along with potential associated benefits of lower turnover and absenteeism, higher morale, retention and retaining key front line skills. Should the Council decide not to apply the higher hourly rate then the impact would be the same although to a slightly lesser extent than totally withdrawing the pay supplement.

5.19 Although it is difficult to anticipate, as outlined above, there is a need to consider the potential impact on employee relations of applying pay increase in percentage terms to some employees and not others in the longer term. There are potential employee relations implications, particularly in the current economic climate, as paying a Living Wage to the lowest paid workers may lead to pressure from other groups of staff to maintain pay differentials, especially those performing duties that are additional or at a higher level of responsibility.

### **What Other Local Authorities are Doing**

5.20 A growing number of Local Authorities in England and Wales have implemented specific policies to introduce the Living Wage for their directly employed workforce and further Authorities have also given their commitment to do so. Of these there are few Councils that comply with the criteria set by the Living Wage Foundation and the most common approach has been to offer a nonconsolidated payment to relevant staff that brings their effective pay up to the Living Wage level.

5.21 A number of organisations have adopted the Living Wage on an informal basis (either permanently or temporarily) and, equally, a number of organisations have considered and rejected implementing the Living Wage. Those Councils that have decided against pursuing the Living Wage most often cite costs (including schools) impacting on salary structures and the open-ended commitment to a Living Wage set by a third party. Some Councils have taken the same approach as Scarborough and introduced a 'supplement' approach whereby a separate supplement is paid to impacted employees in parallel to the existing pay structure and allows the existing pay structure to remain intact. However, given the current financial climate it is also highly likely that increases in the Living Wage will outstrip national pay awards, thereby reducing existing grade differentials and this is something that will no doubt become a national issue which needs to be addressed in the longer term.

### **The Local Government Position Nationally**

- 5.22 Through the Local Government Yorkshire and Humber Employers Organisation, the Council has been included in the regional discussions to gather feedback on the key issues so that this can be fed back to the National Employers in relation to the impact and future of the Living Wage within Councils.
- 5.23 It should be noted that in June 2015 the Trade Unions, i.e. UNISON, GMB and Unite, submitted a joint pay claim for 2016/17 to the Local Government Association (LGA) for those members covered by the National Joint Council for Local Government Services, requesting that consideration be given to:-
- Deletion of NJC and all local pay points which fall below the level of the UK Living Wage and a flat rate increase of £1.00 per hour on all other pay points.
  - Retention and protection of Green Book Part 2 terms and conditions
  - Fair treatment for school support staff through a joint review of term time working.
- 5.24 Information to date suggests that the Trade Unions do not intend to recognise the new National Living Wage and instead support employers paying staff in line with the UK Living Wage. In reality however it is the National Living Wage which will be compulsory for all employers to apply for at least all those employees over the age of 25. The new National Living Wage therefore has become the key focus of this year's national pay consultation, and is also a factor to be considered in the review of the Council's current Living Wage rate.
- 5.25 The National Employers intend to consider the claim and formally respond to the Trade Unions' pay claim by October 2015 and the Council will also be able to have input into this process at regional level.

## **6. IMPLICATIONS**

### **Policy**

- 6.1 If the Living Wage pay supplement continues then this will need to be reflected in the Council's Pay Policy Statement.

### **Financial**

- 6.2 The estimated full-year cost of the increased Living Wage proposal within this report from 1 July 2015 is anticipated to be approximately £16,600 per annum. The actual cost will depend both on the number of applicable posts at the point of implementation. Should the decision be made to increase the Living Wage with effect from 1 July 2015 then this would be funded from the general contingency fund that was set aside in the 2015/16 budget. The ongoing cost of the proposals will also need to be built into current and future budget setting proposals.

### **Legal**

- 6.3 The legal implications of continuing to pay the Living Wage and apply it to contractors used by the Council are as outlined in the body of the report. It is however important to stress that payment of the Living Wage will be discretionary and not contractual or in pursuance of any other legal obligation. At present it is not envisaged that the payment of a Living Wage supplement to eligible employees will affect the current grading structure or the job evaluation of roles. However, it is recommended that the payment of the Living Wage should continue to be reviewed periodically to ensure that any anomalies that have developed can be addressed.

### **Equality and Diversity**

- 6.4 The Council does not anticipate any vulnerability to equal pay claims as a result of the continued payment of the Living Wage pay. It is important to stress that the Living Wage is not about the role or the job, it is about the cost of living. To ensure that any potential equal pay risks are mitigated it is, however, essential that the principles of the Living Wage are applied consistently across the Council to all employees and workers. On the balance of probabilities, it is also likely that the Council will be able to justify the differential treatment compared to other employees on the basis that the application of the Living Wage is a proportionate means of achieving a legitimate aim, ie paying a Living Wage.

### **Staffing**

- 6.5 The human resources implications are mainly contained in the body of the report. Although continuing to pay the Living Wage supplement and increasing the hourly rate would be welcomed by the Council's lowest paid employees, it is not without difficulties and risks to the organisation in terms of the long term impact on pay structure and grading arrangements. The



introduction of the National Living Wage from 1 April 2016 also provides a potential alternative rate of pay. The impact on pay differentials will therefore need to be closely monitored and considered as part of any future reviews.

### **Crime and Disorder, Health and Safety and Environment and Planning**

- 6.6 I have considered whether any of these implications arise from this report and I am satisfied that there are no identified implications that will arise from this decision.



**Jim Dillon**  
**Chief Executive**

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**Background Papers:**  
None.

IF YOU HAVE ANY QUERIES ABOUT THIS REPORT OR WISH TO INSPECT ANY OF THE BACKGROUND PAPERS, PLEASE CONTACT ELAINE BLADES ON 01723 383560, e-mail [elaine.blades@scarborough.gov.uk](mailto:elaine.blades@scarborough.gov.uk)

## Risk Matrix

<b>Risk Ref</b>	<b>Date</b>	<b>Risk</b>	<b>Consequences</b>	<b>Mitigation</b>	<b>Current Risk Score</b>	<b>Target Score</b>	<b>Service Unit Manager/ Responsible Officer</b>	<b>Action Plan</b>
1	25 September 2015	Impact on employee relations.	Negative impact on employee relations in the event that the increased hourly rate was not to be paid, increased or reduced to the new National Living Wage.	Payment at the current Living Wage Rate rather than moving to the new National Living Wage will minimise the initial impact on affected employees.	B2	A1	DT/HRM	None
2	25 September 2015	Payment of either the Living Wage supplement or the National Living Wage in the future will distort the Council's pay and grading arrangements.	That the current job evaluation process could be compromised by the hourly rate of staff being the same or more than staff on higher evaluated grades. As a result the grade differentials at the lower level would therefore be lost resulting in groups of employees being bunched together on the same pay rate doing different jobs where the perceived values were different.	The impact on pay differentials will need to be closely monitored and the impact on the Council's pay and grading structure and pay differentials be considered as part of the 2016/17 and any other subsequent review of the UK Living Wage pay supplement. In addition consideration will be given to national guidance around this issue and steps taken as appropriate.	C3	C2	DT/HRM	None

**Glossary of Terms**

Risk	An event which may prevent the Council achieving its objectives
Consequences	The outcome if the risk materialised
Mitigation	The processes and procedures that are in place to reduce the risk
Current Risk Score	The likelihood and impact score with the current mitigation measures in place
Corporate Objectives	An assessment of the Corporate Objectives that are affected by the risk identified.
Target Risk Score	The likelihood and impact score that the Council is aiming to achieve
Service Unit Manager	The Service Unit or Officer responsible for managing the risk
Action Plan	The proposed actions to be implemented in order to reduce the risk to the target score

**Risk Scoring**

Impact	5	[Hatched]				
	4	[Hatched]	[Hatched]	[Hatched]	[Hatched]	[Hatched]
	3	[Hatched]	[Hatched]	[Hatched]	[Hatched]	[Hatched]
	2	[Hatched]	[Hatched]	[Hatched]	[Hatched]	[Hatched]
	1	[Hatched]	[Hatched]	[Hatched]	[Hatched]	[Hatched]
		A	B	C	D	E
	Likelihood					

Likelihood:

- A = Very Low
- B = Not Likely
- C = Likely
- D = Very Likely
- E = Almost Certain

Impact

- 1 = Low
- 2 = Minor
- 3 = Medium
- 4 = Major
- 5 = Disaster