

	REPORT TO CABINET TO BE HELD ON 15 NOVEMBER 2016
	Key Decision YES Forward Plan Ref No
Corporate Priority All	Cabinet Portfolio Cllr Backhouse Holder

REPORT OF: CHIEF EXECUTIVE – 16/230

WARDS AFFECTED: ALL

SUBJECT: THE LIVING WAGE – ANNUAL REVIEW

RECOMMENDATION (S):

Cabinet is requested to continue to pay the Living Wage pay supplement and increase the rate to £7.85 per hour noting the issues raised in this report.

REASON FOR RECOMMENDATION (S):

This report provides an update on the implementation of the UK 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 UK Living Wage and the payment of the increased hourly rate.

HIGHLIGHTED RISKS:

Failure to continue with the UK Living Wage pay supplement could have a negative impact on employee relations. Increasing the UK Living Wage pay supplement will have a negative impact on the Council’s pay differentials.

1. INTRODUCTION

1.1 The UK Living Wage (UKLW) is an hourly rate set independently by the Living Wage Foundation and updated annually in the autumn each year. Employers choose to pay the UKLW on a voluntary basis. The Council has paid the UKLW as a pay supplement to qualifying employees since 1 July 2013.

- 1.2 Over recent years, the UKLW has gained increasing prominence in the context of pay at a national level. The UKLW is not a legally enforceable minimum level of pay, but rather an informal benchmark which is calculated by the Centre for Research in Social Policy at Loughborough University and reviewed annually. The Centre for Research and Social Policy is an academic body independent of political affiliation. The UKLW is currently £8.25 per hour and is reviewed in November of each year.
- 1.3 The announcement last year by the Government of a new 'National Living Wage' (NLW) from 1 April 2016 added further complexity to the issue. The table below summarises the different rates of pay that are currently in place:-

Pay Rate	Definition of Cohort	Hourly Rate	Comments
National Minimum Wage (NMW) (Statutory)	Workers aged 21 and over.	£6.70	Recommended by the Low Pay Commission. In its most recent report it stated that the remit from Government was an aim to have "NMW rates that helped as many low-paid workers as possible, while making sure that we do not damage their employment prospects". In making recommendations in these areas the Government asked the Commission to take account of the state of the economy, and employment and unemployment levels, and relevant policy changes.
	Workers aged 18 to 20	£5.30	
	Workers under the age of 18	£3.87	
National Living Wage (NLW) (Statutory)	Workers over 25	£7.20	From April 2016 a Living Wage Premium (LWP) was applied on top of the National Minimum Wage (NMW) for employees aged 25 and over to deliver a National Living Wage (NLW). Anticipated that the NLW for employees over 25 should reach 60% of median earnings by 2020 which would mean a rise to around £9.35 per hour by 2020.
UK Living Wage (UKLW) (Living Wage Foundation)	All workers (higher rate for London)	£8.45	The UKLW is an aspirational wage which is announced every November by the Living Wage Foundation. In setting the Living Wage rate, the Living Wage Foundation calculate minimum living costs based on a "minimum income standard", rent, childcare costs and Council Tax. This is then translated into a wage requirement.
Current Council Living Wage (Pay Supplement)	All qualifying employees	£7.65	Reviewed annually, taking account of various factors such as staff turnover, any national pay awards, the rates for the National Minimum Wage and the "UK Living Wage" at the time, affordability, pay differentials, employee relations etc.

- 1.4 This report provides an update on the implementation of the Council's Living Wage pay supplement 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 supplement.

2. CORPORATE AIMS/PRIORITIES AND THE COMMUNITY PLAN

- 2.1 This decision supports the Council's corporate aim to develop a prosperous and innovative Borough with a highly skilled and aspirational workforce.

3. BACKGROUND AND ISSUES

- 3.1 In November 2013 the Council agreed to implement the UKLW with retrospective effect from 1 July 2013. It was agreed that the UKLW 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 UKLW (outside of London) was £7.45 per hour.
- 3.2 As part of the implementation of the Living Wage pay supplement the Council gave a commitment to undertake an annual review in relation to its continued payment. In accordance with this Members carried out the first annual review 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.
- 3.3 The outcome of the Council's 2015 annual review of the Living Wage pay supplement was that Members agreed that the pay supplement should continue. However, as a result of issues in relation to affordability, the on-going national pay debate, the potential impact on pay differentials etc. it was also decided that the existing hourly rate should not be increased and therefore remained at £7.65 per hour.
- 3.4 On the 9 December 2015, the National Employers met with the Trade Unions and made a final two-year pay offer for 2016/17 and 2017/18. This consisted of 1% in each year, in addition to increasing the bottom pay points to take account of the new National Living Wage (NLW).
- 3.5 As indicated in the table at paragraph 3, the NLW is a new statutory pay rate introduced in April 2016 for employees over the age of 25, currently paid at £7.20 per hour and therefore a lower hourly rate than the Living Wage supplement which the Council already pays. The Government's aim is that this will increase to approximately £9.35 per hour by 2020.
- 3.6 In making this offer the National Employers were mindful of the challenge faced in coming years to increase the bottom of the pay spine to achieve the Government's target of 60% of median earnings and of the associated need to increase subsequent pay points in order to maintain differentials. This offer was accepted and in accordance with the agreement, arrangements have therefore been made for the new pay rates to be implemented by the Council.
- 3.7 Now that the pay claim has been agreed the National Employers have started working with the Trade Unions to find a way that fairly and affordably meets the longer term objective of the NLW to achieve the Government's earnings target, with a view to

restructuring the national pay spine. As part of this review the Local Government Association (LGA) have been asked to identify what issues local employers want to see explored as part of the review, and have therefore established a small Employer Sounding Board/Working Group.

4. CONSULTATION

- 4.1 The GMB, UNISON and Unite Trade Unions are all committed to the principle of the UKLW 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 UKLW Payment and Affordability

- 5.2 In November 2016 the UKLW was increased from £8.25 to £8.45 per hour (an increase of 2.4%. Therefore, based on a full-time employee working 37 hours per week, the new UKLW would be £16,257 per annum for Council employees, compared to £15,104 per annum for Council employees in 2015. The next increase to the UKLW will be announced in November 2017.
- 5.3 Paying the UKLW rate of £8.45 per hour would result in a large increase in the number of employees receiving the Living Wage supplement i.e. approximately 160 from 33 at the present level as it would begin to overlap into Scale 2 (see table below at paragraph 5.8). The annual cost would also increase from £2,903 to approximately £74,444 i.e. £71,541 higher than the current budget. In addition to the increase in basic salary costs, the continued adoption of the UKLW pay supplement will increase employer pension and National Insurance contributions. It is also important to note that whilst the UKLW is focused on gross hourly pay, the Council does also offer additional benefits to support our employees, most notably:-
- A defined benefit pension scheme.
 - Generous sick pay entitlement.
 - Generous holiday entitlement.
 - Childcare voucher scheme offering significant tax/national Insurance reductions.
 - Enhanced payments for weekend, Bank Holiday and night working.
- 5.4 The Council's Financial Strategy has projected a funding gap of approximately £5 million over the period from 2017/18 to 2019/20. Members will therefore

be required to again consider the impact on future budgets of continuing with the Living Wage pay supplement.

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

- 5.5 As indicated in paragraph's 3.6 and 3.7 above, the National Employers are considering the impact of the new NLW in terms of affordability, pay differentials and restructuring of the national pay spine and this has started to be addressed through the two year national pay award with higher increases to the bottom of the pay spine.
- 5.6 Despite the national pay award adding an extra £900 per annum to spinal column points 6 to 10 (an increase of 6.5%) and an extra £300 per annum on spinal column points 11 and 12 (an increase of 2%) the table below shows that salary Scales 1A, B and C will still be lower than the new UKLW hourly rate of £8.45; as will spinal column points 11, 12 and 13 of salary Scale 2.

GRADE	SPINAL COLUMN POINT	HOURLY RATE	ANNUAL PAY
Scale 1A	6	£7.52	£14,514
Scale 1B	6	£7.52	£14,514
	7	£7.58	£14,615
	8	£7.66	£14,771
Scale 1C	8	£7.66	£14,771
	9	£7.76	£14,975
	10	£7.90	£15,238
Scale 2	11	£8.04	£15,507
	12	£8.20	£15,823
	13	£8.39	£16,191

- 5.7 To increase the Living Wage allowance to £8.45 per hour would therefore have a significant impact on pay differentials as it overlaps with Scale 2.
- 5.8 National pay rates with effect from 1 April 2017 agreed as part of the two year national pay settlement will be as follows:-

GRADE	SPINAL COLUMN POINT	HOURLY RATE	ANNUAL PAY
Scale 1A	6	£7.78	£15,014
Scale 1B	7	£7.83	£15,115
Scale 1C	8	£7.90	£15,246
Scale 1C	9	£7.97	£15,375

GRADE	SPINAL COLUMN POINT	HOURLY RATE	ANNUAL PAY
Scale 1C	10	£8.09	£15,613
Scale 2	11	£8.19	£15,807
Scale 2	12	£8.36	£16,123
Scale 2	13	£8.55	£16,491

- 5.9 As can be seen above, the current Living Wage supplement of £7.65 paid by the Council will be overtaken by the National Pay Award with effect from 1 April 2017 however differentials between Scales 1 and 2 will be maintained.
- 5.10 This means that should the option to retain the existing rate be agreed, whilst the cost would be low, i.e. £2,903 per annum; very few employees (approximately 33) would gain any benefit. In addition the Council will also be bound to comply with the national pay agreement rates from 1 April 2017 i.e. prior to the next Living Wage review and because a two year national pay award was agreed, it is already known that the minimum hourly rate from 1 April 2017 will be £7.78 per hour.
- 5.11 The recommended option therefore would be to increase the Living Wage supplement to a slightly higher rate of £7.85 per hour as paid by a number of other Local Authorities in the region (see paragraph 5.15). Adopting this rate would provide a further small increase in pay for those employees at the bottom of the Scale and would still maintain pay differentials with employees paid at Scale 2. In total 47 employees would be affected and the additional cost would be approximately £11, 925 in total per annum.
- 5.12 The UKLW will announce its new rate in November 2016 and the new National Living Wage rate will be announced by Central Government from 1 April 2017. These obviously will be of significance in reviewing the Council's Living Wage supplement next year.

The Benefits of Continuing to Apply the UKLW

- 5.13 There is a body of research which identifies benefits of a UKLW 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

- 5.14 In the event that the Council decided to remove the payment of the Living Wage supplement, the national pay spine, with effect from 1 April 2017 would overtake the current Living Wage allowance anyway and action would have to be taken at that point to at least increase the Living Wage supplement in line with the national pay scales. It would therefore be preferable to increase the current Living Wage supplement with effect from 1 July 2016 as proposed in paragraph 5.11. This would also enable the Council 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.

What Other Local Authorities are Doing

- 5.15 Latest figures available from May 2016 provided by the Regional Employers Organisation show that:-

Local Authority	Living Wage Hourly Rate	Average Hourly Rate for All Occupations
Leeds	£8.25 *	£12.86
York	£8.25 *	£12.24
Calderdale	£8.25 *	£12.62
Sheffield	£8.25	£12.49
Barnsley	£8.25	£11.54
Doncaster	£8.25	£11.39
North East Lincolnshire	£8.25	£11.13
Kirklees	£8.04	£12.05
Wakefield	£7.85	£11.28
Bradford	£7.85	£11.80
Rotherham	£7.85	£11.62
Ryedale	£7.85	£10.41
Harrogate	£7.85	£12.50
Scarborough	£7.65	£11.52
Hambleton	£7.65	£11.61
Hull	£7.20	£10.97
North Lincolnshire	£7.20	£12.96
East Riding	£7.20	£12.50
North Yorkshire	£7.20	Figure not available
Craven	£7.20	£11.25
Selby	£7.20	£13.44
Richmond	£7.20	£11.87

* Accredited to the Living Wage Foundation and therefore duty bound to pay the UKLW rate and likely to increase the November 2016 rate of £8.45 per hour.

- 5.16 Nationally, 153 local authorities have implemented the UKLW but only 34 are accredited to the Living Wage Foundation. The Employers Organisation also indicate that a number of local authorities within Yorkshire and Humberside and elsewhere have not applied the UKLW increase from November 2015 and therefore are no longer categorised as UKLW employers.

The Local Government Position Nationally

- 5.17 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 UKLW and the NLW in relation to the impact on the national pay spine.

- 5.18 UNISON believe that the ultimate goal for National Minimum Wage (NMW) policy in the UK should be for the minimum wage to be raised to the level of the UKLW announced annually by the Living Wage Foundation and harmonised into a single rate across all age groups. Realistically however, the National Employers prime concern is that the national pay spine conforms to the statutory National Living Wage (NLW) and preserves pay differentials.

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 As indicated above the estimated full-year cost of the increased Living Wage to £8.45 per hour from 1 July 2016 is anticipated to be approximately £74,444 per annum. Alternatively, increasing the Living Wage supplement to a slightly higher rate of £7.85 per hour would cost approximately £9,021 more than the current position and £11,925 in total. The actual cost of any increase 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 2016 then this would be funded from the general contingency fund that was set aside in the 2016/17 budget. The ongoing cost of the proposals will also need to be built into current and future budget setting proposals.

Legal

- 6.3 It is important to stress that payment of the UKLW will be discretionary and not contractual or in pursuance of any other legal obligation. It is recommended therefore 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 supplement. It is important to stress that the UKLW 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 UKLW 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

- 6.4 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 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

- 6.5 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.



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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

Risk Matrix

Risk Ref	Date	Risk	Consequences	Mitigation	Current Risk Score	Target Score	Service Unit Manager/ Responsible Officer	Action Plan
1	July 2016	Impact on employee relations.	Negative impact on employee relations in the event that no increase in hourly rate was to be paid, plus from 1 April 2017, the national pay rates will exceed the current supplement	Payment of a supplement of £7.85 would maintain differentials and continue to maintain good employee relations by demonstrating the value the Council places on the work undertaken by its lowest paid employees.	B2	A1	DT/HRM	None
2	July 2016	Payment of the UKLW supplement at the full national rate of £8.45 would 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 2017/18 and any other subsequent review of the UKLW 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					
	4					
	3					
	2					
	1					
		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