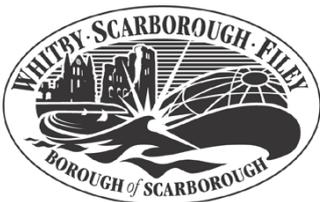


'A and K' ITEM

	REPORT TO CABINET TO BE HELD ON 12 DECEMBER 2017
	Key Decision YES Forward Plan Ref No 19
Corporate Aims People/Place/Prosperity/Council	Cabinet Portfolio Holder Cllr Turner

REPORT OF: CHIEF EXECUTIVE – 17/268

WARDS AFFECTED: ALL

SUBJECT: THE LIVING WAGE – ANNUAL REVIEW

RECOMMENDATION (S):

Decide whether to continue with the Living Wage pay supplement and if so to; consider at which hourly rate, the criteria when it is applied and the effective date, noting the issues raised in this report paying particular attention to the budget implications of any decision.

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.

HIGHLIGHTED RISKS:

Increasing the UK Living Wage pay supplement will impact on the Council's pay differentials. Given the ongoing national pay negotiations/the review of the local government pay spine and the implications of the impending autumn statement there remain a number of unknown factors which it is anticipated will have a significant impact on the future of local government pay. Failure to continue with the UK Living Wage pay supplement could however have a negative impact on employee relations.

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.
- 1.2 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 £8.75 per hour and is reviewed in November of each year.
- 1.3 The ‘National Living Wage’ (NLW) which was introduced with effect 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.	£7.05	Recommended by the Low Pay Commission.
	Workers aged 18 to 20	£5.60	
	Workers under the age of 18	£4.05	
National Living Wage (NLW) (Statutory)	Workers over 25	£7.50	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 around £8.75 per hour by 2020.
UK Living Wage (UKLW) (Living Wage Foundation)	All workers (higher rate for London)	£8.75	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. The UKLW was increased from £8.45 on 6 November 2017.
Current Council Living Wage (Pay Supplement)	All qualifying employees	£7.85	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 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.

2. CORPORATE AIMS

- 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 The Council implemented the UKLW with retrospective effect from 1 July 2013 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. At the time qualifying employees had to complete twelve weeks continuous service before they were eligible to receive the pay supplement and this criteria has been applied ever since.
- 3.2 As part of the implementation of the Living Wage pay supplement the Council also gave a commitment to undertake an annual review in relation to its continued payment. The outcome of the first review was that the pay supplement should continue and that the hourly rate be increased to £7.65 with effect from 1 July 2014.
- 3.3 The 2015 review again confirmed that the pay supplement should continue but 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 should remain at £7.65 per hour.
- 3.4 The review carried out in 2016 gave consideration to the affordability of increasing the rate in line with the UKLW. It was recognised that such an increase would have an impact on pay differentials and result in a significant increase in cost. In addition, at the time the National Employers had also started working with the Trade Unions to find a way that fairly and affordably met the longer term objective of the NLW to achieve the Government's earnings target, with a view to restructuring the national pay spine.
- 3.5 Consideration was also given to the fact that the £7.65 per hour rate paid by the Council would also be overtaken by the 1 April 2017 national pay award (minimum spinal column point £7.78 per hour). Taking all of this into account, rather than increasing the Living Wage pay supplement to £7.78 per hour Members decided to increase it to £7.85 per hour which was consistent with what a number of other Council's in the region were paying. This decision resulted in the lowest paid Council staff receiving an hourly rate, slightly above the statutory minimum, that the the Council could afford but also protected pay differentials in light of the outcome of the ongoing national pay negotiations. This also enabled 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.

- 3.6 Over the last few months the National Employers have been in discussions with Trade Unions in an attempt to develop a revised national pay spine that would be legally compliant with the NLW, future proofed to absorb yearly increases in the NLW rate, maintain pay differentials and would not create equal pay issues.

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 As the Council's hourly rate for spinal column point 8 is £7.90 per hour, (i.e. just above the Council's current Living Wage rate) only employees on spinal column points 6 and 7 currently receive the pay supplement. As a result the the cost to the Council of maintaining the Living Wage at £7.85 per hour is therefore minimal (less than £1,000 per annum).
- 5.3 In November 2016 the UKLW was increased from £8.25 to £8.45 per hour, an increase of 2.4%. From the 6 November 2017 the UKLW was increased to £8.75 per hour, a further increase of 3.5%. Therefore, based on a full-time employee working 37 hours per week, the new UKLW would be £16,881 per annum.
- 5.4 Adopting a Living Wage of £8.75 from 6 November 2017 would extend the staff eligible to receive the pay supplement to employees paid at the bottom spinal column point of Scale 3. This would therefore result in a large increase in the number of employees receiving the pay supplement i.e. approximately 165 from 22 at the present level.
- 5.5 The cost of adopting a Living Wage of £8.75 per hour from 6 November 2017 would be approximately £104,000 per annum. **The Council currently has no budget to pay for such costs and therefore additional funding would need to found.** In addition to the increase in basic salary costs, the continued adoption of the UKLW pay supplement increases employer pension and National Insurance contributions and these have been taken into account

in the above cost. 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.

5.6 The Council's Financial Strategy has projected a funding gap of over £5 million over the period from 2018/19 to 2020/21. Members will therefore be required to consider the impact on future budgets of increasing the Living Wage pay supplement and this, combined with the current situation in relation to the national pay spine, will obviously be of significance in reviewing the Council's Living Wage supplement next year.

The Local Government Position Nationally

5.7 The national pay negotiations continue to be ongoing and 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.

5.8 At a regional pay briefing in July 2017 feedback was received as to the current position in relation to the national pay negotiations, the outcomes achieved and the strategic issues facing authorities. The key points of note are as follows:-

- A two year pay deal was the preferred option for National Employers as three years was felt to be too long as it was difficult to predict what would happen nationally with the NLW, Elections, Brexit etc.
- Although Trade Unions indicated they wanted a one year deal National Employers have made it clear that this would not give sufficient time to agree and implement a revised pay spine.
- National Employers are looking to make a pay offer in September 2017 and are currently trying to establish where to pitch the lowest pay point in light of uncertainty over the NLW
- It is anticipated that the NLW will be around £8.75 per hour by 2020 which is slightly lower than original estimates and if so then this would be a 12.5% increase on current bottom point of £7.78.
- 1% was unlikely to be accepted as Trade Unions wanted 5% on all spinal column points and also to delete points 6 to 9.
- The Fire Service have been offered a four year deal with a 2% pay increase in the first year however the Trade Union feel that this is "inadequate" .

- There has also been recent talk at Government level regarding ending the 1% public sector pay freeze and in addition inflation is at 2.9% and there is political uncertainty as to who will be in Government.

- 5.9 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.
- 5.10 As indicated above, the National Employers started to address the impact of this NLW in terms of affordability, pay differentials and restructuring of the national pay spine through the 2016/17 and 2017/18 pay awards which resulted in higher increases being made to the bottom of the national pay spine. The new NLW rate will also be announced by Central Government from 1 April 2018.
- 5.11 It is anticipated that national employers will make a pay offer in December 2017 which is likely to cover the next two years and take into account the need to reflect the NLW and retain pay differentials. As a consequence therefore these proposals could be quite costly for authorities. At the time of writing this report the outcome of the autumn statement was not known however as it is anticipated that it will also have an impact on the future of local government pay and therefore the content of this will also need to be taken into consideration.

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

- 5.12 National pay rates with effect from 1 April 2017 agreed as part of the two year national pay settlement are 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
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
Scale 3	14	£8.69	£16781

- 5.13 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. Increasing the rate further to £8.75 per hour will extend the overlap into Scale 3 and as a result further impact on pay differentials.

5.14 As outlined previously if the Council wishes to apply the UKLW rate from 6 November 2017 it will result in an additional cost of approximately £104,000 per annum. As indicated making such a change would mean that staff currently paid at spinal column points 6 to 14 would receive the same hourly rate and this may therefore create difficulties for example where a Scale 3 employee is required to undertake first line supervision for someone paid the same as them. In order to address this, pay differentials could however be adjusted in line with the Living Wage increase although this would be extremely expensive:-

- If the Council were to adjust the pay of all staff by the same % as the UKLW increase then this would amount to an approximate annual cost of between £938,000 and £1.7 million per annum (between a 6.8% and 12.4% increase), depending on how the bottom of the pay spine was structured*.
- Alternatively adjusting the pay for all staff by the same monetary value as that of the UKLW increase would amount to an approximate annual cost of between £654,000 and £1.14 million per annum (between a 4.75% and 8.2% increase), depending on how the bottom of the pay spine was structured*.

**Please note that a number of assumptions have been made in relation to the exact number of staff that would be eligible at the time of implementation and the likely pension, National Insurance etc. costs that would be payable.*

5.15 To adjust pay differentials as outlined above would potentially mean that the Council would in effect have moved away from the national pay spine to a local one. As a consequence this would be a significant change to implement and require a new pay strategy to be developed, consulted/agreed on with Trade Unions and the workforce and implemented. Furthermore going forward the Council would not then be bound to apply future national pay agreements and instead be expected to negotiate and agree these separately. Such a change to pay negotiations would therefore require additional capacity/skills to be in place. Alternatively the possibility of paying the increases as a pay supplement could be considered however administratively this would also require significant resources.

5.16 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 between 2.5% and 3.5%, then this would put further significant pressure on the Council's existing grading structure as it would continue to overlap with Scale 3 rates and Scale 4 rates in the longer term. The impact of this could therefore have the potential to significantly distort the pay and grading arrangements in the future and compromise the current job evaluation process. This will also have a significant impact on the Council in terms of affordability in an already challenging economic climate. Any changes to the wider pay scales also do not take into account what may happen nationally in terms of the national pay spine or what the autumn statement may bring and this information is critical as the national proposal may address many of the

issues around accommodating future Living Wage payments and maintaining pay differentials.

Criteria for Payment

- 5.17 As outlined above the pay supplement is currently applied once an employee has worked for the Council for twelve consecutive weeks. As a high number of the staff eligible to receive the Living Wage are employed on seasonal basis (approximately 60 staff) this has a significant impact on this staff group. Although there is a statutory requirement to pay these staff the NLW from their first day of employment there is no reason why they should not receive the Council's Living wage rate from day one of employment and it is requested that consideration be given to this.
- 5.18 In the past where the Living Wage pay supplement has been increased it has been retrospectively applied from 1 July of the relevant year (this date is based on the month when the payment was initially introduced by the Council). Due to this timetable annual reviews have therefore been out of sync of with when the UKLW rate is announced in November each year and the Council's budget setting process, which is finalised in February each year. Consideration as to when the Living Wage should be reviewed and effective from each year so that it takes into account current national rates and can be more effectively be incorporated into the budget setting process is therefore requested.

The Benefits of Continuing to Apply the UKLW

- 5.19 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

- 5.20 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 is already higher than the NLW. Retaining the payment at the current rate would therefore enable the Council to continue 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.

- 5.21 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 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. The impact on pay differentials will therefore need to be closely monitored to see if there are any recruitment and retention issues that need to be addressed.

What Other Local Authorities are Doing

- 5.22 Latest figures available from November 2016 provided by the Regional Employers Organisation show that:-

Local Authority	Living Wage Hourly Rate
York	£8.45*
Calderdale	£8.45*
Barnsley	£8.45
Doncaster	£8.45
North East Lincolnshire	£8.45
Sheffield	£8.25
Harrogate	£8.25
Leeds	£8.25
Kirklees	£8.04
Wakefield	£7.85
Bradford	£7.85
Rotherham	£7.85
Ryedale	£7.85
Scarborough	£7.85
Hambleton	£7.65
Hull	£7.50
North Lincolnshire	£7.50
East Riding	£7.50
North Yorkshire	£7.50
Craven	£7.50
Selby	£7.50
Richmond	£7.50

* 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 to £8.75 per hour.

- 5.23 Nationally, 153 local authorities have implemented the UKLW but only 38 are accredited to the Living Wage Foundation.

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 financial implications are mainly contained in the body of the report. 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 is 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, i.e. 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.

Communications

- 6.5 Changes to current arrangements will be communicated within and outside of the Council. In relation to internal communication staff should be made aware of the reasons for any changes and the impact on them personally. Communication should however make it clear that Living Wage payments are

subject to annual review and be careful not to set any unrealistic expectations about future payments.

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

Author: Elaine Blades, Human Resources Manager
Telephone No: 01723 383560
E-mail address: elaine.blades@cscarborough.gov.uk

Background Papers:
None.

IF YOU HAVE ANY QUERIES ABOUT THIS REPORT OR WISH TO INSPECT ANY OF THE BACKGROUND PAPERS, PLEASE CONTACT THE AUTHOR.

Risk Matrix

Risk Ref	Date	Risk	Consequences	Mitigation	Current Risk Score	Target Score	Service Unit Manager/ Responsible Officer	Action Plan
1	November 2017	Impact on employee relations.	Potential negative impact on employee relations in the event that no further increase in hourly rate was to be paid. Also potential detrimental impact should rate be increased and staff in higher graded posts paid the same as colleagues below them.	If the current rate is retained, payment of a supplement of £7.85 per hour is already above the statutory NLW rate and therefore enables the Council to maintain pay differentials and demonstrate the value the Council places on the work undertaken by its lowest paid employees. If the rate is increased then communication with the workforce as to the reason for this will need to be effectively managed to reduce employee relations issues being raised.	B2	A1	DT/HRM	None

Risk Ref	Date	Risk	Consequences	Mitigation	Current Risk Score	Target Score	Service Unit Manager/ Responsible Officer	Action Plan
2	November 2017	Payment of the UKLW pay supplement at the full rate of £8.75 per hour would distort the Council's pay and grading arrangements.	This will increase Council costs and and therefore additional funding will need to be obtained. 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 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 considered as part of the 2018/19 and any other subsequent reviews of the Living Wage pay supplement. In addition consideration will also be given to the impact of the autumn statement and the outcome of the national pay negotiations.	C2	B2	DT/HRM	None

Risk Ref	Date	Risk	Consequences	Mitigation	Current Risk Score	Target Score	Service Unit Manager/ Responsible Officer	Action Plan
3	November 2017	The outcome of the national pay negotiations and autumn statement is not yet known	The national pay negotiations and review of the local government pay continue to be ongoing and it is anticipated that it will result in fundamental changes being made and potentially significant costs. In addition the autumn statement is also likely to influence the national pay debate. This information is critical as it may address many of the issues around accommodating future Living Wage payments and maintaining pay differentials in the longer term.	The aim of the national pay negotiations is to ensure that the national pay spine continues to be legally compliant with the NLW, future proofed to absorb yearly increases in the NLW rate, maintain pay differentials and not create equal pay issues. The outcome of the negotiations and the autumn statement therefore need to be closely monitored and the impact of these on the payment of the Living Wage pay supplement considered as part of any future reviews.	D4	B2	DT/HRM	None

Risk Ref	Date	Risk	Consequences	Mitigation	Current Risk Score	Target Score	Service Unit Manager/ Responsible Officer	Action Plan
4	November 2017	Increasing pay for all staff in order to retain pay differentials which will result in a new pay structure which is unaffordable.	This will significantly increase Council costs and therefore additional funding will need to be obtained. As this will require a local pay structure to be put in place there will be a potentially lengthy consultation process to complete before anything can be implemented. There is also the risk that in the absence of the outcome of the national pay negotiations/autumn statement being known that such a change may be premature. In addition to move away from national pay bargaining would also require adequate appropriate resources to be allocated to manage the process in house.	In order to make such changes the Council would need to find appropriate funding for the current and coming years. The Council will also need to work with Trade Unions to reach a local agreement to moving away from the national pay structure to a local one. In the future the Council will also need to ensure that the necessary skills and capacity is in place to conduct local pay negotiations each year.	D4	B2	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
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