

Agenda item:

Title of meeting: Employment Committee

Date of meeting: 15th December 2015

Subject: Living Wage

Report by: Director of HR, Legal and Procurement

Wards affected: None

Key decision: No

Full Council decision: No

1. Purpose of report

- 1.1 The purpose of this report is to provide the Employment Committee with an update following the implementation of a Living Wage in November 2014 for employees of the council and to seek Members' approval on how to proceed with the Living Wage in the future following the introduction of the National Living Wage and to update on the changes to the Living Wage Foundation rate.

2. Recommendations

It is recommended that the Employment Committee:

- i) Notes the ongoing progress made to the implementation of the Living Wage, particularly with regards to schools.
- ii) Give consideration to the options below and give Officers a clear indication of which option they wish to adopt:
 - 1. Continue to match the Living Wage Foundation rate as a non-consolidated payment (including for under 25's), thus increasing the rate to £8.25 with effect from 1 April 2016
 - 2. Cease to pay the Living Wage Foundation rate and instead pay the National Living Wage rate (including for under 25's), reducing the payment to £7.20 with effect from 1 April 2016
 - 3. Freeze the current Living Wage rate at £7.85 and allow the National Living Wage rate to catch up (including for under 25's), therefore neither increasing nor decreasing the current rate.

3. Background

- 3.1 In June 2015 Members agreed to monitor the impact of the Living Wage Allowance and that a report be presented to Employment Committee (following Living Wage week in November 2015), with the purpose of providing further information and recommendations as to the continuation of the Living Wage Allowance.
- 3.2 As part of the Government's summer budget it was announced in July 2015 that there will be a new compulsory minimum wage premium, known as the National Living Wage, for all workers aged 25 and over. It is being phased in from 1st April 2016 at £7.20 per hour with a projected aim of reaching 60% median UK earnings which is anticipated to be at least £9.00 per hour by 1st April 2020. It will also need to be applied to any contractual payments for permanent staff, such as overtime. The National Minimum Wage will remain in place for workers aged 25 years and under.
- 3.3 The National Living Wage rate is separate to the Foundation Living Wage rate, which increased on 1st November 2015 from £7.85 to £8.25 per hour.

4. Implementation of Living Wage in Schools

- 4.1 With effect from 1 October 2015, 38 (83%) of maintained schools have implemented the Living Wage rate of £7.85. There is, however, a concern that whilst the National Living Wage rate means that schools will have to pay at least £7.20, that some of the schools currently paying the higher rate of £7.85 may no longer wish to pay the Foundation Living Wage rate.
- 4.2 Schools are now considering whether to reduce these payments to the National Living Wage rate or retain the current Foundation rate of £7.85 as they have a concern over affordability of increasing the rate to £8.25. Indications from a number of schools are that they are looking to retain the current Living Wage rate of £7.85 and not apply an increase.
- 4.3 Officers are continuing to work with schools to discourage any reduction to the rate as far as possible. So far 5 schools have indicated that from April 2016 they will only pay the National Living Wage rate. Members have previously been advised of the risks associated with schools choosing to adopt different pay rates to the rest of the Council.

5. The table below outlines the pros, cons and costs of each option.

Options	Pros	Cons	Estimated Costs for 16/17
1. Continue to match the Living Wage Foundation rate as a non-consolidated payment (including	This meets the policy aim of the Living Wage, i.e. raising people out of poverty.	There is a significant cost to both the Council and to schools.	Council: £111,600 (gross) and £139,500 including on costs.

for under 25's), thus increasing the rate to £8.25 with effect from 1 April 2016		This option may result in schools opting to pay different rates based on affordability and may create different rates paid across the authority as a whole, increasing the equal pay risks.	Schools: £364,900 (gross) and £456,100 including on costs.
2. Cease to pay the Living Wage Foundation rate and instead pay the National Living Wage rate (including for under 25's), reducing the payment to £7.20 with effect from 1 April 2016	<p>This enables the council to make a saving on the current amount paid and means that there will only be one rate across the whole authority and thus reducing equal pay risks.</p> <p>This option will also be administratively simpler as there would no longer be an additional allowance on top of consolidated pay.</p>	<p>This would result in a reduction to the salaries of those that need it most. It goes against the ethos of the Living Wage Foundation by potentially putting employees back into poverty as a result of the rate reduction.</p> <p>Potential reputational impact as the Council may face criticism for this decision</p>	This will not actually be a cost as it will be a reduction on what is currently paid. For those schools who don't currently pay the Living Wage there will be additional cost to them, however as it is a statutory requirement to pay this amount the schools will have to find a way to fund this.
3. Freeze the current Living Wage rate at £7.85 and allow the National Living Wage rate to "catch up" (including for under 25's), therefore neither increasing or decreasing the current rate.	There will be no additional cost burden on the authority or schools that have already adopted the Living Wage. This reduces the risk of job losses for reasons of affordability for those who have already implemented the current rate.	<p>There will be a real term reduction in salaries as the rate won't have increased in line with the cost of living.</p> <p>There may also still be some schools that opt to pay the National Living Wage so there may still be more than one rate.</p>	<p>Council: £34,000 (gross) and £42,900 including on costs for the Council.</p> <p>Schools: £168,900 (gross) and £211,100 including on costs.</p>

6. Impact of Implementing the Living Wage Allowance

6.1 Costs for PCC

- 6.1.1 For the period of 1st November 2014 - 31st March 2015, 234 staff members received the lump sum Living Wage allowance, at a total cost of £46,400 (gross), £52,400 including on costs.

6.1.2 In October 2015, 174 staff members received the Living Wage allowance, paid as a monthly non-consolidated payment. The total cost for the month of October 2015 was £6,300 (gross) and £7,100 including on costs. This gives an estimated annual cost of £76,200 (gross) and £85,000 including on costs.

6.1.3 Since the introduction of the Living Wage any staff undertaking sleeping-in duties (within children's social care and at the Harbour school) are now paid a minimum rate when asleep of the Living Wage rate, currently £7.85. This means that the current cost per annum to the authority is £47,700 (gross) and £56,500 (including on costs). If the revised Foundation rate of £8.25 was adopted this would mean an estimated annual cost to the authority of £50,100 (gross) and £59,500 including on costs.

6.1.4 It is not within the scope of this report to address the impact of the National Living Wage on contracted services, but significant cost pressures are expected in areas, such as Adult Social Care, where there are large numbers of low paid staff employed by external providers.

6.1.5 **Estimated cost of casual workers/Internal agency workers**

Members' decision to implement the Living Wage did not include casual workers and those employed through the Internal Agency, whose employment relationship with the council is different to other staff. However, these staff will be covered by the National Living Wage. It is difficult to accurately forecast the cost of casual workers and internal agency workers as their usage fluctuates throughout the year. However some basic cost analysis has been made on the number of casual and agency workers that undertook assignments in October 2015. Using the October figures (including schools) the additional cost of these workers being paid the National Living Wage rate is £2,000 (gross) and £2,500 including on costs. This gives an estimated annual cost of £23,800 (gross) and £29,700 including on costs.

6.2 **Costs for Schools**

6.2.1 In October 2015, 757 schools staff members received the Living Wage allowance, paid as a monthly non-consolidated payment. The total cost for the month of October 2015 was £14,900 (gross) and £16,400 including on costs. This gives an estimated annual cost of £179,300 (gross) and £196,700 including on cost.

6.2.2 Appendix 1 shows the costs of the current Living Wage Allowance broken down into costs per Directorate/School and shows the type of job roles receiving the Living Wage Allowance.

6.3 **Impacts and Outcomes of Implementing the Living Wage**

6.3.1 At the time of writing the report 23 out of a total of 46 schools had confirmed that they would retain the current Living Wage rate of £7.85 for their staff. 16 schools did not respond.

- 6.3.2 If schools can't afford the increase to the Living Wage Foundation rate and Members elect to adopt this, the authority may end up with three different pay levels for Living Wage. Schools yet to adopt any rate may only opt for the lower National Living Wage of £7.20, schools who are currently paying the higher rate of £7.85 may not wish to increase this so may adopt to either reduce the rate to the National rate or may choose to retain the current rate and the Authority will be paying the Foundation rate of £8.25. This situation, if it arises, would not be satisfactory in terms of the council's overall pay structure.
- 6.3.3 At the time of writing, neither the schools nor the trade unions have provided any evidence (anecdotal or otherwise) regarding any issues since the introduction of the Living Wage.
- The erosion of any pay differentials and their impact upon retention have not yet become an issue, but officers will continue to monitor this.
 - No issues have been raised directly from staff or unions regarding any impact on benefits as a result of the Living Wage, but officers will continue to monitor this.

7. Future Actions

- 7.1 Members should note that, whilst the National Living Wage will have only a limited impact on the Council's existing pay scale (as it corresponds approximately with the lowest 2 points of the scale), this impact will increase each year up to 2020. By that stage, it is estimated that the NLW will equate to approximately band 5 within the pay scale, thereby embracing a large number of posts. It is likely that the pay structure will need to be reviewed in order to properly allow for this impact. A further report will be provided to Employment Committee in due course to recommend an approach to this.
- 7.2 The LGA is still reviewing the current state of national bargaining and considering if it is appropriate to remove the bottom salary scale points to ensure that all staff are paid the Living Wage rate through the NJC National pay agreements. With effect from 1st October 2015 SCP5 has been removed from the pay scale. This matter is still being considered and further guidance from the LGA is awaited.

8. Equality impact assessment (EIA)

An Equality Impact Assessment has been completed for this report.

9. Legal comments

Extensive legal advice was provided to members at the time of the original decision to implement the Living Wage. This is reproduced at Appendix 2 for members' information.

10. Director of finance's comments

- 10.1 The relevant financial implications are contained within the body of the report and appendices. In addition system reconfiguration costs of the payroll module is estimated at £3,000.
- 10.2 As commented in previous reports, the Living Wage Allowance is paid as a supplement/allowance and any increase in costs will need to be funded from existing approved budgets.

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Signed by:

Appendices:

Appendix 1: Cost Analysis by Directorate/School and types of roles receiving Living Wage
Appendix 2: Exempt Legal Comments

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	Location

The recommendation(s) set out above were approved/ approved as amended/ deferred/
rejected by on

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Signed by: