

Summary Sheet

Council Report

Council – 8 March 2017

Title

Living Wage 2017

Is this a Key Decision and has it been included on the Forward Plan?

No

Officer Approving Submission of the Report

Head of Human Resources – Sue Palfreyman

Ward(s) Affected

All

Executive Summary

This report sets out the implications of increasing the Council's Living Wage rate from the current level of £7.93 to the new Living Wage Foundation rate of £8.45 per hour from April 2017.

Recommendations

Council is asked to agree an increase in the Council's Living Wage rate to £8.45 from 1st April 2017 and commit to annual review to consider budget position and grading risks.

List of Appendices Included

Appendix 1 Cost summary by Service

Background Papers

The Rowntree Foundation National Living Wage 2015
Hutton Review of Fair Pay in the Public Sector: Final Report March 2011
Previous Staffing Committee Reports
Local Government Transparency Code 2015

Consideration by any other Council Committee, Scrutiny or Advisory Panel

None

Council Approval Required

Yes

Exempt from the Press and Public

No

Living Wage 2017

1. Recommendations

- 1.1 Council is recommended to agree an increase in the Council's Living Wage rate to £8.45 from 1st April 2017 and commit to annual review to consider budget position and grading risks.

2. Background

2.1 The Living Wage Foundation UK Living Wage

- 2.1.1 Over recent years, the Living Wage Foundation UK Living Wage (UKLW) has gained increasing prominence in the context of pay at a national level. The UKLW is not legally enforceable but provides a pay benchmark which is calculated by the Centre for Research in Social Policy at Loughborough University.
- 2.1.2 The UKLW is reviewed annually and was increased on the 1st November from £8.25 per hour (outside of London) to £8.45. Research by the Living Wage Foundation has found that not only does the UKLW help support those on the lowest pay but also improves the motivation, loyalty, productivity and retention of employees. The Local Government Association (LGA) supports this position and has noted that almost half of Local Authorities in England and Wales have adopted some form of Living Wage.

2.2 Rotherham Council's Living Wage

- 2.2.1 The Council introduced the Living Wage on 1st October 2014. The rate adopted at that time was the UKLW rate of £7.65. It was agreed that future increases would not follow the UKLW but would be aligned with the NJC pay award to create a Local Living Wage for Rotherham.
- 2.2.2 In order to preserve the integrity of the job evaluated pay and grading structure it was agreed that the Rotherham Living Wage would be achieved by payment of a supplement to raise the employee's pay to the Rotherham Living Wage level. A collective agreement was reached with the Trade Unions incorporating these arrangements and provided for an annual review to align to nationally agreed JNC increases.
- 2.2.3 The Council did not seek accreditation as a Living Wage employer as this would commit the Council to introducing the annual UKLW uprate within 6 months of its announcement (made in November each year). In addition accreditation would have required the Council to commit to seeking the agreement of Council contractors to introduce the UKLW for their employees.

- 2.2.4 The recommended level of UKLW in 2015 was only 3 pence more than the NJC pay rise in 2015. Therefore, the Staffing Committee agreed to adopt the UKLW rate from 1st April 2015 as opposed to the (lower) NJC generated pay level. In April 2016 the NJC 1% pay award was applied taking the Council's Living Wage rate to £7.93 per hour in line with the collective agreement reached with Trade Unions. An increase to the UKLW rate of £8.25 was put on hold pending budgetary considerations.
- 2.2.5 Currently there are around 1,280 Council employees who benefit through the increased hourly rate of the Rotherham Living Wage.
- 2.2.6 The agreement with the TU is about principle but the reality is that the Council does not have a straightforward and sustainable model for the Living Wage adopted from 2014. Whilst the supplement approach is common in Councils, it is not risk proof.
- 2.2.7 Equally, the adoption of the UKLW rate at the next uplift reinforces this. There is logic to the supervisor uplifts but, as is illustrated below, that is not sustainable. Both supplements and ad hoc variation reduce the 'rigid' relationships which are an essential element of the grading structure.

2.3 The National Living Wage

- 2.3.1 The Government decided to introduce a National Living Wage (NLW) requiring all employers to pay a minimum of £7.20 per hour to employees aged 25 or over with effect from the 1st April 2016. As indicated above, the Council's current Living Wage rate is £7.93 and therefore in excess of the NLW introduced on 1st April 2016.
- 2.3.2 In making the announcement, the Chancellor stated that his aim was that the NLW would rise to match 60% of median earnings by 2020 – predicted then to be £9.20 an hour by 2020. Slower wage growth has now led to this being revised to £9.00 an hour and that slowdown is reflected in the current year's NLW rise.
- 2.3.3 The LGA have supported the introduction of a NLW because 95% of Council employees already receive more than £7.20 per hour. However, they have warned that it risks destabilising the care provider market by adding a significant contract cost to the social care system which is not fully funded by Central Government and which unlike the UKLW is not optional.

3. Key Issues

3.1 Paybill Impact

- 3.1.1 The adoption of the most recently announced UKLW rate at £8.45 would add **a further £510k** to the paybill for 2017/18. This has been accounted for in the 2017/18 budget setting.

3.2 Grading Structure Impact

- 3.2.1 The adoption of £8.45 an hour from April 2017 will have a significant impact on the Council's grading structure. It would be set well above the current level paid to supervisors of the employees who would be paid the UKLW. To provide any differential **and remain within the current banding structure** these supervisors would need to be paid £8.54 i.e. a 9 pence differential. This would increase the cost from £499k to £510k.
- 3.2.2 If the Council commits to the UKLW and implements any rise for 2018/19 it will no longer be possible to adjust within band. This will create very significant problems for the Council in operating its grading structure – in effect, as a minimum it would have to make substantial changes to the lower half of the grading structure but in reality it will have to create a new grading structure.

3.3 Equal Pay

- 3.3.1 The expected growth in UKLW over the next 3 years also has the potential to create a **real and significant equal pay issue** both in the Council and in schools. If the supplements move employees into other grade bands, but with no evaluated justification for this, there is a basis for an equal pay claim.

3.4 Impact in Schools

- 3.4.1 There are 2 significant issues for schools arising from adoption of UKLW. First, the increase in rates for the lowest paid Council employees (caterers, cleaners etc.) who provide services to schools will impact on the schools budget. When the UKLW was originally adopted and prices increased in April 12 schools cancelled contracts and traded services lost £1.1m contract income. It is highly likely that this will happen again if UKLW is adopted.
- 3.4.2 20% of services provided to schools are done through PFI contracts which currently cap any increase to under 2% restricting the amount that can be passed on to recoup the costs of the UKLW. In total schools make up almost 75% of Catering and Cleaning's income and contract prices would need to rise by at least 13% to recover the cost of the UKLW.
- 3.4.3 The second issue is potentially even more significant. Based on current predictions rises in UKLW will impact on the teaching assistant grade in schools, which begin at scp 13 in the next 2 years. Once this moves UKLW into Band D teaching assistants would be included in the issues and this will be hugely significant for schools (864 in 49 LEA schools).

3.5 Impact on Contractors

- 3.5.1 If the Council formally adopts UKLW it will be under an obligation to urge its contractors to adopt the UKLW. This is not something that can be imposed but the Foundation would look to evidence that the Council was doing so, an element of which could be whether they are increasing the funding available to support this.
- 3.5.2 There is already empirical evidence that the impact of the NLW is reducing the market in private social care provision – the UKLW would have an even greater impact.

3.6 Other implications

- 3.6.1 Local Government is facing the challenge of having to increase the bottom pay point by potentially 32% by 2020 to achieve the Government's target for low pay to reach 60% of median earnings. The bottom loaded pay offer was constructed in a way that supports the longer term target of restructuring the national pay spine.
- 3.6.2 In reality this is not a problem simply for local government or even the public sector. The unstated implication of the government's policy is that employers will need to rethink pay strategies and on the assumption they are not simply encouraging greater cost rebalancing them.
- 3.6.3 In the case of the local government this must inevitably mean thinking long and hard about the viability of national pay bargaining and to do that in the context of devolution and greater public sector integration.
- 3.6.4 In the meantime, National Employers has asked Trade Unions to work with them to find a way that fairly and affordably meets the Government's objective. However, previous indications are that the TUs are reluctant to engage on the issue and there is a real possibility that the national pay bargaining framework will fragment.
- 3.6.5 In addressing the grading structure issues the Council will need to have regard to the direction of national discussions. Any future national solution could have a further significant impact on the Councils solution.
- 3.6.6 This report has focussed on the employees and their immediate supervisors who are affected by the UKLW. However, if the Council continues to make ad hoc adjustments to accommodate the rises it will reach a position by 2019 in which the Band D supervisors of the Band B supervisors are also drawn into the issue and so on.

3.6.7 It would be proposed to pass on costs where services are traded. However it should be noted that as stated in para 3.4.2 that a significant element of the cost will not be able to be recouped due to the capping of price increases on the PFI contracts.

4. Options considered and recommended proposal

- 4.1 In line with the Collective Agreement reached with Trade Unions apply the 2018 NJC pay award to the current hourly rate of £7.93.
- 4.2 Implement the UKLW from 1 Apr 17 and commit to annual review to consider budget position and grading risks

5. Consultation

- 5.1 Advisory Cabinet Members supported the payment of the Living Wage at Budget Working Group on 31st January 2017

6. Timetable and Accountability for Implementing this Decision

- 6.1 Approval of decisions will be taken to the meeting of full Council scheduled to take place on the 8th March 2017

7. Financial and Procurement Implications

- 7.1 The adoption of £8.45 an hour from April 2017 will add £510k to workforce staffing costs. These costs have already been accounted for in the 2017/18 budget.

8. Legal Implications

- 8.1 The Living Wage Foundation wage rate is a voluntary measure, the Council's adoption of it is governed locally by a collective agreement with the Trade Unions. The National Living Wage is governed by statute and whilst the Council already pays eligible employees above this rate, the Council's contractors will be required by law to pay it.

9. Human Resources Implications

- 9.1 An appropriately rewarded workforce motivates employees and meets standards of fairness and equality required by employment legislation.

10. Implications for Children and Young People

- 10.1 Employees working in Children's and Young People's Services will be covered by the Living Wage.

11 Equalities and Human Rights Implications

- 11.1 Fair pay structures are a requirement of employment and equalities legislation.

12. Implications for Partners and Other Directorates

12.1 The Living Wage applies to employees across the Council.

13. Risks and Mitigation

13.1 The Council's pay structure is based on job evaluation principles to mitigate against claims of unfairness and equal pay challenges. The Living Wage is achieved by paying a supplement to NJC pay rates to avoid compromising job evaluation values.

14 Accountable Officer(s)

Chief Executive Sharon Kemp.

Report author(s):

Ian Henderson Principal HR Officer 1st February 2017

Directorate: Assistant Chief Executive's

Tel and email contact: 01709 822467 ian.henderson@rotherham.gov.uk

Approvals Obtained from:-

Chief Executive – Sharon Kemp

Assistant Director of Legal Services:- Dermot Pearson

This report is published on the Council's website or can be found at:-

<http://moderngov.rotherham.gov.uk/ieDocHome.aspx?Categories=>

Appendix 1

Additional cost estimate for £8.45 rate in 2017

Directorate name	Section	Cost
Adult Care & Housing	Adult Community Services	£5,625
Adult Care & Housing	Adult Residential Services	£20,383
Adult Care & Housing	Contact & Enablement	£2,318
Adult Care & Housing	Learning Disability Services	£583
Adult Care & Housing	Housing & Estates Services	£291
Assistant Chief Executive's	Townhall & Member Support	£932
Children and Young Peoples Services	Performance & Planning	£1,078
Children and Young Peoples Services	North Locality	£1,076
Children and Young Peoples Services	School Effectiveness Service	£2,552
Finance & Customer Services	Information Management	£2,156
Regeneration & Environment	Highways Network	£2,058
Regeneration & Environment	Street Scene	£28,765
Regeneration & Environment	Leisure Sport & Tourism	£13,049
Regeneration & Environment	Catering & Facilities Services	£409,988
Regeneration & Environment	Economic Development & Business Support	£7,366
Total		£498,520