

ROTHERHAM BOROUGH COUNCIL – REPORT TO CABINET

1	Meeting:	Cabinet
2	Date:	16th October, 2013
3	Title:	Living Wage
4	Directorate:	Resources

5. Summary

The purpose of this report is to provide Cabinet with information about the Living Wage, including the implications were Rotherham to consider adopting it.

The risks associated with adoption of the Living Wage can be summarised as follows:

- Significant increases in direct employment costs
- Implications for the Council's pay and grading structure
- Potential Equal Pay implications
- Could make Council services uncompetitive or Increased costs of contracted out services (if contractors required to pay the Living Wage)

These risks are expanded upon in the body of this report.

6. Recommendations

Cabinet are asked to:

6.1 Note the content of this report.

6.2 Continue to aspire to the Living Wage and review the Council's position each year as part of the budget setting process.

7. Proposals and Details

7.1 Background

This report expands upon and updates the information about pay, employee benefits and the Living Wage in reports presented to the Cabinet Member in September and November 2012 and Overview and Scrutiny Management Board in June 2013. It sets out the key facts and implications for Rotherham.

Until the recent pay award, the national position on public sector pay freezes has resulted in the Council's workforce not receiving a pay award since 1 April 2009 (Chief Officers since 1st April 2008 and no award this year). In addition, in respect of non-school based employees, the Council implemented a temporary pay reduction of 1.15% (equivalent to three days pay) and a two year freeze on incremental progression awarded for satisfactory performance up to a spinal column maximum commensurate with the grade of the employee. Increments were paid to eligible employees on the lowest two pay bands (A and B) in 2012 to help address the consequences of the recession on the low paid and increments for 2013 have been brought forward from July to April for all other eligible employees.

A previous report to the Cabinet Member in September 2012 set out the wide range of financial and other flexible benefits promoted by the Council to try and help employees. These include a range of tax efficient salary sacrifice schemes i.e. childcare vouchers, car parking and car leasing. In addition further benefits include additional leave purchase, access to local shop discounts and the 'Wider Wallet' initiative where pre-loaded cards used for spending on regular purchases are worth more than the value loaded onto the card (typically 5 – 7% plussage).

In this period of austerity and pay restraint, the situation in respect of relative pay levels is receiving more publicity nationally. Currently there is a significant campaign from the TUC and individual Trade Unions lobbying Councils to support a drive towards paying a Living Wage as a means of reducing the number of families living in poverty. On 20 August the national Trade Unions signalled their intention to submit a pay claim for 2014/15 which will seek the minimum rate of pay in Local Government to be based on the Living Wage and proportionate increases on all higher spinal column points to maintain pay differentials. These proposals are estimated to add between 8.5% and 15.5% to the annual pay bill (each 1% is broadly equivalent to an extra £1 million).

On 8th July the Deputy Leader arranged a visit with the Director of Human Resources and Cllr Hoddinot to the London Borough of Islington to discuss their experience of introducing the Living Wage. Given factors such as London Weightings and a significant degree of outsourcing, Islington only has 110 employees who were positively impacted upon by the Living Wage. The Council is currently working with its contractors and other employers in the Borough to encourage payment of the Living Wage.

7.2 The Living Wage

The Living Wage is currently £7.45 per hour (£8.55 in London), compared with the national minimum wage of £6.19 per hour (rising to £6.31 on 1st October 2013). It is set independently by the Centre for Research in Social Policy at Loughborough University and updated annually in November. The rate is calculated based on assumed expenditure considered the minimum for a decent standard of living on: childcare; clothing; food and drink; household goods and services; housing rent; water; electricity; gas; Council Tax; personal goods and services; social and cultural participation; and transport.

According to the Joseph Rowntree Foundation's own research information while calculating the Living Wage it should be noted that rent levels in Yorkshire & Humberside are 10 – 30% below the average rent figure used as part of the overall Living Wage calculation.

To be accredited as an official Living Wage Employer (205 employers as of 18th April 2013 from across public, private and voluntary and community sector employers, less than 1% of larger companies across the United Kingdom), an organisation must satisfy four basic criteria:

- pay all its own staff at least the Living Wage
- commit that within six months of the annual uprating of the Living Wage, its pay rates will be uprated accordingly
- demonstrate progress towards requiring any contractors it has to do the same
- have a plan in place to work with any remaining contractors to get them to pay the Living Wage

7.3 Councils paying or committed to pay the Living Wage

The number of councils in England and Wales now paying or committed to pay a living wage as of 15th February 2013 has risen to 37 (this represents 9% of all councils). Recent additions are Barking and Dagenham (who have agreed to pay £9 per hour), Calderdale, Chorley, Deal, Gloucester City, Greenwich, Harrow, Newark & Sherwood and Wolverhampton. This is in addition to Ashfield, Blackpool, *Birmingham*, Brent, *Brighton & Hove*, Calderdale, *Camden*, Cardiff, Carlisle, Chorley, Croydon, Dartford, Derby City, *Ealing*, Enfield, Hackney, *Hounslow*, Hyndburn, *Islington*, *Lambeth*, *Lewisham*, Newark & Sherwood, Newcastle, *Norwich*, *Oxford City*, *Preston*, Sheffield, *Southwark*, Swansea, Wirral, Wolverhampton and York.

Others such as Manchester Councils and Liverpool have committed to a locally determined but different rate to that proposed by the Living Wage Foundation.

Most councils are not yet signed up to the Living Wage Foundation list of Accredited Living Wage Employers (accredited LAs are shown in italics above).¹

7.4 Benchmarking and comparative data

According to KPMG one in five workers across the UK are earning below the Living Wage – 4.82 million people. Nationally there are approximately 280,000 local authority staff paid below the Living Wage and many claim tax credits, free school meals, housing benefit and/or council tax benefit. Many of the low paid council workers are women and typical council jobs which pay less than the Living Wage are school dinner staff, teaching assistants, cleaners, administrative assistants, sure-start workers, refuse staff, caretakers and school crossing patrol staff.

A recent evaluation of various comparator jobs locally is attached to this report in Tables 1 and 2 at Appendix 1. This would suggest that even allowing for other sectors not being held back by national pay restraint, the rates being paid in general at the bottom end of our pay structure still remain in excess of private sector rates.

Currently 1481 (non school) employees on the bottom three pay bands (A, B and some on C) are paid below this level in occupations such as cleaning, catering and grounds maintenance.

¹ Caerphilly County Borough Council and Selby Town have also now been accredited.

In addition there are a further 846 school based staff (such as teaching assistants) who would be affected. Table 3 in Appendix 1 shows the gender split for staff in the relevant pay bands.

Within South Yorkshire only Sheffield City Council has currently introduced the Living Wage. This has impacted on only 271 non School employees but 1641 School based employees. The total cost to the non Schools budget was £134k including on costs and to Schools budgets collectively £774k including on costs. The City Council has not sought formal accreditation as a Living Wage Employer so as not to bind itself to future uplifting. It has implemented this by way of a supplement to achieve the Living Wage in order to minimise the impact on its pay and grading structure and avoid inflating hourly rates (which would have otherwise inflated overtime claims).

Barnsley Council have signalled their intention to implement the Living Wage from 1st April 2014. This will be linked to a framework agreement with Trade Unions under which revisions to terms and conditions will be sought to offset costs. In total this would affect 359 non School employees at a cost of £270k and approximately 1060 School employees (detailed costs not yet available). Like Sheffield, Barnsley will uplift pay by means of a supplement rather than changing its grading structure.

Doncaster have stated their wish to work towards the living wage but this would only take place within the context of wider discussions on future reforms to terms and conditions of employment to offset costs. In advance of this year's national agreement to delete spinal column point 4, Doncaster Council had already agreed to delete spinal column points 4 and 5 from its pay spine.

7.5 Implications

The implications of a migration to the level of the Living Wage would be significant for our overall job evaluated pay structure and overall costs and budget pressures. Potentially additional costs could be passed on to other departments as the majority of the relevant jobs affected work in Traded Services. An indication of potential costs and benefits is outlined below.

Financial costs

It should be noted that a move to a minimum rate of £7.45 would result in an immediate cost to the Council of around £950k, adding nearly 1% to overall wage costs. An additional £1m from incremental progression (subject to satisfactory performance) would also be incurred if the Council chose to amend its grading structure rather than pay a supplement to achieve the Living Wage.

Within schools the cost implications for the 846 school based staff are in the region of £600k, plus a similar amount in incremental progression should the grading structure be amended.

A move to paying the Living Wage would also increase agency and casual employee costs as legally they have to be paid the same rate, again increasing overall wage costs.

Job evaluated pay structure

All jobs have undergone recent job evaluation which has determined where they are positioned on the overall pay and grading structure, thus there would be an impact on pay differentials and this may pose some risk of challenge in respect of equal pay.

Procurement and potential outsourcing

It may also be an unintended consequence that a move to this level of pay, where the private sector does not mirror such arrangements, could result in making outsourcing arrangements appear more attractive, resulting ultimately in less public sector jobs.

As stated in 7.2, accredited employers are required to work with their contractors through their procurement policies to encourage wider adoption of the Living Wage so that it is applicable to both in-house and contracted out staff. Whether the costs of contractors moving to the Living Wage would be borne by the contractor or the local authority would depend on the outcome of contractual negotiations. Smaller organisations may also find it harder to offer the Living Wage and this may in turn mean that some local companies find it harder to compete for contracts.

Employee benefits

Full time employees could potentially benefit from an increase of up to £46 per week, however for some employees Social Security benefits such as Working Family Tax Credit or Pensions Credit would be affected.

For employees in receipt of benefits a £4 per week increase results only in a £1 increase in 'take home pay' after tax, national insurance and consequential benefit reduction. In the case of single parents a larger gross increase of £10 per week is required for the £1 increase in 'take home pay'. It is recognised though that however small, lower paid employees on benefits will still see some increase in income.

Employer benefits

For employers there are a number of positive benefits which may offset part of the costs of implementing the Living Wage. These include increased staff morale and motivation; better quality work; lower rates of staff turnover thus reducing recruitment and training costs; lower rates of sickness and absence, and positive reputational gain. Balanced against this could be a negative impact on other staff who would see their pay differentials reduced.

Benefits to local economy

Higher incomes for workers, both in-house and contracted out staff, would be anticipated to benefit the local economy through increased spending in the Borough.

7.6 Other financial pressures

Pension reforms

- Local Government Pension Scheme (LGPS) reform from 2014 will mean an increase in employer contributions as these will in future be based on all earnings, which at 12% contribution from the Council could amount to £500k p.a.
- The reform of the state pension in 2016 will mean the end of 'contracting out' arrangements for employers operating defined benefit schemes. As the LGPS is such a scheme this will lead to a 3.4% increase on the pay bill equivalent to £3.5m p.a.
- The state pension reforms also mean the end of contracting out arrangements for employees in the LGPS and they too will face an increase of 1.4% in employee national insurance contributions.

Ongoing public sector funding pressures

Further cuts were announced for government departments in the budget on 20th March 2013 on top of those announced previously and the Comprehensive Spending Review announced on 26th June 2013 only exacerbated this situation.

7.7 Conclusion

It is not considered currently affordable to implement the Living Wage, without offset measures to restructure the current pay and reward framework. Any move to address pay levels at lower levels would likely need to be compensated by savings achieved through service changes, job reductions and/or changes to terms and conditions, this will inevitably impact on the same groups who would be expected to benefit from the Living Wage rate. The impact of future pension reforms will also augment the overall pay bill significantly.

8. Finance

There would potentially be significant financial implications from any increase in pay rates and Living Wage arrangements as set out in 7.0 above. In addition increased costs associated with changes to the Local Government Pension Scheme and the ending of contracting out arrangements for the state pension has been factored into the Medium Term Financial Strategy.

The salary sacrifice and benefit arrangements currently in place to help reduce costs to employees also contribute to reducing the operating costs in the Council. In 2011/12 these initiatives contributed to saving the Council around £120k.

9. Risks and Uncertainties

See section 7.5 in the body of this report.

A failure to introduce effective pay and rewards will impact upon the Council's ability to recruit, retain and motivate employees.

Costs arising from with the Living Wage would be likely to impact on contractual arrangements and price inflation associated with commissioning external contractors.

10. Policy and Performance Agenda Implications

Making sure no community is left behind: The gap in average earnings is reduced.

The way we do business: Right people, right skills, right place, right time; reducing bureaucracy; and getting better value for money.

11. Background Papers

Cabinet Member paper "Employee Benefits" 10 September 2012

Cabinet Member paper "Local Government Pay Issues and Living Wage" 19 November 2012

LGIU Policy Briefing "The Living Wage and Local Authorities" 14 January 2013

Overview and Scrutiny Management Board Paper "The Living Wage" 14 June 2013

Strategic Leadership Team Report "The Living Wage" 2 September 2013

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Appendix 1 Comparative Pay Data

Table 1 External Pay Data June 2013

Job Title	Annual salary	RMBC pay equivalent	Difference
Contact Centre Operative	£13k - £14k	£16,998	20% above
Security Guard (Canklow)	£13.5k	£15,598	15% above
Labourer	£13.5k	£13,725	2% above
Horticultural Technician	£12k	£15,598	25% above
Print Finishing Technician	£13.5 - £14.5k	£15,598	7% above
Customer Service Advisor	£12.5k	£16,998	35% above
Night Care Assistant (SAGA)	£12k	£16,998	40% above

Note - Jobs within 5 mile travelling distance of Rotherham on Total Jobs website 20th June 2013

Table 2 Comparative pay data June 2013

Comparator	Rate
Living Wage	£7.45 per hour
National Minimum Wage	£6.31 per hour (October 2013)
Spinal Point 4 (43 People 12.27fte)	£6.36 per hour (deleted October 2013)
Band A (Cleaners/GKA/Lengthsman)	£6.36 - £6.54 per hour
Band B (Cleaning Supervisor/Assistant Cook/SMSA)	£6.69 - £7.11 per hour
Band C (Customer Services)	£7.26 - £8.08 per hour
NHS Cleaner/Catering/Domestic	£7.34 - £7.70 per hour
South Yorkshire Police Cleaner	£7.53 - £8.58 per hour
Housekeeper (Cambian Group)	£6.50 per hour
Gala Bingo Rotherham	£6.27 per hour
Cleaner (Carlisle Managed Services)	National Minimum Wage
Recycling Operative	£6.19 - £7.00 per hour
Customer Services Advisor	£6.25 - £7.00 per hour
Customer Services Advisor (William Hill)	£7.00 per hour
Mobile Home Carer (Carewatch)	£6.50 per hour
Carer (Allied)	£6.19 - £6.30 per hour

* This is external data from advertised vacancies on the internet as at 20th June 2013

Table 3 Gender breakdown of RMBC staff who would be impacted by Living Wage

	Female	Male
Non Schools	81%	19%
Schools	92%	8%
Combined	85%	15%