

HAMPSHIRE COUNTY COUNCIL

Decision Report

Committee/Panel:	Employment in Hampshire County Council
Date:	12 March 2014
Title:	Options for applying the Living Wage
Decision Reference:	5696
Report From:	Director of Corporate Resources

Contact name: Carolyn Williamson

Tel: 01962 847400 **Email:** carolyn.williamson@hants.gov.uk

1.0 Executive summary

- 1.1 The purpose of this paper is to :
- present information regarding the UK Living Wage,
 - highlight the key considerations, including costs, benefits and impact for both the County Council, departments and staff

2.0 Contextual information

- 2.1 The Living Wage is a minimum hourly rate of pay that takes into account certain basic costs of living. It is set independently and updated annually (in November of each year).
- 2.2 There are two rates, the London Living Wage and the UK Living Wage (i.e. national rate, outside London). In November the UK Living Wage increased by 2.68% from £7.45 to £7.65 per hour (the London Living Wage increased by 2.92% from £8.55 to £8.80).
- 2.3 Based on a full-time employee working 37 hours per week, the UK Living Wage equates to about £14,758 per annum (£16,518 in London based on standing working week of 36 hours in London local government)¹.
- 2.4 By comparison, the current National Minimum Wage (NMW) is £6.31 for employees aged 21 years and above (which based on a full-time employee working 37 hours per week equates to £12,173 per annum). Unlike the NMW, the Living Wage is a voluntary undertaking not a statutory requirement.

¹ LGA Employment Circular Living Wage 20 November 2013

- 2.5 The UK Living Wage is set by the Centre for Research in Social Policy at Loughborough University. The calculation takes into account the Joseph Rowntree Foundation Minimum Income Standard (MIS) research in which members of the public identify what is needed for a minimum standard of living. This is then combined with an analysis of the actual cost of living including essentials like rent, council tax, childcare and transport to produce the Living Wage figure.
- 2.6 At a recent pay briefing on the 2014 pay award the Local Government Association (LGA) advised that the Living Wage is currently reduced by the effect of technical conventions in the way it is calculated. The Living Wage is currently 'capped' at average earnings plus 2%. The effect of this is that the 'reference' Living Wage is actually £9.06 per hour but the method of calculation reduces it to an 'applied' rate of £7.65 per hour. By 2018 the average earnings are set to increase such that cap will no longer apply. As a result the 'reference' rate will be the actual rate and it is anticipated this will mean the Living Wage will be £10.10 per hour.
- 2.7 The Living Wage is promoted by the Living Wage Foundation, a charity which offers formal accreditation to employers that pay it or those committed to an agreed timetable of implementation. Accreditation requires all directly employed, contracted staff and sub-contracted staff to be paid the Living Wage (excluding staff under 18, apprentices and work experience staff). In addition the annual uplift to the Living Wage must be implemented within six months of the new rate being announced to retain accreditation.

3.0 Who pays the Living Wage?

- 3.1 There are currently 448 organisations that are fully accredited to the Living Wage Foundation, including 22 local authorities. A list of accredited local authorities is included in **Appendix 1**. There are currently no accredited County Council's listed by the Living Wage Foundation
- 3.2 The LGA's most recent research shows that "77 councils have implemented specific policies to introduce the Living Wage for their directly employed workforce and a further 20 are fully committed to doing so. A number of others do so by default because their local grading structures are above the Living Wage level. In practice, however, very few comply with all the criteria set by the Living Wage Foundation. The most common approach is to offer some kind of non-consolidated payment to relevant staff bringing their pay up to the Living Wage level".²

4.0 Benefits of paying a Living Wage

- 4.1 The Living Wage Foundation reports from studies by employers the following business benefits of paying the Living Wage: -
- 80% of employers believe that the Living Wage has enhanced the quality of work of their staff;

² LGA Employment Circular Living Wage 20 November 2013

- Two-thirds of employers reported a significant impact on recruitment and retention;
- 70% of employers felt that the Living Wage had increased consumer awareness of their organisation's commitment to be an ethical employer;
- 25% fall in absenteeism³

5.0 Risks of paying a Living Wage

5.1 The potential risks of applying a Living Wage include: -

- Any increase to the wage bill is unaffordable and unsustainable and will result in additional savings across the organisation and may mean increased job losses;
- The increase in wage bill costs may impact certain services disproportionately. For Business Units this may cause difficulties in remaining competitive;
- May require changes to grading structure;
- Salaries may be inflated unnecessarily, especially if there is no evidence of recruitment or retention issues;
- Focuses on base pay, doesn't take account of other allowances e.g. shift working and weekend working which can significantly increase take home pay or benefits such as annual leave;
- Likely to be unpopular with staff in higher grades who do not receive any increase to pay.

5.2 Decisions taken by organisations regarding directly employing staff versus outsourcing will affect the costs related to implementing the Living Wage. Those who have outsourced services with predominantly low graded staff e.g. leisure, care homes and catering will have less of a cost impact from implementing the Living Wage.

³ Living Wage Foundation

6.0 Situation in Hampshire County Council

6.1 Currently all of grade A and step one of grade B of HCC's Pay Framework are below the UK Living Wage of £7.65 per hour (£14,758). The table below shows the variance of each step of grade A and B to the UK Living Wage.

Grade/Step	Salary	Variance to UK Living Wage	Variance as % of UK Living Wage
Grade A			
Step 1	£12,615	-£2,144	-17.00%
Step 2	£12,963	-£1,796	-13.85%
Step 3	£13,353	-£1,406	-10.53%
Grade B			
Step 1	£14,277	-£482	-3.38%
Step 2	£14,700	£59	0.40%
Step 3	£15,141	£382	2.52%

6.2 5,135 (18.7%) employees are, in terms of basic pay, paid below the UK Living Wage. 1,208 (10.1%) staff in departments and 3,927 (25.2%) staff in schools.

6.3 It is important to highlight that this comparison only compares basic salary with the Living Wage and takes no account of the wider benefits offered to staff. When we take account of these other benefits such as pension, annual leave entitlement and sick pay which is above the statutory requirement it is clear that the total benefit package offered by HCC is above the Living Wage, as shown in the table below.

	Grade A Step 1	Grade A Step 2	Grade A Step 3	Grade B Step 1
Hourly Rate £	6.54	6.72	6.92	7.4
Weekly Pay £	242	249	256	274
FTE Salary £	12,615	12,963	13,353	14,277
Pension benefit at 13.10%	1,653	1,698	1,749	1,870
4 days additional leave vs. statutory	194	199	205	219
Sick Pay above statutory (based on 8.81 days sick)	340	351	365	396
Total Grade related benefits	14,801	15,211	15,672	16,762

Living Wage 2013 FTE Salary (£7.65 per hour)	14,759	14,759	14,759	14,759
---	---------------	---------------	---------------	---------------

Variance above Living Wage per annum £	42	452	913	2,003
---	-----------	------------	------------	--------------

6.4 The County Council has also maintained an 'incremental scale' rather than a single point pay scheme, therefore employees progress to the top of the

relevant pay scale over a maximum of 3 years for Grades A & B, assuming there are no performance issues.

7.0 Considerations

7.1 Recruitment, retention and attendance

7.1.1 The Council does not currently experience recruitment issues at the lower end of the salary ranges. Although some employers may pay higher hourly rates it is important not to look at pay in isolation. As previously mentioned the Council's terms and conditions of employment include elements which are more generous than many employers.

7.1.2 As can be seen from the P&R Select Committee report which is a separate item on the agenda, in September 2013 attendance was 8.81 FTE days per FTE. Comparison with the Local Government Association workforce survey 2011/12 (the latest available) shows that HCC's sickness absence level is below that of other responding County Council's/single tier authorities who reported an average sickness absence of 9.1 FTE days per FTE. The current level of sickness absence is 8.61 FTE days per FTE.

7.2 Quality of Services

The External Auditors, as part of their year-end audit process, are required to provide a 'value for money' assessment; this has consistently been judged as an 'unqualified' opinion. Indeed positive comments have been made regarding the high quality of services delivered at low cost.

7.3 Schools

7.3.1 The adoption of the UK Living Wage would automatically apply to all EHCC (non-teaching) staff employed in schools where the County Council is the employer, except where the school varied the contract of the staff concerned. Such action could result in a two tier pay framework and would create a potential equal pay risk. Where the County Council is not the employer e.g. Academies, the school will have the authority to decide whether to apply the Living Wage or not. This may create complexity within SAP.

7.3.2 Approximately 3,927 staff in schools would be affected by the changes. While this accounts for approximately 76% of the total affected staff within the Council, the costs for school based staff are a little less than 50% of the total costs. This is because a higher proportion of staff within schools work part-time.

7.3.3 Due to funding arrangements the increased costs of applying the Living Wage would have to be met by individual schools, rather than the County Council.

7.4 Agency workers

- 7.4.1 The application of the UK Living Wage would apply to Agency workers employed on behalf of the County Council, once the three month qualifying period had been completed. Further work would need to be carried out to identify the cost implications.

7.5 Casual workers

- 7.5.1 Casual workers would also be impacted, however in order to determine the additional cost a significant piece of work would need to be undertaken should implementation be progressed.

7.6 Equal pay and discrimination

- 7.6.1 Guidance provided by the LGA confirms that “provided the Living Wage is implemented consistently across the authority” (i.e. in both departments and schools) “it should not in normal circumstances give rise to equal pay claims. This is because such an approach will not result in one group of employees being paid less for work of equal value/of the same grade.”⁴
- 7.6.2 The guidance also states that If implemented “it is important to ensure the reason for the introduction of the Living Wage, is considered and communicated clearly... That should help to manage employee relations issues but also help in the defence of any discrimination claim, for example, in circumstances where higher grades employees claimed that a consistent uplift in pay should be granted to them. If in such a claim it was shown that women or men as a group were losing out proportionately by the employer not providing a consistent uplift, and on the face of it, therefore, there was indirect sex discrimination, the employer would have to justify its approach in order to defend the claim. Being able to show a legitimate, non-discriminatory reason for the approach (i.e. to ensure lower graded employees’ pay meets the cost of living) should satisfy the first step in that defence. The employer would then need to demonstrate that its approach was proportionate, and the adverse costs and impact on services that would have occurred if a consistent uplift had been applied to other grades would then be a key part of that defence.”⁵

7.7 Welfare

- 7.7.1 “Where employees are in receipt of welfare benefits the payment of the Living Wage could take an employee over an earnings threshold meaning they lose their current benefit. This loss could therefore be greater than the gain and hence they could be worse off”.⁶ The outcome of this is a reduction in costs to Government through the ‘Welfare Cost Reduction’ and an increase to Local Government not funded by the Government.

⁴ LGA Employment Circular Living Wage 20 November 2013

⁵ LGA Employment Circular Living Wage 20 November 2013

⁶ LGA Employment Circular Living Wage 20 November 2013

7.8 Maintaining the Living Wage in line with any increases

7.8.1 If a decision to maintain the application of a Living Wage, in line with any future increases, was made by the Council, either as an accredited employer or not, it would have significant implications for the validity of HCC’s pay framework, both from a grade and job evaluation perspective. Grade and pay structures, underpinned by job evaluation, provide a consistent, logical and defensible framework for determining what jobs are paid. The integrity of this framework could gradually be eroded over time if rises in the Living Wage increasingly results in different sizes jobs being paid the same. It could also have considerable cost implications.

7.9 Consultation with the Trades Unions

7.9.1 In August 2013 UNISON published a consultation paper on the 2014 pay award. In it the Trades Unions noted that “The means by which LW has been adopted vary across councils – with some employers effectively ‘imposing’ it without negotiation. The absence of negotiation is concerning and could set a pattern for other pay and conditions issues in the future. There are also some variations in the rate and different methods of implementation – some of which raise concerns about the on-going integrity of agreed Single Status pay and grading structures”.

8.0 Costs and Impact

8.1 If the Living Wage was to be applied this would be achieved by applying a non-consolidated monthly recurring payment to all staff at grade A and staff paid below step 2 of grade B of the difference between their basic pay and the Living Wage.

8.2 The table below summarises the approximate cost of implementing the Living Wage. Casuals are excluded from the costs.

	Cost	Oncosts	Premia	Total
Dept	672,733	124,815	N/A	797,548
Schools	974,136	185,514	N/A	1,159,650

8.3 These costs are currently not budgeted for by the County Council or schools. At an average cost of £27,270 per FTE, this could result in 29 FTE job losses across Departments and 42 FTE job losses across schools.

8.4 This shows that approximately 1,208 staff in departments (and approximately 3,927 staff in schools) would be impacted. CCBS and Adult Services would be the departments most significantly impacted.

8.5 CCBS
Over 85.76% (1,036 staff) of departmental staff affected by the application of

the Living Wage are employed within CCBS. Of these affected staff over 95% (987 staff) are employed within HC3S. The costs for HC3S of applying these proposals are estimated at £527k, approximately 4% of their total pay costs.

8.6 HC3S

It is estimated that adopting the Living Wage would add 5.5p to the cost of a single school lunch, based on the numbers of kitchen staff involved. The current school meals cost for the Primary and Secondary sectors is £2.00 per meal, this price has been held for six consecutive years. A 5.5p increase would equate to a 2.75% increase which would challenge the service's competitiveness and their ability to maintain a relatively high school meal take-up.

8.7 Adults

Over 12.58% (152 staff) of departmental staff impacted by the application of the Living Wage are employed within Adult Services. Approximately 94.74% (144 staff) of affected staff are employed within Residential and Nursing. The costs for Residential and Nursing of applying this proposal are approximately £149k, 0.45% of the total pay costs. Again this would challenge the service's ability to maintain competitive in providing a proportion of services in-house.

9.0 **Considerations**

9.1 The Committee will need to consider a number of factors as regards the contents of this report in reaching a conclusion, in particular, the overall benefit package on offer to County Council employees, the staff retention and attendance information and the quality and competitiveness of the services provided.

9.2 There needs to also be an appreciation of the current Government austerity measures, expected to continue until post 2020, and the manner in which they are impacting upon the County Council. The transformation and efficiency programme is delivering significant cost reductions which have focussed upon retaining jobs and employment and pay arrangements in the best interests of the organisation and the staff it employs.

10.0 **Recommendations**

10.1 EHCC are asked to consider the contents of this report.

CORPORATE OR LEGAL INFORMATION:

Links to the Corporate Strategy

This proposal does not link to the Corporate Strategy however at the request of the Committee, a discussion paper has been prepared for consideration.

IMPACT ASSESSMENTS:

1. Equalities Impact Assessment:

1.1 Any decision to consider applying the UK Living Wage would be made to ensure that the pay of lower graded staff is at least that of the UK Living Wage, the figure identified as needed for a minimum standard of living. In these circumstances, any disparate impact caused by applying the UK Living Wage would be objectively justifiable.

2. Impact on Crime and Disorder:

2.1 Not applicable.

3. Climate Change:

3.1 How does what is being proposed impact on our carbon footprint / energy consumption?

Not applicable.

3.2 How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

Not applicable.

Appendix 1 – Living Wage Accredited Local Authorities

- Bassetlaw District Council
- Birmingham City Council
- Blackpool Council
- Brighton & Hove City Council
- Caerphilly County Borough Council
- Greater London Authority
- Harlow Council
- London Borough of Brent
- London Borough of Brent
- London Borough of Camden
- London Borough of Ealing
- London Borough of Enfield
- London Borough of Hounslow
- London Borough of Islington
- London Borough of Lambeth
- London Borough of Lewisham
- Norwich City Council
- Oxford City Council
- Preston City Council
- Royal Borough of Greenwich
- Salford City Council
- Selby Town Council

* Data obtained in January 2014 from the Living Wage Foundation's Website