

**Cheltenham Borough Council**  
**Appointments and Remuneration Committee**  
**7th April 2014**  
**Living Wage**

<b>Accountable member</b>	<b>Cllr Jon Walklett, Cabinet Member, Corporate Services</b>
<b>Accountable officer</b>	<b>Amanda Attfield, Head of Human Resources, GO Shared Services</b>
<b>Ward(s) affected</b>	<b>None</b>
<b>Significant Decision</b>	<b>No</b>
<b>Executive summary</b>	<p>The adoption of the Living Wage £7.65 per hour is optional for employers (<i>unlike the National Minimum Wage - £6.31 ph for workers who are 21 years of age and over as at October 2013 - which is a legal requirement</i>) In addition to the financial benefits to employees, research has reported a range of business and wider economic benefits including reduced absenteeism, increased productivity, and improved 'employer of choice' perceptions for employers who have implemented the Living Wage. There are a small number of employees who could benefit from the Living Wage on appointment to the Council. Many councils have taken a decision to, or are actively considering adopting the Living Wage.</p>
<b>Recommendations</b>	<ol style="list-style-type: none"> <li>1. That the Appointments and Remuneration Committee agree that the Council adopt to pay the Living Wage pay rate as a discretionary supplement to the basic un-enhanced hourly rate for any employees appointed on a spinal column point below the Living Wage;</li> <li>2. The Appointment and Remuneration Committee agree an implementation date for the Living Wage, to be then reviewed annually thereafter consistent with the pay cycle (April each year).</li> </ol>
<b>Financial implications</b>	<p>The impact of implementing the Living Wage for the Council is minimal as indicated in the body of the report. Any Living Wage additional expenditure will be taken into account as part of the Council's budget process and reflected in the budget for 2015/16. A formal virement will be sought to cover the additional cost in 2014/15 from the contingency provision set aside in 2014/15 for pension auto-enrolment.</p> <p><b>Contact officer: paul.jones@cheltenham.gov.uk, 01242 775154</b></p>

<b>Legal implications</b>	<p>The legal context for implementing the Living Wage is outlined in the body of the report. It is intended that payment of the Living Wage will be discretionary and not a legal obligation upon the Council as employer. Accordingly, it is not envisaged that the payment of a Living Wage Supplement to eligible employees will affect the current grading structure or the job evaluation of roles. From an equality impact perspective it is proposed that the Living Wage Supplement should be reviewed periodically to ensure that if any anomalies were to develop they can be appropriately addressed.</p> <p><b>Contact officer: peter.lewis@teWKesbury.gov.uk, 01684 272012</b></p>
<b>HR implications (including learning and organisational development)</b>	<p>As contained in the body of this report.</p> <p><b>Contact officer: amanda.attfield@cheltenham.gov.uk, 07920 284313</b></p>
<b>Key risks</b>	<b>See Risk Assessment at Appendix 1.</b>
<b>Corporate and community plan Implications</b>	N/A
<b>Environmental and climate change implications</b>	N/A.
<b>Property/Asset Implications</b>	N/A.

## 1. Background

- 1.1 Adoption of the Living Wage is optional for employers. The Living Wage is different to the National Minimum Wage (NMW) (£6.31 ph for workers who are 21 years of age and over as at October 2013) which is a legal requirement. The NMW due to increase by 3.0% to £6.50 on 1 October 2014.
- 1.2 The Living Wage campaign started in the early 2000s and has since been adopted by a number of both private and public sector organisations.
- 1.3 The initiative is currently enjoying national and local cross party political support and in addition to setting examples of pay for employees, it also is concerned with ethical employment and procurement practices. The Living Wage itself is an hourly rate that is set independently, updated annually and is calculated according to the basic cost of living in the UK. There are 2 rates of the Living Wage i.e. the London rate, calculated by the Greater London Authority (currently £8.80ph) and the outside of London rate (£7.65ph) calculated by the Centre for Research in Social Policy at Loughborough University.
- 1.4 In addition to the financial benefits to employees, research into those organisations who have introduced the Living Wage has reported a range of business and wider economic benefits including reduced absenteeism, increased productivity, and improved 'employer of choice'

perceptions.

1.5 Local Government Employers are currently in negotiation with the Trades Unions regarding the pay increase for 2014-15, and have made a final offer as follows:

£580 on pay point 5 with effect from 1 April 2014  
£550 on pay point 6 with effect from 1 April 2014  
£400 on pay point 7 with effect from 1 April 2014  
£275 on pay point 8 with effect from 1 April 2014  
£200 on pay point 9 with effect from 1 April 2014  
£175 on pay point 10 with effect from 1 April 2014  
1.0% on pay points 11 and above with effect from 1 April 2014

## 2. Issues

There are a number of issues regarding the implementation of the Living Wage for the Council, and these are detailed below.

2.1 The application of the Living Wage of £7.65 per hour would cover Grade A (SCP 06-09) and the bottom spinal column point of Grade B (SCP10) - not including any additional premiums that may be paid. Grade A is reserved for Apprentices, therefore there would be no impact on that Grade.

2.2 The jobs within the Council that could be impacted by implementing the Living Wage are shown at Appendix 3. Up to 31<sup>st</sup> March 2014, all were at SCP10 (£7.26 per hour) but from 1<sup>st</sup> April 2014 they will have received an automatic increment and will be above the Living Wage minimum at SCP11 (£7.71 per hour).

2.3 There is a pay award pending and national negotiations are ongoing (see 1.5 above). If this offer is implemented it would see the Grade B minimum hourly rate increase by 10p per hour to £7.36, but it would not take it above the Living Wage rate of £7.65 per hour. The Living Wage rate is reviewed annually in November each year and would be expected to increase also.

2.4 There may be cost implication should turnover (or differentials - see 2.8 below) mean recruitment to a Grade B role, and if it was in the order of these same numbers, it could cost the Council an additional £2k per annum for the first year only, as in the second year of employment the incremental scale the rate of pay would move above the current Living Wage rate. It should be noted that the current pay negotiations are ongoing and should the hourly rate be increased in line with the employers offer, the additional cost impact would reduce as a 1% increase has been budgeted for.

2.5 It is important to stress that the Living Wage 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 essential that the principles of the Living Wage are applied consistently across the Council to all eligible employees. In order for the Council to continue to justify and defend challenges to its Job Evaluation scheme, it is essential that the current SCPs matched against current job scoring are maintained.

2.6 In order to preserve the integrity of the pay structure, it is therefore proposed that if the Living Wage is adopted, that a separate discretionary supplement is paid in addition to basic pay to achieve the Living Wage of £7.65ph. This is similar to how other employers have approached the

issue. It is also similar to the way that the Council pays Market Supplements. Applying this approach to the Living Wage will enable the arrangements to be monitored so that any future necessary adjustments to the supplement can be made. This could include where a change to someone's basic pay takes them above the Living Wage threshold, for example, if they are awarded a further pay increment, or secure a promotion.

- 2.7 On the balance of probabilities, it is likely that the Council will be able to justify the difference in treatment compared to other employees in that the application of the Living Wage is a proportionate means of achieving a legitimate aim, namely the application of a national initiative to address poverty.
- 2.8 Where the Living Wage is increased annually and pay awards are not being made, this could increase the number of staff who will become eligible for the supplement in the future. This could in turn present further additional budgetary challenges to the Council in the future. The payment of the Living Wage supplement could also have the potential to impact on the competitiveness of services delivered by the Council in circumstances where the external market pay rates are lower.
- 2.9 One of the objectives of Single Status was to ensure employees were paid based on an objective and consistent assessment of the key factors of their job, without bias/unfair discrimination, and paid fairly for the work that they do in the context of a pay structure that was affordable and sustainable. It is anticipated that the way in which the Council would implement the Living Wage if agreed, would not diminish the transparency and fairness of the pay structure.
- 2.10 Benchmarking from South West Councils has shown that of those who responded to the Survey - 2 had implemented (that figure is now 3), 3 were firmly committed, 6 had decided not to commit (largely on grounds of cost), 16 were considering, 7 were doing something other (e.g. wider review of pay and grading).
- 2.11 Certain other Councils across the country who adopted the Living Wage rate have since moved to adopt it for all their workers including casuals and agency workers from Day 1 of working with the Council. The statutory requirement (Agency Workers' Directive) on pay for Agency workers is that they have pay parity on completion of 12 weeks work, not at Day 1. It is proposed that the Council commits to Living Wage for employees only, and not to include casuals or Agency workers from Day 1 at this time.
- 2.12 In accordance with the recommendation of the Living Wage Campaign, it is proposed that there will be no eligibility criteria based on age. All qualifying employees regardless of age would receive no less than the Living Wage.
- 2.13 There may be a potential impact of paying the Living Wage Supplement to staff in receipt of benefits. The payment of the Living Wage supplement could take someone over an earnings threshold which, in turn, could result in a loss of or reduced benefits. For some, the loss could be greater than the gain and hence they would be worse off. Notwithstanding the future national agenda concerning welfare reform, the current benefits landscape is complex and is linked directly to individuals' personal circumstances so it is difficult to develop an approach that caters for every eventuality
- 2.14 Based on the learned experience from elsewhere, staff would be advised to contact their benefits provider to review their personal circumstances and the Living Wage Supplement. Employees in receipt of benefits will not be able to "opt out" of receiving the Living Wage supplement. This is on the basis that there is no provision currently for such employees to opt out of receiving national pay awards or increments. By extending this principle to the Living Wage Supplement, there is some consistency of treatment.

- 2.15 The Living Wage is about staff being recompensed at a threshold of £7.65 per hour. Where enhancements are payable which serve to increase this hourly pay rate in excess of £7.65 ph e.g. over time and bank holiday working It is proposed that the Living Wage Supplement will only be paid for hours worked at the basic rate of pay and will not apply to any hours to which enhancements have already been attributed, as these are already payable at an hourly rate in excess of £7.65.
- 2.16 The Council is creating a Leisure and Culture Trust, effective date is proposed as 1<sup>st</sup> October 2014. A Shadow Board of Trustees is in place. The Council would not want to fetter the discretion of the Trust in making its own future decision on such matters as the Living Wage, with the associated cost implications.
- 2.17 The Council would itself need to make preparation (administrative, system changes) and communicate the change to adopt the Living Wage. Should the Council, therefore, agree to adopt the Living Wage pay rate for its employees, it is suggested that the date for implementation be from 1<sup>st</sup> October 2014, and no earlier. The Council may wish to consider setting the implementation date at 1<sup>st</sup> April 2015 - there being no directly employed staff below this pay rate (apart from any turnover which may require recruitment at Grade B, SCP 10). This would be after the announcement of the new Living Wage rate (November 2014), and by which time the 2014-15 pay increase for local government should be concluded, and is a date consistent with other pay related increases such as incremental progression.
- 2.18 A separate discretionary pay supplement to achieve the Living Wage could be paid with effect from the implementation date (see above) at the current level of £7.65ph and that this will be then reviewed in line with the usual pay cycle (1<sup>st</sup> April each year), informed by the Living Wage rate that is set each November. These rates would also apply to qualifying agency workers (see point 2.11 above) in order to meet the requirements of the Agency Workers' Directive and in keeping with the spirit of fairness.
- 2.19 Targeted communication would need to be produced with individual letters sent to any employees impacted. These letters would signpost employees to agencies so that advice on implications for benefits can be sought. Wider communications would also be developed in order that all employees are aware of the rationale around the initiative.

### **3. Reasons for recommendations**

- 3.1 To ensure that the Council's direct employees are paid a "living wage", to help provide a decent standard of living for their families.
- 3.2 To gain the employer benefits from paying a Living Wage e.g. increase employer of choice perceptions, and the potential for reduced absence.

### **4. Alternative options considered**

- 4.1 None.

### **5. Consultation and feedback**

- 5.1 Consultation will take place with any impacted post-holders, and Trades Unions.

## 6. Performance management –monitoring and review

6.1 Appointment and Remuneration Committee to keep the position under review as required.

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<b>Appendices</b>	<ol style="list-style-type: none"><li>1. Risk Assessment</li><li>2. CBC current pay scales</li><li>3. CBC numbers impacted</li></ol>
<b>Background information</b>	None.

The risk				Original risk score (impact x likelihood)			Managing risk				
Risk ref.	Risk description	Risk Owner	Date raised	Impact 1-5	Likelihood 1-6	Score	Control	Action	Deadline	Responsible officer	Transferred to risk register
1.	If the Council does not adopt the Living Wage, it may not be viewed as an employer of choice, and recruitment/retention will be impacted	AA	26 03 2014	2	2	4	Accept	The Council has the option to adopt the Living Wage rate	TBA	JMcC	
2	If the Council adopts the Living Wage, whilst the numbers potentially impacted are very low, it may increase costs	AA	26 03 2014	1	6	6	Accept	If the Council adopts the Living Wage rate, it may mean wage costs would increase, however based on current assessment the additional cost is minimal but needs to be kept under review.	TBA	JMcC	
3	If the Council does not adopt the Living Wage in a manner consistent with equal pay principles, it would be exposed to a risk of an equal pay claim	AA	26 03 2014	3	2	6	Reduce	If the Council agrees to adopt the Living Wage, it will be implemented as a supplement and kept under annual review.	TBA	JMcC	
<p><b>Explanatory notes</b></p> <p><b>Impact</b> – an assessment of the impact if the risk occurs on a scale of 1-5 (1 being least impact and 5 being major or critical)</p> <p><b>Likelihood</b> – how likely is it that the risk will occur on a scale of 1-6 (1 being almost impossible, 2 is very low, 3 is low, 4 significant, 5 high and 6 a very high probability)</p> <p><b>Control</b> - Either: Reduce / Accept / Transfer to 3rd party / Close</p>											