

**Cabinet - 7 November 2013**

**Report of the Interim Chief Executive**

Electoral Division affected:

All

**Introduction of the Living Wage for Lancashire County Council Employees**

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**Executive Summary**

The report sets out proposals for Lancashire County Council to become a "Living Wage Employer" through the phased introduction of a Living Wage, currently set at £7.45 an hour (which is being up-rated. The new rate will be announced on 4 November 2013) for Lancashire County Council lowest paid centrally employed staff which will result in:

- The replacement of Grade 1 (spinal column points 5 and 6 ), Grade 2 (spinal column points 7, 8, 9 and 10) and Grade 3 (spinal column points 9 and 10) with a new Grade 2 (spinal column point 10) of £7.45 an hour; and
- The commencement of Grade 3 (at spinal column point 11); with effect from 1 April 2014, on the terms set out in the report.

Overall, this will impact on 3,638 of Lancashire County Council centrally employed employees who from 1 April 2014 would be paid at least the Living Wage (currently £7.45 an hour).

The report proposes that the position in relation to schools will be the subject of discussion with the Schools Forum with a view to consideration of the adoption of the Living Wage by individual school governing bodies.

The report also proposes that a review be undertaken to consider the benefits to the Lancashire economy and its citizens and the financial implications for the County Council of a broader application of the scheme in respect of organisations that currently provide goods, services and works to the County Council. A further report to be brought to Cabinet at a future meeting.

The financial implications of the introduction of a Living Wage for Lancashire County Council's lowest paid centrally employed staff are set out in the body of this report.

## **Recommendation**

Cabinet is asked to:

- (i) Agree to the proposals for a phased introduction of the Living Wage as set out in the report; and:
- (ii) Recommend Full Council to approve the proposals for the adoption by the County Council of the Living Wage as set out in the report, on the basis of the proposed phasing arrangements.

### **1. Background and Advice**

The Living Wage is not a new concept. It has been around in its present form since 2005, when it was adopted by the Greater London Authority for its own staff in London. The Living Wage is an informal benchmark, not a legally enforceable minimum level of pay, like the national minimum wage.

The research by the Joseph Rowntree Foundation in 2008 looked at developing a formula for calculating a minimum income standard. For their purposes, a Living Wage could be defined as the level of income needed to provide an acceptable standard of living in Britain to ensure good health, adequate child development and social inclusion. Following detailed research, they concluded that the Living Wage for a single working age adult in the UK was £6.88 an hour in 2008. The basic idea is that these are the minimum pay rates needed to let workers lead a decent life.

The national minimum wage is set by the Chancellor of the Exchequer each year on the advice of the Low Pay Commission. It is enforced by Her Majesty's Revenue and Customs (HMRC).

The Living Wage, apart from in London, is currently calculated and set by the Centre for Research in Social Policy at Loughborough University on an annual basis. The Living Wage is now set at £8.55 an hour in London and £7.45 an hour in the rest of the UK. By comparison, the national minimum wage is significantly lower, at £6.31 an hour for those aged over 21.

Currently in relation to Lancashire County Council staff, 3.4% of the adult full-time workforce and 45.1% of the adult part-time staff (of which 92.7% are employed within Lancashire County Commercial Group (LCCG)), earn less than £7.45 an hour:

So it is this group of workers who would benefit most from uplift in their hourly rates to the Living Wage of £7.45.

There is evidence that the benefits of becoming a Living Wage Employer can include: improved recruitment and retention; higher employee morale; motivation and productivity.

## 2. Introduction of the Living wage for Lancashire County Council centrally employed employees

Formal Licence of Accreditation is granted by the Living Wage Foundation to those employers who are committed to an agreed timetable of implementation through the award of the "Living Wage Employer" mark. To be accredited as an official "Living Wage Employer" an organisation must:

- Pay all its direct staff at least the Living Wage rate;
- Commit to adjusting this within 6 months of an annual updating;
- Demonstrate progress towards requiring existing and new contractors to do the same.

In order to demonstrate the County Council's immediate commitment to the principles of the Living Wage, the County Council intends to implement the Living Wage as its minimum pay rate for all centrally employed staff, with effect from 1 April 2014 regardless of weekly working hours. This includes employees directly employed by the County Council working in a range of front line roles such as cleaning, catering, caring for older people and school crossing patrols.

It is proposed that the lower spinal column points at Grade 1; Spinal Column Points 4, 5 and 6 and Grade 2; Spinal Column Points 7, 8, 9 and 10 are removed and replaced with a new Grade 2 at a revised single Spinal Column Point 10.

However, regard must be had for the national 2013/14 Pay Agreement which has two elements. Firstly, with effect from 1 April 2013 a 1% increase has been agreed across all pay rates. Secondly, Spinal Column Point 4 has been deleted with effect from 1 October 2013.

The County Council's current hourly rates, at the lower end of the pay range, and the proposed hourly rates, taking into account the 1% pay offer, are detailed in Table One below:

GRADES		SPINAL COLUMN POINT	HOURLY RATE PRIOR TO 1 <sup>ST</sup> APRIL 2013 (£)	PROPOSED HOURLY RATE FROM 1 <sup>ST</sup> APRIL 2013 (£)
Grade 1		4	6.29	<b>6.36</b>
		5	6.38	<b>6.45</b>
		6	6.47	<b>6.54</b>
	Grade 2	7	6.62	<b>6.69</b>
		8	6.83	<b>6.90</b>
		9	7.04	<b>7.11</b>
Grade 3		10	7.19	<b>7.26</b>
		11	7.63	<b>7.71</b>
		12	7.79	<b>7.87</b>
		13	8.00	<b>8.09</b>

**Table 1**

For the purposes of this report, therefore, the financial implications have been calculated on the basis of the new national Pay Agreement (both the 1% increase with effect from 1 April 2013 and the deletion of Spinal Column Point 4 with effect from 1 October 2013) which now forms the new baseline. The current Living Wage rate of £7.45 an hour has also been used.

It is proposed that the County Council's pay line is amended by replacing Grade 1 (Spinal Column Points 5 and 6); and Grade 2 (Spinal Column Points 7, 8, 9 and 10) with a new Grade 2 (Spinal Column Point 10) of £7.45 an hour for Lancashire County Council centrally employed employees.

It is proposed that the introduction of the Living Wage would be implemented in two phases. The phasing of the introduction of the Living Wage will ensure the lowest paid centrally employed staff will immediately secure a benefit from this initiative.

#### *Phase One*

The removal of Spinal Column Points 5 and 6 and the re-grading of all Lancashire County Council centrally employed employees on these Spinal Column Points to Spinal Column Point 7, as the new, minimum Spinal Column Point, at a rate of £6.69 per hour.

All Lancashire County Council centrally employed employees on these Spinal Column Points to be re-graded to Spinal Column Point 7, as the new, minimum Spinal Column Point at a rate of £6.69 an hour, backdated to take effect from 1 October 2013. This is explained in Table Two below:

CURRENT GRADES (as at 1 October 2013)		SPINAL COLUMN POINT	HOURLY RATE WEF 1 <sup>ST</sup> April 2013 (£)	PROPOSED GRADES (as at 1 October 2013)	
<b>Grade 1</b> 164 - 229 NJC points		5	6.45		
	<b>Grade 2</b> 230 - 254 NJC points	6	6.54		
7		6.69			
8		6.90			
9		7.11			
<b>Grade 3</b> 255 - 299 NJC points		10	7.26	<b>Grade 3</b> 255 - 299 NJC points	<b>Grade 2</b> <255 NJC points
		11	7.71		
		12	7.87		
		13	8.09		

**Table 2**

#### *Phase Two*

The removal of Spinal Column Points 7, 8, 9 and 10 and creation of a new Grade 2 with a single Spinal Column Point 10 at a rate of £7.45 an hour. All Lancashire County Council centrally employed employees at Spinal Column Points 7, 8, 9 and 10 to be re-graded to the new Grade 2 with a single Spinal Column Point 10 (a Living Wage of £7.45 an hour), with effect from 1 April 2014. This is explained in Table Three below:

PROPOSED GRADES (as at 1 October 2013)		SPINAL COLUMN POINT	HOURLY RATE WEF 1 <sup>ST</sup> April 2013(£)	PROPOSED GRADES (as at 1 April 2014)	
	<b>Grade 2</b> <255 NJC points	7	6.69		
		8	6.90		
		9	7.11		
		10	7.26		
<b>Grade 3</b> 255 – 299 NJC points		<b>NEW 10</b>	<b>7.45</b>		<b>Grade 2</b>
		11	7.71		
		12	7.87	<b>Grade 3</b>	
		13	8.09		

**Table 3**

### 3. Financial Summary

The following information details the financial implications of the recommended, phased approach taking into account the national Pay Agreement of a 1% pay offer and the deletion of Spinal Column Point 4.

#### *Phase One (1 October 2013)*

The lowest proposed scale point of the revised pay line will be a new minimum Spinal Column Point 7 at a rate of £6.69 an hour. The following Table four details the number of staff affected and the financial costs in 2013/14 when compared to the approved budget:

Service	No's of Staff	FTE	Cost in 2013/14 £m
Adult and Community Services	56	41	0.011
Children and Young People	99	67	0.016
Environment	38	37	0.010
Office of the Chief Executive	26	25	0.006
County Treasurer's	9	9	0.003
LCCG	2109	671	0.127
<b>Total</b>	<b>2337</b>	<b>850</b>	<b>0.173</b>

**Table 4**

No staff whose costs fall within the corporate budget, Public Health or who are seconded to One Connect Limited, are affected by these proposals.

The in year increase of £172,612 will be funded from the resources released from the outcome of the recent review of reserves, as set out in the Money Matters report elsewhere on the Cabinet agenda.

*Phase Two (1 April 2014)*

The lowest proposed scale point of the revised pay line will be a new Spinal Column Point 10 at a rate of £7.45 an hour. The following Table five details the number of staff affected and the financial costs showing the total cost compared to the base position of what is included in the currently approved budget. A greater number of staff are ultimately affected as a wider range of scale points are abolished:

Service	Total Number of Staff Affected By Phases 1 and 2		Phase 1 Cost	In Year Phase 2 Cost	Total Cost
	No's of Staff	FTE	£m	£m	£m
Adult and Community Services	138	95	0.011	0.133	0.144
Children and Young People	205	110	0.016	0.171	0.187
Environment	38	37	0.010	0.078	0.088
Office of the Chief Executive	36	35	0.006	0.061	0.067
County Treasurer's	9	9	0.003	0.019	0.022
LCCG	3,212	1,241	0.127	1.670	1.797
<b>Total</b>	<b>3,638</b>	<b>1,527</b>	<b>0.173</b>	<b>2.132</b>	<b>2.305</b>

**Table 5**

As the announcement about any change in the Living Wage will not be made until 4 November 2013, the current Living Wage of £7.45 an hour has been used to calculate the financial impact for the County Council in introducing the Living Wage. However, in advance of this announcement, three scenarios have been tested to model the potential impact of an increase in the Living Wage on the Phase 2 costs of the implementation. In these scenarios, the impact of increases of:

- 2.5 % (the Living Wage would increase to £7.64 an hour);
- 2.7% (the Living Wage would increase to £7.65 an hour); and
- 3% (the Living Wage would increase to £7.67 an hour)

have been modelled, because the key indicator used in the calculation of the increase to the Living Wage is the Consumer Price Index (CPI) which is currently close to 2.7%.

The potential impact on Phase 2 costs is shown in Table 6 below:

Increase in living wage rate from £7.45 ph	2.5%	2.7%	3%
<u>Additional cost:</u>	£m	£m	£m

Adult and Community Services	0.048	0.052	0.057
Children and Young People	0.042	0.045	0.050
Environment	0.017	0.018	0.020
Office of the Chief Executive	0.016	0.018	0.020
County Treasurer's Directorate	0.004	0.005	0.005
LCCG	0.513	0.554	0.616
<b>Total</b>	<b>0.640</b>	<b>0.692</b>	<b>0.768</b>

**Table 6**

This shows that the additional financial costs to the County Council from paying the Living Wage in 2014/15 could potentially be between £0.640m to £0.768m depending upon the level of increase announced on 4 November.

A verbal update will be provided to Cabinet at the meeting following the announcement of any change to the amount of the Living Wage.

In the event that Cabinet recommends Full Council to approve the proposals for the adoption by the County Council of the Living Wage as set out in this report and Full Council agrees to this recommendation, then the financial implications for 2014/15 and onwards will be addressed as part of the County Council's budget setting.

#### **4. Lancashire Schools**

The work undertaken to date has demonstrated that circa 5,200 staff (1,800 full time equivalents) working in schools are currently paid an hourly rate which is less than the Living Wage rate of £7.45 per hour. The introduction of a Living Wage for staff working in schools will be discussed with the Schools Forum. The decision as to whether to adopt the Living Wage sits with the individual Governing Body of each school. It is proposed that schools will be encouraged to consider adopting the Living Wage as a minimum pay rate from 1 April 2014.

#### **5. Contractors**

As outlined above, as part of the Living Wage Accreditation, the County Council needs to demonstrate progress towards requiring existing and new contractors to adopt the Living Wage. Therefore it is proposed that a review be undertaken to consider the benefits to the Lancashire economy and its citizens, and the financial implications for the County Council of a broader application of the scheme in respect of organisations that currently provide goods, services and works to the County Council. A further report will be brought to Cabinet at a future meeting.

#### **Consultations**

Officers have consulted with the Joint Negotiating and Consultative Forum (JNCF).

## **Implications:**

This item has the following implications, as indicated:

### **Risk management**

### **Financial Implications**

Adoption of the Living Wage results in a further pressure within the County Council's forward financial forecast that will need to be managed as part of the delivery of the overall Medium Term Financial Strategy, and this will be reflected in the budget proposals that will be brought to Cabinet in due course.

Adoption of the Living Wage also changes the Council's financial risk profile in two specific ways.

Firstly, increases in the Living Wage are not the result of the national pay negotiations for local government staff and have to date been at a rate in excess of that reflected in the national agreements which are reflected in the County Council's financial planning framework. Thus there is likely to be a further pressure in terms of pay costs that will need to be reflected in future iterations of the Medium Term Financial Strategy.

The impact of introducing the Living Wage is greatest within LCCG which is heavily dependant for its success on winning contracts in competition with the private sector. Clearly a significant change in the cost base of this sort could have an impact on the relative competitive position of LCCG, particularly in the high competition areas of cleaning and catering. Clearly management within LCCG will take steps to mitigate any competitive impact, as was the case with the equal pay review and the nature and scale of this impact will only become clear as current contracts are renewed.

### **Legal Implications**

The County Council's current pay and grading structure was implemented at the conclusion of the Equal Pay Review in March 2010. The purpose of the review was to implement The National Joint Council for Local Government Services 2004 Pay Agreement which included a requirement for Councils to undertake an equal pay review of pay and terms and conditions of employment in accordance with Part 3 of the National "Green Book" Conditions. The implementation of single status employment and fair and non-discriminatory grading structures was to ensure that the Council complies with equalities legislation by ensuring that differences in pay and other terms and conditions are based upon objective factors and not gender.

The introduction of the Living Wage does not have any obvious equal pay or other equality implications. In the event of a claim being brought the Council could defend the matter on the basis that any alleged inequality is genuinely due to a material factor which is not a difference in sex, age, etc and that the introduction of the Living Wage is a proportionate means of achieving a legitimate aim; the reasons for the introduction of the Living Wage being the factors identified under the "Background" section above.



## HR Implications

Under the terms of a Collective Agreement between the County Council and the recognised Trade Unions, the County Council has committed to undertake a review of the Living Wage.

### List of Background Papers

Paper	Date	Contact/Directorate/Tel
Joseph Rowntree Foundation – 'A Minimum Income Standard for Britain' <a href="http://www.jrf.org.uk/publications/minimum-income-standard-britain-what-people-think">http://www.jrf.org.uk/publications/minimum-income-standard-britain-what-people-think</a>	1 July 2008	Eddie Sutton, Office of the Chief Executive, (01772) 535171

Reason for inclusion in Part II, if appropriate

N/A