

Report to: Appointments and Conditions of Service Committee

Subject: Living Wage; options for implementation

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1. Purpose of the report

To secure approval from the Appointments and Conditions of Service Committee (ACSC) on the details of implementation of the Living Wage from 1 April 2014. These details will be subject to consultation with the Joint Consultative and Safety Committee before returning to this committee for final decision and authorisation.

2. Background

The week commencing 4 November was “Living Wage Week”.

The “Living Wage” is set annually by the Living Wage Foundation and represents the hourly rate of pay that is deemed to provide workers with a wage that can meet the basic costs of living.

During this week a number of national and local announcements were made. Of particular relevance was the national announcement that the Living Wage outside London would rise by 20 pence from £7.45 to £7.65 per hour and, locally, the Leader of our Council announced his intention to introduce the Living Wage as part of the 2014/15 budget process.

In considering the introduction of the living wage, there are a number of factors to take into account which are covered in the sections that follow. Clearly this local commitment has relevance from social, political, and economic perspectives and the detail of its implementation to recognise all of these needs is complex. Included in the implementation, it is likely that there may be issues arising that relate to local pay banding and terms and conditions of employment.

In terms of process, the detail of the proposal first needs to be outlined from an organisational perspective and as such this options paper has been put before this committee today. From here, a paper outlining the proposal will be put to the Joint Consultative and Safety Committee, probably during December as the start of formal consultation on the proposals. If the implementation relates only to general policy changes it is anticipated that this will be considered at just one meeting of the JCSC, however, if there are changes that more specifically relate to changes to other existing terms and conditions then it is likely that the matter would be consulted upon

over a 30-day period and would pass before the JCSC twice before returning to this committee to consider recommendations and make the final decision.

3. Issues for determination

3.1 What rate should be paid?

Issue: Coinciding with Gedling's announcement to move towards payment of the living wage was a national announcement to increase the rate from £7.45 to £7.65.

Options: Whether to pay the Living Wage at £7.45 or £7.65 per hour from 1 April 2014

Management recommendation: To pay at the new rate of £7.65 as this will be the Living Wage at the proposed date of implementation.

3.2 How to place the Living Wage rate into our pay structure

Issue: The Living Wage (at either £7.45 or £7.65) is not a recognised pay point within the national pay spine applied by the council.

Options: There are a number of methods of placing the Living Wage into our pay structure. Any proposal made, as part of the general consultation mechanism, is likely to be scrutinised by trade unions to ensure that there is no disproportionate negative equality impact. In general terms, although there are many variations, the options available are to:

- a) Within our existing pay scales, place employees onto the next pay point above the Living Wage rate. This would mean placing all employees onto a minimum of spinal column point (SCP) 11, the bottom pay point of Band 3. This would not only result in initial additional cost but unless further control measures were applied, all employees placed onto this point would further progress to scp13 (an additional 4.8% above the base pay rate).

Although simple, this option is costly. Also, if applied without a review of job content, there may be issues with challenges relating to equality against the job evaluation (JE) scheme.

- b) Pay a supplement to any and all employees whose hourly rate is below that of the Living Wage. This method is likely to be safer in respect to equality claims as the employee remains graded at their correctly-evaluated rate but receives a financial uplift to meet the local policy relating to "social pay". It also is effective in controlling costs and would not affect the current pay structures radically.

- c) Enriching all jobs to ensure that they achieve at least pay Band 2 and create a new local pay point (spinal column point 10a) equivalent to the Living Wage (either £7.45 or £7.65 per hour). In order not to have excessively long pay grades (which can be disproportionately detrimental to women in their ability to rise through these with unbroken continuous service), it would be necessary to alter the grade break points very slightly to leave only three SCPs in Band 2, as with every other grade above it. This would have the effect also of elevating the bottom pay rate of Band 2 which may be important to other aspects of the implementation (see below).

In effect, this proposal should have limited or no effect on the job evaluation relating to current grades with the main benefit being that all jobs (as a matter of local policy) are enriched to achieve at least pay Band 2 which will contain the Living Wage new pay point. While the primary purpose of introducing the Living Wage is to address the issue of low pay, this approach of “something for something” could be regarded as striking the right balance given the financial circumstances of the Council. Jobs would be enriched to add more interest and attract a higher rate of pay and the organisation can expect a more flexible and skilled workforce.

This option is shown below for illustrative purposes (and using £7.65 as the Living Wage rate):

Current pay structure				Proposed pay structure		
Band 1	SCP	£/hour		Band 1	SCP	£/hour
	4	deleted			5	6.4454
	5	6.4454			6	6.5382
	6	6.5382			7	6.6942
Band 2	7	6.6942			8	6.9046
	8	6.9046		Band 2	9	7.1140
	9	7.1140			10	7.2633
	10	7.2633			10a (local)	7.6500
Band 3	11	7.7127		Band 3	11	7.7127
	12	7.8729			12	7.8729
	13	8.0849			13	8.0849

By retaining all pay bands and pay points, the integrity of the job evaluation scheme and pay line is maintained and there is future flexibility to use these lower points, perhaps for example, for directly-employed apprentices or interns.

As part of this particular issue, it is also necessary to determine if all contracted employees should be paid within a pay band that contains the Living Wage as a pay point (with progression to that point) or if they should always be paid at the pay point (SCP 10a) set as the Living Wage (at 1 April 2014). Although placing new starter employees, or those moving from Band 1 to Band 2 jobs (through the “job enrichment exercise”), at SCP 9 or 10 will reduce the overall costs of the exercise, particularly in the short term, it will not be the case that the council can then make a clear statement that it is a “Living Wage Employer”. This may present some employee relations difficulties and may not deliver the effect of the social benefits intended.

If the Committee agrees that all employees are to be paid at the 2013/14 Living Wage (SCP 10a), it will be necessary to endorse for consultation the following two policy statements:

- “In introducing these changes to enrich all existing jobs to ensure that they are paid within pay Band 2, the council will not require an affected employee to “apply for their own job” but instead will simply re-grade employees into Band 2. If additional training is required to help the employee to meet the demands of the changed role, this will be provided over time and the employee will be properly supported to achieve this.”
- “It is the policy of the council when evaluating jobs (not training jobs such as apprentices or internships) to enrich those jobs to ensure that they fall within pay Band 2 as a minimum pay grade and that furthermore, when the job is graded within this pay band, any and all employees and workers will be paid at spinal column point 10a”.

Management recommendation: Option C) is recommended as it provides cost control, some degree of defence against equality claims in respect to job evaluation and also introduces the idea of responsibility to the tax-payer in that we are paying a higher rate of pay, but expecting some return from this.

Furthermore, it is recommended that from 1 April 2014, the minimum pay point paid to all contracted employees, including new starters is the new local pay Band 10a which can be set to equate to £7.65 (or £7.45 if preferred).

Should this general recommendation be accepted, it is further recommended that the two policy statements above should be applied.

3.3 How to treat casual work

Issue: From 1 April 2014, casual workers will continue to be paid an hourly rate but (subject to the “job enrichment” programme being supported) now within Band 2 as a minimum.

Options: Currently, casual workers are paid at the bottom pay point of the grade applicable to the job carried out for any shift delivered. This has been policy for some time and the arrangement is designed to recognise the fact that, in terms of

an employment relationship, each occasion of work stands alone and continuous service does not accrue.

Management recommendation: Although costly, the payment of casual work at a rate below Living Wage when this is introduced at 1 April 2014 may be difficult to introduce from an employee relations point of view and again “muddies the water” in respect to any statement made about being a Living Wage employer. It is important to maintain a distinction between casual workers and employees of the Council. However it is appropriate to pay casual workers at the grade applicable for the job carried out.

It is therefore recommended that the option to pay all casual work at a minimum rate of SCP 10a and that the policy statement outlined above, are both adopted from 1 April 2014.

3.4 Application of the national (NJC) pay award (from 1 April 2014)

Issue: The cycle of pay uplift differs between the Living Wage Foundation (uplift in November each year) and the National Joint Council (NJC) annual pay award (April each year).

Options: If the recommendation to create a new local pay point is adopted, there is the option to either apply the same level of pay increase (last year this award was 1%) to the new pay point as all other points, or to recognise that the pay level for the Living Wage will be correct at 1 April 2014.

To apply the NJC award would mean that the local pay point 10a will actually be above the level of Living Wage pay at 1 April 2014. The decision to apply the national pay award would carry additional cost.

The current pay claim by trade unions for the year 2014/15 is to apply £1 per hour to each pay point. Although perhaps unlikely to be successful due to the high costs involved, it is not inconceivable that such an award might be applied to lower pay bands. If this were to be the case then, depending on where the cut-off was, from spinal column point 7 the national pay rates would meet and exceed the Living Wage rate (£7.65). If this were to be the case, it may be necessary to review again any pay policy that was agreed this year.

Management recommendation: In order to deal with the difficult position created by these asynchronous pay cycles and to recognise the uncertainty of the outcome of the 2014/15 national pay bargaining, it is recommended that the NJC pay award for 2014/15 is not applied to a new local pay point 10a that might be created to reflect the Living Wage rate (at £7.45 or £7.65 as determined). It is also recommended, however, that any national award made in subsequent years should be applied to all current pay points including a local point 10a.

3.5 Future application of Living Wage awards

Issue: The Living Wage is recalculated each year in November. In recent years, the increase in rate has far outstripped pay awards made to local government workers.

To continue to apply the Living Wage rate as annually reviewed will have a number of effects locally including:

- Additional and uncontrolled cost to the organisation at a time of financial stringency and potential job losses.
- Increased difficulty from an equal pay perspective in applying an elevated Living Wage into our existing pay scales. Should the current pattern of Living Wage/ NJC pay awards continue, it is likely that the Living Wage pay point would need to be placed into pay Band 3. If this were to be the case then the current recommended model of “job enrichment” would have to be further extended which may become difficult in that existing employees may find it much more difficult to be able to meet all of the demands of a higher graded job. If the Living Wage was to be adopted each year going forwards, the “job enrichment” model is not recommended and another model to deal with the pay grading issues would need to be considered.
- The idea of the Living Wage rate is still somewhat in its infancy, however, there is clear interest in this issue in a number of quarters including national government. It is likely that there may be significant developments nationally (both through central government and local government pay bargaining) that may affect how the Living Wage is applied and because of this uncertainty it may not be prudent to commit at this stage to application of the Living Wage on an automatic basis each year.

Options: Essentially, the option is to either commit now to application of the Living Wage each year (with an associated review of how this might be achieved financially and from a pay policy perspective) or to apply the Living Wage rate from 1 April 2014 but then to review periodically, but not annually, thereafter.

Management recommendation: For the reasons identified in the “issues” statement above, it is recommended that the Living Wage be applied from 1 April 2014 (at the rate to be determined) and that this rate is then reconsidered periodically, but without commitment to frequency at this stage.

3.6 Living Wage and working practices

Issue: Due to financial challenges facing the organisation, changes to working practices are being considered in all service areas. Some changes to working practices that will be necessary as part of service review occur in teams where, if the “job enrichment” model is supported, there is particular relevance. In particular, in Waste Services the refuse rounds are effectively balanced to achieve service delivery within a normal 37 hour week. The refuse loaders, through historic agreement, are paid two hours’ additional “contractual overtime” equating to three hours’ pay. This additional time is not needed for service delivery now and can no longer be sustained. All refuse loaders are currently paid within Band 1 and as such would benefit from any measures taken to apply the Living Wage.

Options: The Living Wage arrangements could simply be applied as described in the options outlined above or co-ordinated with other necessary changes relating to the work of teams, and in particular refuse loaders.

The benefit of co-ordinating the exercise for refuse workers is that changes to pay and conditions of service happen at a single point in time and from the 1 April 2014, these employees would be approximately £700 per year better off (after tax) whilst working a shorter week. The resulting consultation to implement this change may be more straightforward by combining the exercises. To run the exercises separately runs the risk of employees either having reduced pay for a period of time (if hours are reduced first) or becoming accustomed to a higher rate of pay that will then be reduced (if Living Wage is applied followed by a reduction in hours).

Management recommendation:

In terms of changes to working practices, the following are recommended:

- To implement the “job enrichment” programme as outlined in the earlier parts of this paper.
- To implement the changes to contractual overtime arrangement concurrently with implementation of Living Wage arrangements for refuse loaders.
- That working practices are reviewed in all other areas where contractual overtime arrangements apply and where possible and at an appropriate time, move the working week to a standard 37-hour basis.

4. Financial Comments

The introduction of the Living Wage will not come without additional cost, however, with the approaches recommended above it is the intention that with re-modelled jobs, rather than just adding cost to the pay bill, there will be more pay given for undertaking work of a higher value. There will be an arrangement of “something for something”.

If local spinal column point 10a is set at £7.65 per hour, the estimated cost of moving all affected contracted employees to this point is £146,000. In addition, the estimated cost of moving casual workers is £26,600 making a total cost of £172,600.

Savings arising from the proposed changes to refuse loaders' working conditions (removal of contracted overtime) are estimated at £32,000 per annum.

In summary, if both of the above proposals are supported and if the Living Wage is fully applied to all jobs the estimated net cost to the council will be £140,600.

If spinal column point is set at £7.45 per hour the corresponding net cost to the council is estimated at £100,100.

5. Recommendation

The Appointments and Conditions of Service Committee is **recommended** to approve the following principles to be taken forward for appropriate consultation through the Joint Consultative and Safety Committee before coming back to this committee for final approval:

- 5.1 To pay a Living Wage from 1 April 2014 at the rate of £7.65.
- 5.2 To create a local pay point, 10a set at £7.65 with effect from 1 April 2014.
- 5.3 To amend the local pay scales as identified in section 3.2.
- 5.4 To adopt the model of “job enrichment” for all current Band 1 posts to move them to within the new Band 2.
- 5.5 To adopt the policy statement (section 3.2) to place contracted employees at local pay point 10a as a minimum.
- 5.6 To adopt the policy statement (section 3.2) to move existing employees easily into the new re-graded jobs.
- 5.7 To make payment to casual workers at a minimum rate of local pay point 10a.
- 5.8 To set the local pay point 10a at £7.65 with effect from 1 April 2014 and to not apply to this pay point, any pay award derived from NJC pay bargaining for the year 2014/15. Thereafter, the pay point to be subject to annual “cost of living” NJC awards.
- 5.9 To periodically review the arrangement to pay the Living Wage and how it applies to pay locally.
- 5.10 To make appropriate changes to working practices as outlined in section 3.6 concurrently with the introduction of the Living Wage.