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To: Personnel Committee

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Subject: **The Living Wage**

Classification: Unrestricted

Summary: This paper considers the 'Living Wage' and its potential impact on the wider authority. As part of this, specific feedback has been sought to assess the impact on schools and how other organisations are approaching this.

1. Background

- 1.1 Following on from the paper on 10 September 2013, Personnel Committee requested that further research was undertaken to establish the implications of adopting the Living Wage as the minimum pay level within the Council.
- 1.2 Since then the corporate pay bargaining process has started and the trade union side has formally requested the implementation of the Living Wage by the Council.

2. About the Living Wage

- 2.1 The Living Wage is calculated using a formula. A reference level is calculated which is currently £8.80 however this is capped and subsequent increases are restricted by the 'disposable income cap and the 'earnings cap' which limits the increase to average earnings plus 2%. Further detail is given in Appendix 1.
- 2.2 As from November, the Living Wage is confirmed as £7.65, and projected to rise to £10.10 over the next 5 years based on this cap.
- 2.3 The Living Wage does not take into account the type of household, size of family, income from others within the family or other sources or the difference between pay required in geographical regions. The difference between the reference rate and the applied (headline) figure also highlights the degree of arbitrariness within the figure.
- 2.4 The Living Wage has evolved from a campaign to improve the wages of cleaners in Canary Warf to one which has now gained significant national traction with all the major political parties supporting it to some degree. It is acknowledged that some sectors such as retail, hospitality and social care, will have greater challenges to implement it due to cost implications.

3. Schools

- 3.1 Depending on the time within the financial year, the cost to schools is approximately £1m. The school/academy budgets are at 'flat cash' for the foreseeable future and this will create a budget pressure. Indeed, the amount available for schools is likely to reduce rather than increase.
- 3.2 The issue about the Living Wage and its implications have been circulated to the Kent Association of Head Teachers. From the responses received there is mixture of views expressed: within some schools there would be no significant impact however even from this school there is acknowledgement of the implications for increase in pay pressure over the longer term, wage differentials removed and the pay and grading system being eroded. Although the sentiment is applauded, the implementation is opposed because it could result in the loss of jobs. Adopting the Living Wage as a principle is as far as KCC should go as it cannot speak for schools' budgets – 'to do so would be to de-delegate'.

4. Other Organisations

- 4.1 Currently over 400 organisations have been accredited. The majority (approximately 50%) are in London with 22 in the south east. There is equal distribution between private sector and Third sector (41% each) with the public sector being significantly lower at 17%. Brighton and Hove City Council have been accredited. Gravesham have concerns about becoming fully accredited due to EU procurement implications and Medway have voted against a proposal to pay the Living Wage to all staff directly employed by the Council.
- 4.2 At a recent round table discussion, no HR representatives from county councils in the south east were of the view that moving to the Living Wage was something they would be advising professionally. This is primarily due to the cost implications at a time when funding for local government is reducing so significantly, also future increases would be outside the control of the authority and likely to be significantly higher than the standard pay award.

5. Total Reward

- 5.1 The Living Wage Foundation recognises that there are other aspects to remuneration which are not always financial. The calculation which they undertake disregards these as it becomes too complex to calculate. Good employers should already be providing annual leave in excess of the statutory minimum or discount cards etc., therefore aspects such as these are regarded as outside of the Living Wage calculation.
- 5.2 To gain a better understanding of payments, it would be useful to consider amounts received over a period of time to better reflect the cumulative financial total. This would include such elements as enhancements, overtime and allowances, however there is a significant resource implication if this were conducted regularly for the staff group involved. Some aspect can work against individuals in the short term but offer longer term gain. For example, contributions are deducted from people who are members of a pension

scheme however the financial benefits on retirement are greater. The current employer contribution to the Local Government Pension Scheme is 21%. A list of elements which contribute to the wider employment package is shown in Appendix 2.

6. Procurement

- 6.1 If KCC became a Living Wage Employer then this provision would need to be made a requirement for new tenders. Procurement has advised that monitoring of this in practice would be difficult due to the transparency required and the remedies which would need to be built into the contract for non-compliance. The requirements for demonstrating that an organisation is a Living Wage Employer are given in Appendix 3.

7. Options

- 7.1 Continue as is and assess the progress of the Living Wage initiative as it develops.

Implications:

- Does not address trade union request
- Does not tie KCC into extra short medium and long term costs.

- 7.2 Agree that it is good in principle and that pragmatic decision will be taken when to move KCC in this direction. This could include the desire to set the lowest pay rate as close to or even at the Living Wage level without overt commitment to match it.

Implications:

- Acknowledges the issue and concerns
- Does not commit to inappropriate or unaffordable increased costs.

- 7.3 Undertake full endorsement of the principles and apply for accredited employer status.

Implications:

- Short term cost implications
- Likely medium and longer term cost implications for a higher number of staff as the Living Wage rises annually
- Loss of full control for pay determination
- Erodes pay and grading differentials between grades KR2 and KR3
- Potential equal pay / parity issues arising.

Implementation options:

- Remove KR2 completely
- Make KR2 become one pay point – current top of range
- Pay enhancements to those below to make up to Living Wage rate.

8. Costs

- 8.1 The new rate for the Living Wage has now been confirmed as £7.65 per hour or £14,759 per annum. This equates to an increase of 2.7% and is £376 above the bottom of KR3. As reported previously, following the 1% KCC increase in April 2013, the Living Wage would only affect those employed in Kent Range KR2. With the new Living Wage rate, more people now fall beneath and this would be the case each November as the new rate is announced. A list of typical jobs and cost impact is given in Appendix 4 and 5 respectively.

9. Considerations

- 9.1 There are a number of aspects which could be considered within the wider discussion about the Council becoming a Living Wage employer. These include:
- Facing the Challenge – As we look for new ways of delivering services there is a potential for both higher transition and ongoing costs if the Living Wage was in place.
 - Public view and opinion
 - There appears to be a high level of support from different sources however relative positions may change
 - Subsequent changes to national minimum wage which is seen as a more established pay marker.

10. Conclusion

- 10.1 There are many considerations to be taken into account when deciding the best way forward. If the decision was taken 'by the heart' then moving to the Living Wage becomes a simple decision, however given the lack of detail and substance to the basis of the Living Wage calculation, the short, medium and long term costs that the authority would be signing up to it if we were accredited the decision is not that simple.
- 10.2 The pragmatic 'middle ground' of considering the Living Wage rate and the prevailing conditions to inform relevant decisions, as part of the annual discussions on pay rates with a view to enhancing the pay as much as possible for the lowest paid is a positive approach, particularly in the context of Facing the Challenge and the reshaping of service delivery still to be undertaken.

11. Recommendation

- 11.1 Personnel Committee is invited to consider the options.

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Appendix 1.

How the Living Wage is calculated

There are two rates calculated. The **reference rate** is what the researchers have calculated to be the minimum wage requirement which is based on the weighted average of the different minimum wage requirements of family types. This covers a range which includes a single person, a lone parent with three children to a couple with 4 children. The weighted average of these hourly rates, i.e. the reference rate, is currently £8.80 per hour. In the absence of any capping mechanism, this would be what the researchers would recommend as the Living Wage rate.

There are, however, two caps which place formulaic constraints on the Living Wage. The first is a limit on the increase in the net income (after tax and benefits) requirement for each household on which the Living Wage is based, relative to the rise that would be achieved by someone on average earnings. This is called the **disposable income cap** and when applied in 2012 it reduced the rate to £8.15. The second mechanism is the **earnings cap**, which limits the increase in the Living Wage to **average earnings plus two per cent**. In the reference period in 2012, the increase in average earnings was 1.7 per cent which limited the overall increase in the Living Wage to 3.7 per cent or £7.47. The lower of the two caps (rounded to the nearest 5p) provides the upper limit on the Living Wage increase.

This **applied rate** (£7.45) is what we now know as the Living Wage and it is significantly lower than the reference rate. The Living Wage methodology also notes (importantly) that, 'As long as the applied level continues to be below the reference level, it will continue to increase each year by the maximum amount permitted by the cap'.

The difference between the Living Wage and the National Minimum Wage

The National Minimum wage is not intended to serve a different purpose to the Living Wage. It was established in 1998 and is there to set the wage floor. It is calculated on evidence based judgements rather than a formula. Evidence is gathered on an in-house or commissioned basis and involves visits around the UK and meetings with stakeholders.

Since 2009 the real value of the NMW has fallen however its relative value has been maintained as the lowest paid have had increases higher than the median.

Appendix 2.

Total Reward

There is a variety of elements within the wider reward and employment package. An overview is given below. Some of these are financial and either maintain or increase take-home pay directly and others do not. The actual impact on an individual is dependant on many factors including personal circumstances and perceived value.

Pay / financially related:

- Guarantee of good pension provision if become a member of the scheme. 21% employer contribution for Local Government Pension Scheme. This includes 3 times life assurance / death in service
- Sick Pay – 6 months full pay then 6 months half pay
- Business case / market driven approach to pay
- Overtime where applicable
- Allowances, such as stand-by
- Annual leave arrangements above statutory provisions
- Pay for supporting maternity leave, carer leave, adoption leave
- Cash awards to recognise very high personal contribution.

Recognition:

- Non cash awards to recognise very high personal contribution
- 'Because of You' recognition awards.

Voluntary Benefits:

- Discounts and cash-back at over 1,000 retailers and services
- Local discount providers accessed through Kent Rewards
- Tax efficient Salary Sacrifice schemes for Childcare Vouchers and Cycle2Work.

Personal development:

- Commitment to learning and development
- Regular appraisals and feedback
- Secondment opportunities
- Volunteering
- Work shadowing.

Working arrangements:

- Flexible working provisions.

Support initiatives:

- Support line
- Workplace mediation
- Work assessment
- Redeployment
- Occupational Health
- Health & Wellbeing initiatives
- Staff Groups.

Appendix 3.

Living Wage accreditation

To be formally accredited as a 'Living Wage Employer', four criteria must be met:

- Pay all of its own staff at least the Living Wage
- Commit to up rating pay rates within 6 months of the annual change to the Living Wage
- Demonstrate progress toward requiring any contractors to do the same
- Have a plan in place to work with any remaining contractors to get them to pay the Living Wage.

Appendix 4.

Typical jobs in KR2 and KR3 posts

Kent Scheme only. Does not include Locally Agreed or other Service Conditions. As at September 2013.

KR2 posts below Living Wage of £7.65

Non-Schools (577 KR2 equivalent assignments)

Assignment Status	No. of assignments
Supply/Relief/Sessional	146 (25%)
Fixed Term	9 (2%)
Permanent	402 (70%)
Temporary	20 (3%)
Total	577

Position title	No. of assignments
Road Crossing Patrol	216
Domestic Assistant	89
Catering Assistant	78
Escort	31
Country Park Warden	23
Cleaner	22
Ancillary Staff	16
Admin Assistant/Officer	18

Schools (4,266 KR2 or equivalent assignments)

Kent Scheme only. Does not include Locally Agreed or other Service Conditions.

Assignment Status	No. of assignments
Supply/Relief/Sessional	526 (12%)
Fixed Term	45 (1%)
Permanent	3,394 (80%)
Temporary	301 (7%)
Total	4,266

Position title	No. of assignments
Midday Supervisor	2,870
Cleaner	784
Kitchen Assistant/Cook	150
Learning Support/Assistant	115
Admin Assistant/Officer	40

KR3 posts below Living Wage of £7.65

Kent Scheme only. Data as at September 2013.

Non-Schools (346 KR3 or equivalent assignments)

Assignment Status	No. of assignments
Supply/Relief/Sessional	194 (56%)
Fixed Term	29 (8%)
Permanent	108 (31%)
Temporary	15 (4%)
Total	346

Position title	No. of assignments
Customer Assistant/Adviser	226
Admin Assistant/Officer	58
Driver	15
Caretaker	9
Teaching Assistant	5

Schools (1,956 KR3 or equivalent assignments)

Kent Scheme only. Does not include Locally Agreed or other Service Conditions.

Assignment Status	No. of assignments
Supply/Relief/Sessional	387 (20%)
Fixed Term	105 (5%)
Permanent	1,093 (56%)
Temporary	371 (19%)
Total	1,956

Position title	No. of assignments
Learning Support/Classroom Assistant/Teaching Assistant	1,562
Midday Supervisor	110
Admin Officer/Assistant	109
Caretaker	58
Residential Child Care Officer	29

Appendix 5.

Cost of moving employees below the Living Wage up to this level (£14,759)

Non-Schools Kent Scheme only

No. of KR2 and KR3 posts below the Living Wage = 923
Full Time Equivalent = 261

405 of these on zero hours contracts (44%)

Excluding zero hours contracts
Average assignment salary = £13,900
Average Pro-Rata salary = £5,800.

Estimated cost of moving all of those below to Top of KR2 grade = £160k, excluding those on zero hours contracts and on-costs.
£208k estimate with 30% on-costs.

Schools

Number of KR2 and KR3 posts below the Living Wage = 6,222
Full Time Equivalent = 1,712

1,094 of these on zero hours contracts (18%)

Excluding zero hours contracts
Average assignment salary = £14,000.
Average Pro-Rata salary = £4,000.

Estimated cost of moving all of those below to Top of KR2 grade = £860k, excluding those on zero hours contracts and on-costs.
£1.1m estimate with 30% on-costs.