

Report To: County Council

Date of Meeting: 4th December, 2018

Lead Member / Officer: Cllrs Julian Thompson-Hill / Mark Young

Report Author: Richard Weigh/Sophie Vaughan

Title: The Real Living Wage

1. What is the report about?

The purpose of this paper is to provide information about and to consider the implications of paying the Real Living Wage (RLW) and to consider the implications of becoming a Living Wage accredited employer.

2. What is the reason for making this report?

County Council requested a report that considers the implications of paying the Real Living Wage.

3. Recommendation

That council note the estimated cost implications of paying the Real Living Wage and becoming a Real Living Wage employer.

4. Report details

Background

There are two types of Living Wage and they are as follows:-

National Living Wage

The National Living Wage (NLW) was introduced in the July 2015 UK budget. The Chancellor announced a compulsory 'National Living Wage' (NLW) of £7.20 to be introduced in April 2016 for those aged over 25. This has since increased annually and all employers are required, by law, to pay the 2018 rate of £7.83 to employees over the age of 25.

The Government's Low Pay Commission have recommended future rises of National Living Wage, with the Government aiming for it to reach £9.00 per hour by 2020.

The Real Living Wage

The Real Living Wage is an hourly rate of pay that has been calculated independently by the Living Wage Foundation. It is proposed that this is the minimum wage that a

worker, over the age of 18, needs to earn to cover basic living costs. The Living Wage is currently £9.00 per hour, with a higher rate in London to reflect the higher living costs. The rate is set annually every November by the Living Wage Foundation and Loughborough University's Centre for Research.

There is no statutory obligation for employers to pay the Real Living Wage but some organisations have voluntarily become accredited Real Living Wage employers.

Since the introduction of the Real Living Wage, an average annual increase of 5% has been applied, so if the same levels are applied in November 2019 the Real Living Wage may rise to £9.45 per hour, with an expectation that this would be the rate paid by the employer within six months.

The Living Wage Foundation states that paying the non-statutory living wage is good for businesses as it improves quality of life for their employees, which has a positive impact on reputation as an employer, absence rates, recruitment and retention rates improving and productivity.

Once an employer voluntarily pays the Real Living Wage they have the option to apply for accreditation from the Living Wage Foundation, which allows them to advertise themselves as a Living Wage Employer and appear on their list of accredited employers, and pledge to increase their hourly rate in line with any increases in the Real Living Wage.

There are currently over 4,700 accredited Living Wage employers, which includes 56 councils in the UK, including town and district councils. Cardiff Council are the only Council in Wales to be accredited.

Becoming an accredited Living Wage Employer means that the organisation would be duty bound to pay any increase in pay within 6 months of it being set regardless of their financial position or means to do so.

Current Position

Whilst Denbighshire's pay structure is unique to the County, we use the nationally set Spinal Column Points (SCP) to set our grades. Currently our minimum pay is £8.50 per hour and has been since 1st April 2018.

The National Employers for Local Government Services and Trade Unions agreed a Pay Offer on 5th December, 2017 to cover the period 1st April, 2018 – 31st March, 2020. The previous two years have seen the pay agreements bottom loading the lower increments and awarding 1% further up the pay spine, and this has helped with bridging the gap and also maintaining salary differentials. However this pay offer is far more complex as it included a review of the pay spine, which is proposed for 2019-20.

The proposals for the 2019/20 pay spine include a bottom rate of £9.00 per hour (£17,364) on new SCP 1 which is equivalent to old SCPs 6 & 7.

Due to the proposed changes in 2019/20 there will be a requirement for Denbighshire County Council to realign their agreed pay structure to enable the adoption of the new spinal column points proposed nationally.

It is important to note that bottom loading the lower spinal column points, as we have seen in the last few years will result in erosion of the differentials between grades which is noted by the National Employers. HR is currently working with Trade Unions towards the implementation of the National Pay Structure which will be considered by Council early next year, with implementation being planned for 1st April, 2019.

From 1st April, 2019 the council will be paying the equivalent of the Real Living Wage to employees on Spinal Column Point (SCP) 1 of £9.00 per hour, but as mentioned the Real Living Wage is reviewed in November each year. This will mean from April 2020 (6 months after it the RLW is set) then the Council may potentially be paying less than the estimated £9.45 per hour. However, this is dependent on the level of pay award agreed nationally, which would take effect from April 2020.

If the Real Living Wage was at £9.45 and there was no change to grades through the national pay award, there are 604 employees who are currently on Grade 1 who would see an increase in salary from April 2020 (6 months after it the RLW is set). It will also affect those on SCP 2 and 3 as these are currently under £9.45 ph. This would impact on a further 392 employees.

However, the next national pay award will take effect from April 2020, meaning the differential between the council's lowest grades and the RLW is likely to be modest, if indeed there is a differential at all.

The option of accreditation as a Real Living Wage employer would also mean that the council would need to ensure that it pays any contractors or providers with the same rate of pay as employees. The cost implication of this element is much more significant than the impact on internal pay costs and would create an additional budget pressure in 2019/20 of at least £1m. There is also a nominal fee to be paid on a sliding scale to the Living Wage Foundation depending on the number of employees in the Council.

5. How does the decision contribute to the Corporate Priorities?

Becoming an accredited employer would potentially contribute to the Corporate Priority of resilient communities by providing better paid employment opportunities. However the cost implications mean that service cuts would be inevitable which might adversely impact the council's ability to deliver some of its priorities.

6. What will it cost and how will it affect other services?

There would be 996 employees affected by the change, and the estimated cost would be £95,583 for the period November, 2019 – March, 2020 based on an estimated increase in the Living Wage to £9.45 per hour and based on it being implemented immediately (rather than within the six months allowed). There would also be a

continuing cost each year thereafter. However, the next national pay award may well address any differential from April 2020.

The impact on the cost externally commissioned services is potentially much more significant however.

Analysis of the toolkit used to inform the fees paid to residential and nursing care providers for older people (which uses the National Living Wage as the benchmark to determine some, but not all, of the hourly rate calculation) estimates that on current levels of provision, the increased cost of benchmarking to the Real Living Wage in 2019/20 would be at least £1.1m, rising to £1.6m if the rate is increased in line with previous years.

There would also be an implication on other commissioned contracts, such as domiciliary care and care provided to younger adults.

7. What are the main conclusions of the Well-being Impact Assessment?

This report has been produced in response to a motion to highlight the implications of a policy and is not making a recommendation about policy implementation.

8. What consultations have been carried out with Scrutiny and others?

This report is responding to a motion from the County Council requesting information about the cost implications of a policy and as such has not been consulted upon.

9. Chief Finance Officer Statement

The latest pay award means that the council will be paying hourly rates to staff at the Real Living Wage rate from April 2019/20. While the RLW rate will increase in 2019/20 for the following year, so will the national pay award, meaning any differential is likely to marginal – if indeed there is a differential for 2020/21.

The potential cost of becoming a RLW accredited employer however is much more significant. On the commissioned residential and nursing care sector alone, the immediate additional cost is estimated to be over £1m. As this is not a statutory requirement, the council has not budgeted for this additional cost and it would have to be funded by cutting services and staff elsewhere in the organisation.

10. What risks are there and is there anything we can do to reduce them?

The report is outlining the potential cost implications of a policy and is not making a recommendation. However, the report does highlight that the potential full cost of the policy would be significant and is not currently built into future budget plans. The key risk would be to progress the policy without it being clear how the cost would be funded.

11. Power to make the Decision

Provision of the cost implications reported under Section 151 of the Local Government Act 1972.