

Policy and Finance Committee

2 July 2015

London Living Wage

Report by Executive Head of Organisational Development and Strategic Business

Purpose

To provide information to the Committee to enable it to consider implementation of the London Living Wage

Recommendations of the Lead Member for Treasurer, Finance and HR

To **RESOLVE** that -

- 1) the Council adopts the London Living Wage from 1 April 2016, and implements it by a retrospective payment, the following March, of the difference between the London Living Wage then in force (pro rata), and normal basic pay;
- 2) overtime pay and payments to casual workers be excluded from the provisions set out in 1) above, in line with the expectations of the Living Wage Foundation;
- 3) school governing bodies be encouraged to take similar action; and
- 4) the policy be regularly reviewed in the light of local government pay settlements.

Key Points

- A. Although there have been considerable efforts in recent years to improve the position of the lowest paid staff in local government, at its meeting on 15th January 2015 Council agreed that this Committee should receive a report on the implications of adopting the London Living Wage (LLW) for directly employed and agency staff.
- B. The London Living Wage Campaign was begun in 2001 but has only gained momentum in recent years. The LLW rate is now £9.15 per hour across both Inner and Outer London. The Living Wage outside London is £7.85 per hour. RBK's lowest hourly pay rate is £8.67 per hour and 272 staff (49 outside schools (of which 15 in Household Reuse and Recycling Centres (HRRC)), and 223 in schools) would be in scope of the London Living wage
- C. Four London boroughs (Bexley, Bromley, Havering, and Kensington & Chelsea) have decided not to pay the London Living Wage, but, as well as a number of high-profile private sector employers, all other London boroughs now have a minimum pay rate at LLW level or higher. However, only eleven boroughs are fully accredited LLW employers, which indicates that seventeen

boroughs are not operating all parts of the LLW commitment (ie extending to contracts held). Wandsworth is the latest borough to commit to the LLW.

- D. Employers committed to the LLW have no influence over the rate which is set or the annual increases which are applied to the LLW, and Outer London employers have higher costs in implementing and maintaining the LLW because basic pay rates are lower than those in Inner London. Annual increases in the LLW are consistently outstripping local government pay settlements. For example, in November 2014 the LLW was increased by 4% while the equivalent local government pay settlement was for a 2.2% increase but only for part of the year
- E. In terms of the number of staff affected, the largest potential direct impact of the LLW for RBK would be in schools. The Corporate Solicitor advises that, legally, as Local Education Authority (LEA) RBK is the employer of, and ultimately responsible for all staff in its maintained schools, but that the LEA can only make recommendations to schools about pay matters, and schools are not obliged to follow its advice. When governing bodies were considering implementing the LLW it is inevitable that budgetary pressures would be a major factor in the decision. There are a number of schools which do not use the Council's payroll but which would still be affected. However, information about costs and numbers of staff involved cannot be obtained in these cases.
- F. Full implementation of the LLW would require RBK to commit, as contracts come up for renewal, to ensuring all staff employed by contractors providing services are paid at least the LLW level. Inevitably this would have implications for the future costs of contracted services.
- G. A number of staff employed by RBK in the Household Reuse and Recycling Centres would potentially be in scope of the London Living Wage, but this would depend on the timing of implementation as these staff are due to TUPE-transfer to the successful bidder in October 2015.

Context

1. RBK is a member of the Greater London Provincial Council which sets pay rates for council staff in the Greater London area in line with national settlements between local authorities and trades unions. Low pay issues have been recognised by both the national and regional negotiating committees over a long period, and there have been a number of separate initiatives to remove the lowest pay points and give pay awards weighted towards the lowest earners.
2. In 2004 RBK was an early implementer of the local government 'Single Status' agreement which modernised and considerably improved the conditions of former manual workers. The latest RBK pay award effective from January 2015, only the second since 2009, is considerably weighted towards lower paid staff. The current lowest pay point will be removed from October 2015, and the lowest pay points will receive an effective increase of between 8.3% and 10.1% compared with the general increase of 2.2% to other RBK staff. RBK's lowest rate of pay, £8.65 per hour, is now 33% higher than the National Minimum Wage (£6.50 per hour). No pay increases were possible between April 2009 and March 2013 because of public sector pay restraint but, by October 2015 the council's lowest rate of pay will have

increased by 10.6% on the pre-April 2013 rate, considerably more than the general pay increase to other council staff in the same period, when some senior managers saw no pay increase at all between April 2008 and January 2014. As part of the 2014/15 pay settlement, some staff received a lump sum payment. Staff on the lowest three pay points received payments of £325, over three times the average payment to other staff.

3. There are options for bringing all staff in line with the LLW level, but additional payments under any of these options would be pensionable under the Local Government Pension Scheme 2014, and would attract employer's pension contributions.

Options

4. The trades unions and the employer's side have indicated that they wish the local government pay settlement due from 1 April 2016 to include further initiatives to improve the position of lowest paid staff, and the first option is to take no immediate action but to keep the LLW under review in light of future pay settlements.
5. Implementing the London Living Wage, or the equivalent level, could be achieved either by revising basic pay rates, or else by calculating the difference due and paying this as a one-off, individual payment at the end of each financial year.
6. By increasing basic pay rates to the LLW level, the LLW could be most immediately implemented. However, this would be a contractual change for staff with consequent implications should the council wish to change its policy. It would also be the most costly option. It would be impractical to exclude making payments for overtime and to casual workers at the LLW rate should this option be chosen although these are not requirements of the LLW as set out by the Living Wage Foundation. This option would be technically complex to implement and operate, and have the potential for errors and overpayments, as it would be necessary to maintain the current range of pay rates, excluding LLW, to accommodate the needs of schools which chose not to implement the LLW.
7. As the rate of increase of the LLW is outside the Council's influence, and as future local government pay settlements may further reduce or remove the difference from the London Living Wage, the Committee may instead wish to commit to the current LLW level but to be able to reconsider the position annually. Instead of raising basic pay rates, the best approach to achieving this would be to calculate and pay to staff within scope a one-off, individual supplement at the end of the current financial year, and in subsequent years if re-approved. The supplement would bring salary for basic hours worked up to the LLW level in retrospect. The supplement would be pensionable but non-contractual, and not paid to otherwise eligible staff who had worked in the financial year but left the council's employment before 31 March. Payment would not be made for any overtime hours or to casual workers. This option would have the lowest costs of administration and would allow the greatest flexibility. This option has been used by other London boroughs including Richmond, and would be the best option to accommodate the anticipated position of some schools wishing to follow the council's LLW policy, if

adopted, and some not. This option could be combined with (1) above for implementation by 31 March 2017 in light of any national pay initiatives.

Timescale

8. The suggested timescale is to implement at the end of the financial year 2016/17, depending on any pay settlement reached for that year. Implementation of the LLW by means of a pay supplement at the end of the financial year would allow greatest flexibility in the event of any delay in agreeing a pay settlement.

Resource Implications

9. The costs of bringing the basic pay of all RBK staff excluding casual workers are set out in **Annex 1**. These costs would be approximately the same whatever the method of implementation, but assume payment would not be made for overtime or casual hours, and do not include Council contracts. The costs of implementing for the HRRC (£58,568) are shown for reference although they would not be incurred if implementation took place after the expected transfer out of this service in October 2015. The costs of implementing for schools are also shown (£42,627) although the decision to implement would be for individual governing bodies. Costs to RBK would be £49,535 based on current payscales at April 2015.
10. This costing has been carried out at a detailed, individual level, and offsets a wide range of additional payments in addition to basic pay. A number of other factors have contributed to a lower estimate of cost than those previously made. Firstly, some schools have left the Council's payroll which will have reduced the known costs, although the underlying costs remain. Further restructuring in the 2015/16 local government pay settlement has narrowed the gap to the London Living Wage in some cases by removing the lowest pay points. Finally, the Council has introduced new and improved terms and conditions for the HRRC workforce.
11. There is currently no allowance for the additional cost of implementing the LLW for directly employed staff, or future additional costs of new contracts, in the financial planning forecasts of RBK. If the policy is approved the additional cost will need to be factored in and it should be acknowledged that the spending power of commissioning budgets will be reduced accordingly.

Equalities Impact Assessment

12. Gender – Outside schools and excluding HRRC, 74% of those affected by implementation of the LLW would be women (women are 65% of the wider workforce outside schools and excluding HRRC). In HRRC 92% of those affected by implementation of the LLW would be men (men are 86% of the wider workforce in HRRC). In Schools 93% of those affected by implementation of the LLW would be women (women are 89% of the wider workforce in schools).
13. Ethnic background - Outside schools and excluding HRRC, 23% of those affected by implementation of the LLW would be from black or ethnic minority (BME) backgrounds where backgrounds are known (BME staff are 20% of the wider workforce outside schools and excluding HRRC). In HRRC insufficient information is held about staff ethnic backgrounds to make any valid analysis.

In Schools 16% of those affected by implementation of the LLW would be from BME backgrounds where backgrounds are known (BME staff are 9% of the wider workforce in schools).

14. Disability - Outside schools and excluding HRRC, 3% of those affected by implementation of the LLW would have declared a disability where information is held (disabled staff are 5% of the wider workforce outside schools and excluding HRRC). In HRRC insufficient information is held about staff disabilities to make any valid analysis. In Schools 1% of those affected by implementation of the LLW would have declared a disability where information is held (disabled staff are 1% of the wider workforce in schools).

Background papers - None

Author of report – David Ward, HR Lead Consultant. [david.ward@kingston.gov.uk/](mailto:david.ward@kingston.gov.uk)
020 8547 5258