

# Report

Report to:	<b>Executive Committee</b>
Date of Meeting:	<b>26 February 2020</b>
Report by:	<b>Executive Director (Finance and Corporate Resources)</b>

Subject:	<b>Implications – Living Wage</b>
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## 1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ provide an update in respect of Living Wage arrangements, identify options on how a Living Wage rate of £10 per hour can be achieved alongside the implications of doing so

## 2. Recommendation(s)

2.1. The Committee is asked to approve the following recommendation(s):-

- (1) that the position on options and implications be noted; and
- (2) that the options for a £10 per hour minimum rate of pay be reviewed once the national Living Wage Consolidation Group guidance is received.

## 3. Background

3.1. The Living Wage Foundation announced an increase to the Living Wage in November 2019, making the new rate £9.30 per hour to be implemented for April 2020.

3.2. The Council achieved Living Wage formal accreditation in October 2016. This includes paying all employees at a level on, or above, the rate set by The Living Wage Foundation. In April the minimum rate of pay for a council employee will be £9.60 per hour.

3.3. At the full council meeting on 4 December 2019 a decision was taken in relation to Living Wage for the council:

(1) to maintain its status as a Living Wage Employer and an exemplar to other employers in South Lanarkshire and across Scotland and the UK;

(2) to request that the Executive Director (Finance and Corporate Resources) report on the costs of increasing the hourly rates of the lowest paid council workers in financial year 2020/2021 over and above the local government pay settlement, and consider potential consequences to the Council's service delivery partners and report back to members within the budget setting timescales;

(3) to consider, in the budget process, measures that would enable this Council to pay all workers a rate of at least £10.00 per hour, from April 2020, without imposing cuts to either jobs or services; and

(4) to call on the Scottish Government to ensure that the budget it proposed to the Scottish Parliament included a fair funding package for local authorities, which would allow this Council to fully protect jobs and services while paying all staff more than the real Living Wage, and enabling the Council's service providers to do likewise.

- 3.4. Part of the national pay settlement achieved in 2019 included the formation of a Living Wage Consolidation Group with representatives from the Cosla Employers Team and the Trade Unions. This group has formed and has considered their terms of reference and timescales. This may have an impact on any pay modelling considerations and at present there is no agreement about the content of joint guidance coming from this group. Guidance could range from simple advice to remove spinal column points below the Living Wage to more complex advice around spinal column point progression and financial differentials between grades. The guidance could also include a requirement to review the entire pay model when making changes, not just the grades affected by consolidation. At present nationally the pay model in South Lanarkshire is viewed as a good example of how consolidation can take place.

#### **4. Council Decision**

- 4.1. Taking the aspects of the decision in turn: -

- 4.2. (1) *to maintain its status as a Living Wage Employer and an exemplar to other employers in South Lanarkshire and across Scotland and the UK.*

South Lanarkshire Council retains its status as a Living Wage Employer, whether or not any action is taken in relation to pay. The council already exceeds the requirements of the accreditation scheme.

- 4.3. (2) *to request that the Executive Director (Finance and Corporate Resources) report on the costs of increasing the hourly rates of the lowest paid council workers in financial year 2020/2021 over and above the local government pay settlement, and consider potential consequences to the Council's service delivery partners and report back to members within the budget setting timescales.*

#### **Costs**

A financial estimate of the costs of moving to £10 per hour as a minimum rate was carried out based on a revised pay model (Appendix 1 - Table 1). Spinal column point 23, £10.04 per hour is the nearest point. This produced an estimated cost of £1.9 million. This was based on changing the current pay structure and making the first 3 grade levels single spinal column points. There is a rationale for a single spinal column point at Grade 1 Level 1, as the tasks performed require little or no previous knowledge or experience. There is no similar rationale for Grade 1, Levels 2 and 3. There is a risk in moving to a single spinal column point beyond Grade 1, Level 1 as it removes the progression which is available to higher grades.

Retaining 2 spinal column points at Grade 1, Levels 2 and 3 would increase the estimated costs to £2.7 million and a potential model is illustrated at Appendix 1 Table 2. In moving to this model there still would not be comfort that this would meet the requirements set out by the Living Wage Consolidation Group. For example the group may issue guidance about differentials between grades, raising the starting point for the next grade and impacting further up the pay model into Grade 2.

The potential cost for reopening our pay model reflecting the output of the living wage consolidation group is difficult to quantify but could be in the range £4 million to

£8.3 million per annum. These are the internal costs of moving to a £10 per hour minimum rate.

### **Service Delivery Partners**

In moving to a minimum of £10 per hour for employees this may have an impact on service delivery partners. The two most significant groups in this category are social care providers and early years.

The council work closely with these groups to ensure there is a mixed economy available and contractual provision is in place. There is a limited pool of available employees for this type of work, mainly driven by current unemployment figures, and at present partners already lose employees to council posts as the council terms and conditions are better. Increasing the hourly rate internally will exacerbate this. In recent years the council has supported providers in recruiting and upskilling employees by assisting through employability measures. A change to the hourly rate internally will not increase the availability of candidates to external providers.

In order for external service providers to recruit they may have to increase their rates of pay, this may also include rates for supervisory employees. It would not be unreasonable for service delivery partners to seek increased payment to cover their additional costs arising from this. Alternatively, they may not have enough employees to provide a full service. Losing the flexibility of a mixed economy would require the council to increase internal provision. This would be at an increased cost through additional established posts, building costs and this may also affect service delivery if flexibility is not available.

The council have good relationships with external partners and meet regularly to discuss issues and maintain that relationship. There is a risk that in increasing the differential between internal and external payment there will be increased competition for employees and tensions in relationships.

At this stage the potential additional costs associated with external service delivery partners cannot be precisely quantified, but could introduce a considerable financial pressure.

- 4.4. (3) to consider, in the budget process, measures that would enable this Council to pay all workers a rate of at least £10.00 per hour, from April 2020, without imposing cuts to either jobs or services

Any of the options outlined will bring additional costs that have not previously been identified and accounted for in budget papers. These additional costs will either have to be met through increasing the savings requirement for 2020/2021, or by utilising money from reserves for 2020/2021 and adding to the savings requirement for 2021/2022.

- 4.5. (4) to call on the Scottish Government to ensure that the budget it proposed to the Scottish Parliament included a fair funding package for local authorities, which would allow this Council to fully protect jobs and services while paying all staff more than the real Living Wage, and enabling the Council's service providers to do likewise.

South Lanarkshire Council already make representation to the Scottish Government on a fair funding package via Cosla and regular dialogue takes place via existing formal mechanisms involving the Chief Executive and Executive Director (Finance and Corporate Resources).

## **5. Employee Implications**

- 5.1. Proposed changes would impact positively on the earnings of employees within Grade 1 and potentially Grade 2 depending on the guidance issued and model followed.
- 5.2. The changes to Living Wage and Pay Model restructure will also aid recruitment and retention for posts within the organisation at that level.

## **6. Financial Implications**

- 6.1. The costs of implementing £10 per hour internally vary according to the model selected. This could range from £1.9 million (Appendix 1, Table 1) to £2.7 million (Appendix 1, Table 2) but could increase further if the national Living Wage consolidation Group produce guidance which requires a change to these models. A requirement to maintain differentials and progression for example could increase the number of employee grades impacted by this change. The potential cost for reopening our pay model reflecting the output of the living wage consolidation group is difficult to quantify but could be in the range £4 million to £8.3 million per annum. These are the internal costs of moving to a £10 per hour minimum rate.
- 6.2. There is a potential for additional costs arising from procured services if the internal pay model changes. This would arise from partners seeking additional payment to pay their own employees more, or through having to deliver more services in house as external provision is not available. This is difficult to quantify however an illustration of the potential for increased cost would be the procured care at home service. The difference between the current Living Wage payment and £10 per hour would place an additional cost of £2.430 million per annum. This would not include any additional impact on supervisor rates of pay. The council could refuse any request for additional payment however this may lead to reduced service provision and increased internal costs.
- 6.3. Currently the council are funded by the Scottish Government to pay the Living Wage within some contracts but would not expect to be funded beyond that. There is a financial risk of unbudgeted expenditure, either through internal employee costs, or through procured service costs. These would be significant additional costs which at this time could not be fully quantified.

## **7. Climate Change, Sustainability and Environmental Implications**

- 7.1. There are no climate change, sustainability and environmental implications arising from this report.

## **8. Other Implications**

- 8.1. There are significant risks in moving to £10 per hour given the lack of clarity around the budget and joint guidance on living wage consolidation. At present the council is cited as a good example of how the Living Wage should be consolidated in other councils.
- 8.2. In making changes to the pay model the council would be obliged to ensure those changes are compliant with best practice guidance. This may include reviewing the entire pay model, not just those points affected by a change.
- 8.3. If changes are made ahead of guidance there is a risk of moving to a pay model, which may not be compliant with best practice guidance. This would introduce a risk of future litigation. For example reduced pay differentials and progression against guidance which states these should be maintained may be grounds for litigation. At

present the form and content of any guidance is unknown and therefore this risk cannot be fully quantified.

## **9. Equality Impact Assessment and Consultation Arrangements**

- 9.1. An initial equality impact assessment indicates the application of any changes will reduce the gender pay gap as women make up 79% of the employee headcount in Grade 1.
- 8.2. Any changes to the pay model will require consultation with the Trade Unions and a full equality impact assessment.

**Paul Manning**

**Executive Director (Finance and Corporate Resources)**

18 February 2020

## **Link(s) to Council Values/Improvement Themes/Objectives**

- ◆ People focused
- ◆ Excellent employer
- ◆ Tackling disadvantage and deprivation

## **Previous References**

- ◆ None

## **List of Background Papers**

- ◆ None

## **Contact for Further Information**

If you would like to inspect the background papers or want further information, please contact:-

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# Appendix 1

Table 1

Before					After					Movement	
Grade Name	Level	Spinal Column Point	2020 Hourly Rate		Grade Name	Level	Spinal Column Point	2020 Hourly Rate		Change in Hourly Rate	Annual Increase Based on 35hr per week
Grade 1	1	20	9.60		Grade 1	1	23	10.04		0.44	802.96
Grade 1	2	22	9.90		Grade 1	2	25	10.34		0.44	802.96
		23	10.04							0.30	547.47
Grade 1	3	25	10.34		Grade 1	3	27	10.64		0.30	547.47
		27	10.64							0.00	0.00
Grade 1	4	30	11.12		Grade 1	4	30	11.12		0.00	0.00
		31	11.29				31	11.29		0.00	0.00

Table 2

Before					After					Movement	
Grade Name	Level	Spinal Column Point	2020 Hourly Rate		Grade Name	Level	Spinal Column Point	2020 Hourly Rate		Change in Hourly Rate	Annual Increase Based on 35hr per week
Grade 1	1	20	9.60		Grade 1	1	23	10.04		0.44	802.96
Grade 1	2	22	9.90		Grade 1	2	25	10.34		0.44	802.96
		23	10.04				26	10.49		0.45	821.21
Grade 1	3	25	10.34		Grade 1	3	27	10.64		0.30	547.47
		27	10.64				28	10.79		0.15	273.74
Grade 1	4	30	11.12		Grade 1	4	30	11.12		0	0
		31	11.29				31	11.29		0	0