

Southend-on-Sea Borough Council

**Agenda
Item No.**

Executive Director (Transformation)

To

Cabinet

On

Tuesday 17th September 2019

Report prepared by: Karen Melville HR Services Manager

Real Living Wage

Relevant Scrutiny Committee(s) Policy & Resources
Cabinet Member: Leader of the Council
Part 1 (Public Agenda Item)

1. Purpose of Report

- 1.1 This report provides an overview of the Real Living Wage, and also explains what would be required to become an accredited Real Living Wage employer.
- 1.2 The report also outlines both the financial and non-financial implications to the Council and bodies of becoming a Real Living Wage employer.

2. Recommendations

The Council make the following declarations:

- The Council is a Real Living Wage employer
- And that we actively work towards obtaining the Real Living Wage accreditation

3. Background

- 3.1 The national minimum wage is statutory and is based on recommendations from the Low Pay Commission. The Living Wage which is discretionary is a separate rate calculated independently each year by the Resolution Foundation and overseen by the Living Wage Commission, based on the best available evidence about living standards in London and the UK. A basket of goods is used to benchmark and draws on the Minimum Income Standard to identify everyday living costs through public consensus. The real living wage is normally higher than the national minimum wage
- 3.2 More than 5000 employers, including 55 local authorities, have chosen to go further than the national minimum wage and voluntarily pay the real Living Wage to all of their staff including their contracted staff. These include companies and household names like; IKEA, Nationwide, Aviva, Everton and Chelsea Football Clubs, Majestic Wine, LUSH, and the House of Commons, Cambridge City Council and Harlow Council.

3.3 Explaining UK Wage Rates

	THE MINIMUM WAGE Government minimum for under 25s	NATIONAL LIVING WAGE Government minimum for over 25s	REAL LIVING WAGE The only wage rate based on what people need to live	SOUTHEND ON SEA COUNCIL MINIMUM WAGE (directly employed staff)
What is it?	£7.70	£8.21	£9.00 except in London £10.55	£9.00
Is it the law?	Statutory	Statutory	Voluntary	
What age group is covered?	21 and older	25 and older	18 and older	
How is it set	Negotiated settlement based on recommendation from businesses and trade unions	A % on medium earnings, currently at 55%, it aims to reach 60% of median earnings by 2020	Calculation made according to the cost of living, based on a basket of household goods and services	

- 3.4 The Living Wage Foundation celebrates employers that sign up for accreditation by awarding them the mark of a responsible employer, which they may display on their materials and in their buildings.
- 3.5 In order to be accredited employer, the Council must pay all directly employed staff the Living Wage and have an agreed plan in place for third party contracted staff such as catering, cleaning, security, parks or ground staff.
- 3.6 Where contracted staff cannot be moved onto the Living Wage immediately, organisations can choose to roll out the Living Wage across third party contracts over time, as the contracts come up for renewal.
- 3.7 For the purposes of Living Wage accreditation, self-employed workers are treated the same as sub-contracted workers. This means that if they work for the Council for more than two hours for eight consecutive weeks they must be paid the Living Wage.
- 3.8 Statutory apprentice wages are lower than the minimum wage as a contribution to the cost of training, particularly in the earlier stages where apprentices may spend more time training than working. As a result, there is no requirement for

apprentices to be paid the Living Wage. However, many accredited employers have chosen to extend the full Living Wage to apprentices.

3.9 To become an accredited Living Wage Employer the Council must:

- Pay the real living wage to all directly employed staff
- Have a plan to pay our contractors a living wage
- Apply for accreditation

3.10 The cost of being accredited varies according to the size of the organisation, starting at £60 per year for those with fewer than 10 employees.

3.11 The Living Wage Foundation will monitor our compliance with payment of the Living Wage to our staff, and our implementation of our plan to pay our contractors a living wage.

4. The Benefits and challenges of becoming an accredited Living Wage employer

4.1 There are a number of benefits for employers obtaining the accreditation, including:-

- Enhanced reputation as an employer
- Differentiates the employer from other employers and provides a role model for other local employers
- Improved employee relationships
- Increased motivation and retention rates, particularly with lower paid employees who benefit from the higher wage
- Improved recruitment and quality of candidates as well as improving the skills of those employees in the lower paid jobs.
- Reduced sickness
- Improved quality of subcontracted services, as the accreditation seeks to ensure not only directly employed employees are paid the living wage, but also applies to sub-contractors
- With improved employee relations, retention and motivation, and reduced sickness absence, reduction in incidental HR costs, normally required to support such matters.

4.2 There are also benefits for the local community including:-

- helping tackle inequality and helping families become more independent by lifting low-paid workers out of poverty.
- Encouraging local employers and sub-contractors to also adopt the Living Wage, improving the prosperity of the local community

4.3 In addition to positive effects of becoming an accredited employer the challenges include:-

- Increased wages
- Reduced wage differentials across the pay structure which may impact on recruitment to higher paid roles. However given that the Council already pay at the real living wage rate, the impact of this will be negligible,
- Implications for sub-contracting such as increased costs and difficulty in out sourcing or identifying sub-contractors
- Increased monitoring costs to ensure compliance and maintaining the accreditation

5. Implications for the Council of becoming an accredited living wage employer

Directly employed employees

- 5.1.1 Following the implementation of the 2019/2020 nationally agreed pay award, the Council's minimum annual salary paid to staff became £17, 364 per annum, which equates to £9.00 per hour. Therefore we already pay at least the Living Wage of £9.00 per hour to directly employed staff.
- 5.2 The real living wage is reviewed and set independently in November each year and LG pay settlements are achieved via a separate process and normally implemented each April. Whilst there are no current financial implications, this would need to be reviewed again in November once the real living wage has been reviewed and depending on the outcome of the review the Council may have to increase our hourly rates to remain accredited. Employers who have signed up to the accredited scheme will need to implement any increase as soon as possible and within 6 months.

Arms length organisations

- 5.3 Since South Essex Homes was established they have continued to implement the national pay agreement and therefore there are no current financial implications for them if the Council became an accredited employer

- 5.4 Southend Care has based their business plan and financial projections on paying their employees above the living wage, however they currently have 52 staff who are receiving less than the real living wage payment of £9.00 an hour. These staff are predominately in Housekeeping or caring roles
- 5.5 South Essex Property services, a subsidiary of South Essex Homes, currently has 68 staff receiving less than the real living wage payment, these staff are predominately in cleaning and security roles. It is these roles which are likely to benefit from the Council becoming an accredited employer.

3rd Party Contracted Providers

- 5.6 It is difficult to predict the exact impact on 3rd party providers. As this depends on the nature and duration of the contract and whether they are already paying the living wage. For example the current waste management contract, managed by Veolia, whilst they pay above the minimum wage, this still falls short of the current living wage. In terms of Social Care contracts, Sanctuary who the Council works in partnership with to provide the Single Homeless Accommodation and Support Provision pay higher than the real living wage. However in terms of Ashley Community Care Ltd who provide care and support at Home as part of the domiciliary care provision, depending on the role, will pay a range of salaries some on the national minimum whilst other employees will receive more than the living wage.
- 5.7 In general terms if the contractor is not currently paying the real living wage, as an accredited employer we would need to have a plan in place to ensure that when the contract is next renewed they implement the real living wage and that relevant funding is in place to deliver this.
- 5.8 Many facility management, catering and cleaning contracts are very price driven and for the 3rd party providers this potentially could be very challenging for them as they could see an increase in costs. The cost of obtaining these services is likely to increase unless the provider is able to absorb the increased cost rather than pass them onto the Council.
- 5.9 Living Wage contracts may set a precedent for other parts of the sub-contractors operations and they may have to apply the living wage to all employees. They may also incur additional costs with the erosion of differentials, resulting in difficulty in recruiting to team leader or supervisory roles or increasing pay rates across all salary bands

6. Options

- 6.1 Continue to pay the nationally agreed pay scales

- 6.2 Ensure we pay the living wage to directly employed employees, but do not seek to obtain the real living wage accreditation
- 6.3 Seek the real living wage accreditation and work with arm's length organisations and 3rd party suppliers to ensure that they are paying the real living wage

7. Corporate Implications

- 7.1 Contribution to the Southend 2050 Road Map and contributes to Southend 2050 ambition for 'Southend to be a successful city and share our prosperity amongst all of our people'.

8. Financial Implications

The estimated financial costs outlined below will start to apply as and when the current contracts expire and new contracts are commissioned and procured.

Directly employed employees

- 8.1 With our current pay settlement, agreed until March 2020, there are no financial implications to implementing the real Living wage, within the Council, at the moment. However this would need to be reviewed each year to ensure we continue to pay the living wage. Depending on the outcome of the review the Council may have to increase our hourly rates to remain accredited and fund this accordingly. . Employers who have signed up to the accredited scheme will need to implement any increase as soon as possible and at the latest within 6 months. If necessary we would need to pay a supplement to those employees if their hourly rate fell below the living wage

Arms length organisations

- 8.2 Based on the current salaries, South Essex Property Services would see a total increase of £70K pa (increase in annual Salary £62K and pension and NI costs of £8K)
- 8.3 Based on the current salaries Southend Care would see a total increase of £25K pa (increase in annual Salary £22K and pension and NI costs of £3K)
- 8.4 Both companies would need to meet these additional costs from within their relevant budgets.

3rd Party contractors

- 8.5 The Council works in partnership with a wide range of contractors to provide our services and it is difficult to provide exact figures as to the likely implications of becoming an accredited employer, however based on the current waste management contract, managed by Veolia, which is in place until 2023, based

on current salaries this would see a total increase of £250k per annum an estimated total increase of 3.3% on the current annual contract of £7.5m pa.

8.6 In terms of the domiciliary care contract which is in place until 2022, due to the complexities of this contract it is difficult to provide a clear indication of any potential increase. The Council currently commissions in the region of 12,000 hours of care per week and pays providers an hourly rate of £15.24 for mainstream homecare (we are not aware what percentage is passed onto their employees). This figure includes tangible and intangible overheads of providing a care service for example, redevelopment, training and investment in care. When the National Living Wage (Government minimum wage for over 25s) increased in April 2019, based on the Council's 2018/19 provider rates and the clients the Council had at the time, we calculated that we needed to find a further £1m on the adults third party budgets in 2019/20 to allow providers to increase their staff rates in line with the new rate. This was based on an increase of 38p per hour. With the current hourly rate for the Real Living Wage set at £9 per hour, this would represent an increase of 79p per hour, which is double the hourly increase the Council had to address in 2019/20.

8.7 The impact on the waste management contract will need to be factored into the contract price of the new contract in 2023. The expectation for the domiciliary care contract is that this is contained within current contract values. However further work will need to be undertaken to examine any potential costs implications to the Council. For adults third party providers the Real Living Wage is expected to add an estimated £1m pa to these contracts, when they expire and are re-procured. This will be in addition to the normal annual uplift of circa £1m pa. As we progress through the accreditation process and identify the full cost of the impact on external providers and the Council, they will need to be factored into the Council's Medium Term financial plan at the appropriate time.

9. **Legal Implications**

Paying the Real Living Wage is voluntary and therefore there are no legal implications

10 **People Implications**

Paying the living wage may enable the Council and their third party contractors to attract and retain employees and may well result in increased motivation and performance. Higher pay may see improved staff retention and lower turnover which ultimately could reduce recruitment and induction costs.

Being an accredited employer may well improve our reputation as an employer and differentiate the Council from other authorities who have not signed up to the scheme.

11 **Property Implications**

None

12 **Consultation**

None

13 **Equalities and Diversity Implications**

We currently pay above hourly rate for the living wage and we only have a total of 9 employees (5 male and 4 female) who are employed on scale point 3 (£18,065), scale point 4 (£18,426) and scale point 5 (£18,795) at the bottom of our pay scales. If any adjustments are made to the living wage, these employees are likely to benefit. Therefore any changes will only impact a small number of employees with no significant benefit to either gender.

14 **Risk Assessment**

In order to understand the implications for our 3rd party providers a more detailed assessment of all current contractors would be required to identify the full financial risk, and any possible impact on the supply chain locally