



## Cabinet

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**Report of:** Laraine Manley – Executive Director Resources

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**Date:** 16 January 2013

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**Subject:** Implementation of the Living Wage

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**Author of Report:** Cheryl Blackett - Head of Human Resources

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**Summary:**

This report recommends the introduction of the Living Wage for Sheffield City Council and makes recommendations for its practical implementation following a resolution at Council on 7 November 2012.

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**Reasons for Recommendations:**

Following a resolution at Council on 7 November to support the Administration's commitment to providing the Living Wage of £7.20 per hour for all Council employees from 1 January 2013 (rising to £7.45 from 1 April 2013), as directed, this report is presented to Cabinet to outline plans to implement a Living Wage in the Council and to promote a Living Wage for Sheffield involving partners across the City in public, private and voluntary sector organisations.

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**Recommendations:**

- The Living Wage is introduced in Sheffield City Council;
  - Cabinet approve the approach to implementation outlined in this report;
  - The Council promotes a Living Wage for Sheffield involving partners across the City in public, private and voluntary sector organisations.
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**Background Papers:** None

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**Category of Report:** OPEN

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**Statutory and Council Policy Checklist**

<b>Financial Implications</b>
YES/ Cleared by: Allan Rainford, Deputy Director of Finance
<b>Legal Implications</b>
YES/ Cleared by: Scott Fitzjohn, Employment Solicitor
<b>Equality of Opportunity Implications</b>
YES/ Cleared by: Kate Flannery, HR Consultant
<b>Tackling Health Inequalities Implications</b>
NO
<b>Human rights Implications</b>
NO:
<b>Environmental and Sustainability implications</b>
NO
<b>Economic impact</b>
YES
<b>Community safety implications</b>
NO
<b>Human resources implications</b>
YES
<b>Property implications</b>
NO
<b>Area(s) affected</b>
<b>Relevant Cabinet Portfolio Leader</b>
Cllr Bryan Lodge

<b>Relevant Scrutiny and Policy Development Committee if decision called in</b>
Overview and Scrutiny Management Committee
<b>Is the item a matter which is reserved for approval by the City Council?</b>
<b>NO</b>
<b>Press release</b>
<b>NO</b>

## IMPLEMENTATION OF THE LIVING WAGE

### 1. SUMMARY

- 1.1 This report recommends the introduction of the Living Wage for Sheffield City Council and makes recommendations for its practical implementation following a resolution at Council on 7 November 2012. It further recommends that the Council promotes a Living Wage for Sheffield with partners across the City in public, private and voluntary sector organisations.

### 2. WHAT DOES THIS MEAN FOR SHEFFIELD PEOPLE

- 2.1 The Council's Corporate Plan, Standing Up for Sheffield, commits Sheffield City Council to tackling poverty and increasing social justice.

Introducing the Living Wage will improve the income levels of a substantial number of low paid individuals in the Council and therefore the City which will not only improve their quality of life but also increase their spending power which will, in turn, impact on the local economy.

### 3. OUTCOME AND SUSTAINABILITY

- 3.1 Research has shown that there is clear evidence of benefits to employers from implementing the Living Wage such as improved recruitment and retention, higher employee morale, motivation and productivity in addition to the reputational benefits of being an ethical employer (Living Wage Foundation).

Adopting the Living Wage will demonstrate to the wider community the positive impacts and potentially encourage other public, private and voluntary sector organisations to follow our lead.

### 4. IMPLEMENTATION OF THE LIVING WAGE

#### 4.1 Background

The concept of a Living Wage is well established, although there are a number of different rates and concepts that have been promoted in recent years such as the national minimum wage and the Council of Europe Decency Threshold. The national minimum wage is currently £6.19 for employees aged 21 and over and is a statutory requirement, whereas the Living Wage Scheme is voluntary.

The Living Wage Foundation has calculated that the Living Wage should be £8.30 per hour in London (rising to £8.55 in 2013) and £7.20 per hour outside London (rising to £7.45 in 2013). It has been adopted by many employers who have reported benefits such as reduced absenteeism and improved recruitment and retention. Local Authorities that have introduced the Living Wage include Glasgow, Preston, Birmingham, as well as a number of London councils.

The City Council set up a Fairness Commission to make a non-partisan strategic assessment of the nature, extent, causes and impact of inequalities in the City and to make recommendations for tackling them. The Commission will publish its report early in 2013 and it is anticipated that the Commission will recommend the city adopts the Living Wage.

On 7 November 2012 Council confirmed support for the commitment to introducing the Living Wage for Council employees from 1 January 2013 in acknowledgement of the impact on staff of the pay freeze in local government and the increment freeze introduced in the Council and directed that a report be brought to Cabinet outlining plans for implementation and to promote a Living Wage for Sheffield involving partners across the city in public, private and voluntary sector organisations.

#### 4.2 **Accreditation**

The Living Wage Foundation offer accreditation to employers that pay the Living Wage; or those committed to an agreed timetable of implementation, by awarding the 'Living Wage Employer' mark. It should be noted that there is a distinction between an employer paying the Living Wage and an employer who commits to accreditation.

Accredited Living Wage employers are required to take the following actions within 3 months of the formal signing of the Accreditation Licence:

- Ensure that all directly employed staff over the age of 18 (other than apprentices or interns) are paid no less than the Living Wage;
- Increase the amount paid to employees, by the same amount as any increase to the Living Wage, within 6 months of the date on which any increase in the Living Wage is officially announced;
- Notify all affected employees of the date of the next increase within one month of the official announcement.

The Living Wage Foundation does not take into account the value of the overall terms and conditions package (such as annual leave, sick pay and pension arrangements). If the Council sought recognition from the Living Wage Foundation, it would have to commit to the above conditions in full within the set timescales. There would be no flexibility to review the pay rates if alternative ways of addressing low pay were to be proposed nationally or locally.

In addition, the Council would need to ensure that the measures above are implemented for staff employed by contractors and sub-contractors within an agreed period of time after the formal signing of the Accreditation Licence.

The Council is therefore not seeking accreditation at this stage.

#### 4.3 **Scope**

1903 employees in total would be impacted by the introduction of the Living Wage - 257 non-school employees and 1646 employees in schools where the pay is determined by the authority.

In foundation, voluntary aided and foundation special schools the Governing Body is responsible for determining the pay, terms and conditions of employees, therefore it would be a matter for the Governors to decide whether or not to adopt the Living Wage. Academies are an entirely separate employer covered by the Academies Act 2010 and it would be their decision whether or not to adopt the Living Wage.

The scope of the Living Wage Foundation does not include interns or apprentices and therefore the numbers have not been included in the figures above. However, Sheffield City Council will introduce an equivalent uplift for Apprentices on the Sheffield 100 programme for the duration of their apprenticeship. This equates to a 15% supplement from January 2013.

Agency workers (on average 84 each month) would also be affected.

The Living Wage Foundation defines a casual as 'a worker who is working on the employer's premises for two or more hours per week, for eight or more consecutive weeks in the year'. If these workers were included approximately 171 additional individuals would be added to the non schools total.

#### 4.4 **How to Implement the Living Wage**

It is recommended that Sheffield City Council seeks a Collective Agreement with the Trade Unions. This is the most administratively efficient method of adoption and the most robust way of avoiding legal challenge. If adopted via a Collective Agreement, community schools would be bound by the agreement provided the Governing Body did not object and thus all SCC employees earning less than £7.20 per hour (£7.45 in April 2013) would benefit from the proposal. Governors who did object would risk challenge from employees.

#### 4.5 **Method of Implementation**

The Council is proposing to implement the Living Wage as a supplement. The rationale for this is that it provides a positive annual process which enables the Council to recalibrate the Sheffield City Council Living Wage in line with that determined nationally; this would provide flexibility and make the change process more straightforward.

The current grading structure in Sheffield City Council is based on the NJC national pay spine and is amended through national pay bargaining arrangements. The current structure is attached at **Appendix 1**. Currently hourly rates applied within the Council are lower than the suggested Living Wage up to and including spinal column point 9 (10 in April 2013) within grade 2.

If the Council introduced the Living Wage this would effectively remove Grade 1 from the current grading structure. To avoid impacting on the structure, it is proposed that this payment is made as a supplement to the hourly rate. This is similar to the provisions applied through the use of market supplements. This is a tried and tested principle that has been subjected to legal tests. On a balance of probabilities it is likely that the Council will be able to justify the differential treatment compared to other employees on the basis that the application of the Living Wage is a proportionate means of achieving a legitimate aim, i.e. paying a Living Wage and addressing poverty.

This also ensures the current grades match against the job scoring used in the recently undertaken Job Evaluation exercise which will reduce the risk of equal pay claims as it would be applied consistently across the authority.

The Living Wage supplement will not be consolidated into pay and so will not be taken into account for payment of other elements of pay, e.g. overtime, night, weekend and bank holiday enhancements and unsocial hours' payments.

It is recommended that the Living Wage supplement uses basic pay rates and excludes any enhancements as the payment of a supplement could be complicated if agreed enhancements are taken into account as part of the calculation method. Administratively this will also be simpler to manage.

However the payment is made it will be pensionable and therefore incur the employer's contribution for those who pay into the pension scheme.

#### 4.6 **Living Wage for Sheffield**

If approved, the Council will promote the Living Wage by writing to partners across the City in public, private and voluntary sector organisations explaining the Council's rationale for implementing it and the benefits and to encourage other organisations to consider it. The Council will seek a commitment to the Living Wage from potential partners and contractors through procurement processes.

#### 4.7 **Legal Implications**

As the introduction of the Living Wage would impact on the differentials between the lowest paid and the grade above this may have litigious consequences.

It is strongly advised against amending the pay structures. The best way of implementing the Living Wage is to pay a supplement. The main benefit of a payment of a supplement to bring individuals up to the Living Wage is transparency and would also be easier to remove if necessary.

There are no real precedents for Living Wage issues. The majority of other local authorities who have introduced Living Wage have done so as a supplement.

#### 4.8 **Financial Implications**

To implement the Living Wage by introducing an additional allowance would cost £107k (£134k including on costs) pa for SCC employees outside schools. This figure is based on contracted hours. The cost for on average 171 casual non schools workers would be £6.5K pa. If approved this would be incorporated into budgets through the normal budget setting process.

In schools the cost would be approximately £619k (£774k including on-costs) pa. This figure is based on actual hours worked. If approved this would be funded by the schools.

The Council will fund the additional costs for existing Apprentices and those that join the Sheffield 100 programme in April 2013 who are employed in private sector organisations. The additional costs for Apprentices in the Council will be met by the employing service. The total cost associated with Apprentices employed within the Council is approximately £20k pa including on-costs.

#### 4.9 **EO Implications**

A full equality impact assessment is being carried out.

#### 4.10 **HR Implications**

Paying the Living Wage will identify Sheffield City Council as an ethical employer. The Living Wage Foundation research shows improved recruitment and retention rates, improved morale and motivation and higher productivity in those organisations that have adopted the Living Wage.

It will reduce the gap between female and male workers (an aim of the pay review EIA actions) at a time when the increment freeze prevents acceleration through the grade.

There is potential for some industrial relations issues as the differential between grades in terms of pay rates is eroded, which could mean that some employees are earning the same as the people they supervise.

Implementation of the Living Wage may impact on benefits or tax credits.

## **5. ALTERNATIVE OPTIONS CONSIDERED**

5.1 The Council intends to seek a collective agreement to implement the Living Wage. If this is not possible, it may be imposed by individual contract variation. Whilst the likelihood of a challenge is limited, it would be difficult to defend legally if challenged.

5.2 Consideration was given to amending the grading structure rather than introducing a supplement. This would increase the risk of equal pay claims as previously posts in grade 1 and 2 were determined via the Job Evaluation Scheme to be of different values. The cost of this approach would be £169k (£210k including on-costs) outside schools, and £768k (£960k with on-costs) in schools.

## **6. REASONS FOR RECOMMENDATIONS**

6.1 Following a resolution at Council on 7 November to support the Administration's commitment to providing the Living Wage of £7.20 per hour for all Council employees from 1<sup>st</sup> January 2013 (rising to £7.45 from 1<sup>st</sup> April 2013), as directed, this report is presented to Cabinet to outline plans to implement a Living Wage in the Council and to promote a Living Wage for Sheffield involving partners across the City in public, private and voluntary sector organisations.

6.2 It is recommended that the Living Wage is implemented for Sheffield City Council employees via a Collective Agreement with the Trade Unions because it is the most robust approach. This would cover schools would thus ensuring a consistent approach across the authority.

The chosen method of implementation is via a supplement using basic pay rates as this provides the authority with the best legal justification and ensures the grading structure is not undermined.

## **7. RECOMMENDATIONS**

7.1 It is recommended that:

- The Living Wage is introduced in Sheffield City Council;
- Cabinet approve the approach to implementation outlined in this report;



- The Council promotes a Living Wage for Sheffield with partners across the City in public, private and voluntary sector organisations.

## Pay Scales (Local Government Services) with effect from 1 April 2010

SCP	Salary (£)	New Grade	
4	12,145	1	
5	12,312		
6	12,489		
7	12,787		
8	13,189		
9	13,589		2
10	13,874		
11	14,733		
12	15,039	3	
13	15,444		
14	15,725		
15	16,054		
16	16,440		
17	16,830		4
18	17,161		
19	17,802		
20	18,453		
21	19,126		
22	19,621	5	
23	20,198		
24	20,858		
25	21,519		
26	22,221		
27	22,958		6
28	23,708		
29	24,646		
30	25,472		
31	26,276		
32	27,052	7	
33	27,849		
34	28,636		
35	29,236		
36	30,011		
37	30,851		8
38	31,754		
39	32,800		
40	33,661		
41	34,549		
42	35,430	9	
43	36,313		
44	37,206		
45	38,042		
46	38,961		
47	39,855		10
48	40,741		
49	41,616		
50	42,490		
51	43,360		
52	44,234	11	
53	45,109		
54	45,983		
55	46,858		
56	47,731		
57	48,602		