

TITLE OF REPORT: **Addressing ‘Low Pay’ within the Workforce – impact of the National Living Wage**

REPORT OF: **Mike Barker, Strategic Director, Corporate Services and Governance**

Purpose of the Report

1. To seek Cabinet agreement to recommend to Council a revised grading structure that would enable the Council to continue to address the issue of low pay within the workforce, implement the National Living Wage (NLW), and move further towards the UK Living Wage.

Background

2. The Council has previously debated the question of how to address low pay, and how it might improve pay for the lowest paid workers in the economy and in the Council. This is now set in a context of:
 - The new compulsory National Living Wage;
 - The Campaign for a Living Wage, supported at least in part by neighbouring Councils and local MPs;
 - Increasingly severe financial pressures on the Council’s budget;
 - A risk of the Council losing/not winning external contracts;
 - Potential increases in the costs of services bought in by the Council due to the introduction of the NLW; and
 - A hiatus in national pay bargaining for local authority staff for 2016/17.
3. The new compulsory National Living Wage (NLW) for employees aged 25 and above will be introduced on 1 April 2016 and will begin at £7.20 per hour in 2016. It is projected to rise to at least £9 per hour (possibly up to £9.35) by 2020. The NLW is distinct from the UK Living Wage (which is £8.25 per hour) and the National Minimum Wage (NMW) rates for under-25 year olds.
4. The Council’s lowest hourly rate is currently £7.19 per hour (SCP 8). The current final NJC pay offer for 2016-18 (shown in detail at Appendix 2) is a 2 year offer of 1% in both 2016 and 2017 for employees on SCP18 (£17,714 p.a.) and above. For employees on SCPs 17 and below, the offer is an increase of between 1.01% and 6.6% from 1 April 2016 and between 1.3% and 3.2% from 1 April 2017.
5. The effect of this pay offer, without any other action by the Council, would take the Council’s lowest hourly rate to £7.66 per hour (SCP 8) in April 2016, i.e. 44 pence above the proposed NLW. The cost of implementing the proposed pay offer would be £1.7m in 2016.

6. However, the LGA have confirmed that it is unlikely that agreement will be reached on the pay offer by 1 April 2016; therefore the Council needs to increase the pay of employees on SCP 8 in accordance with the requirements of the NLW.

Proposal

7. In order to implement the NLW, and to continue to address low pay within the workforce by moving our lowest pay levels closer to the UK Living Wage, it is proposed that the Council deletes SCP 8 from 1 April 2016. This will increase the lowest pay point grade A (SCP 9) to £7.30 per hour, pending the pay award for 2016/17. As part of this proposal, there will also be a modest change to grade B which would see it move up one increment to SCPs 10 and 11. All employees on current grades A and B would therefore receive one increment on 1 April 2016, as well as whatever increase eventually results from the pay award for 2016. The proposed changes (including the rates proposed under the 2016 NJC pay offer) is shown in more detail in Appendix 3.
8. If the current pay offer is agreed, grade A (SCP 9) will increase to £7.76 per hour, a 7.9% increase for our lowest paid employees and moving significantly beyond the NLW and only 49p less than the UK Living Wage (having been 66p lower than the UK Living Wage in April 2015).
9. The cost of implementing this proposal for council staff in 2016/17 would be £101k (in addition to the cost of implementing the proposed pay offer for 2016) based on an implementation date of 1 April 2016 and would impact on 336 FTEs. This cost is covered within the MTFs and can be met from the 2016/17 budget.

Recommendation

10. It is recommended that Cabinet agrees to:
 - (i) recommend to Council the deletion of SCP 8 from the grading structure proposed with effect from 1 April 2016; and
 - (ii) receive further reports on the outcome of the national pay negotiations and further options to address low pay within the Council's workforce.

For the following reasons:

To go beyond compliance with the National Living Wage as a significant step to addressing low pay within the Council's workforce in a way which is workable and affordable.

Policy Context

1. The proposals have been developed in line with the Council Plan, Council's Pay Policy, Workforce Strategy, MTFs and economic growth policies.

Background

2. The Chancellor of the Exchequer has announced that a new compulsory National Living Wage (NLW) for employees aged 25 and above will be introduced on 1 April 2016. The NLW will be based on median earnings with the aim of reaching 60% of median UK earnings by 2020. The NLW will begin at £7.20 per hour in 2016 and is projected to rise to at least £9 per hour (possibly up to £9.35) by 2020.
3. The NLW is distinct from the UK Living Wage, which is a voluntary wage rate calculated independently by the Living Wage Foundation and based on the costs of living. The UK Living Wage rate outside of London is £8.25 per hour, which is significantly higher than both the NLW and the National Minimum Wage (NMW). The figure is reviewed annually each November during Living Wage Week.
4. Four NMW rates, which change annually in October, will remain:
 - The adult rate (for those aged 21-24)
 - The Youth Development rate (for those aged 18-20)
 - The 16–17 year old rate
 - The Apprentice rate
5. The NLW is effectively a rebranding of the existing NMW insofar that it will remain the responsibility of the Low Pay Commission to submit a report to the Government each year with a recommendation of what the annual increase should be.

Council Context

6. The Council's Workforce Strategy and Plan confirm the need to have a Pay and Reward Strategy which is fit for purpose. This will include providing the best reward packages possible which recognise the difficult financial climate and ensure fairness across the workforce as well as a commitment to keeping our pay arrangements under review.
7. In seeking to address the issue of low pay by changes to its pay and grading structure the Council needs to consider:
 - the impact on supervisory differentials;
 - the financial implications and how this would be resourced; and
 - the impact on its ability to remain competitive where there are external contracts.
8. Whilst the spinal column points are themselves a matter for national negotiation, the way they are applied as grades is a matter for each Council. Gateshead's current grading structure for its lowest grades is shown below, (SCPs 14 and 22 are not currently applied.)

Grade		SCP	Salary	Hourly Rate
			£	£
	A	8	13,871	7.19
B		9	14,075	7.30
B		10	14,338	7.43
	C	11	15,207	7.88
	C	12	15,523	8.05
	C	13	15,941	8.26
		14	16,231	8.41
D		15	16,572	8.59
D		16	16,969	8.80
D		17	17,372	9.00
	E	18	17,714	9.18
	E	19	18,376	9.52
	E	20	19,048	9.87
	E	21	19,742	10.23
		22	20,253	10.50

9. This proposal will maintain the integrity of a pay structure that retains grade/supervisory differentials (although the differentials would be narrowed); retain a degree of 'in-grade' progression (c.f. spot salaries); and will enable the Council to continue to progress closer to the current UK Living Wage.
10. In order to achieve £9 per hour as the minimum hourly rate by 2020, there will need to be a fundamental review of the grading structure at the lower end.

Consultation

11. The views of the Leader of the Council have been sought in drafting this report. The Council's recognised non-teaching Trade Unions have also been consulted.
12. Council Officers and Trade Unions have been in regular discussion on the benefits and risks associated with pay levels closer to the Living Wage since the Council motion was passed on 25 January 2013.
13. The Trade Unions have confirmed that they acknowledge this proposal as a positive way of introducing the NLW in Gateshead Council and would welcome continued discussions on how the Council can move towards implementing the UK Living Wage.

Alternative Options

14. Lifting the pay of employees on SCP 8 to the new National Living Wage level of £7.20 per hour on 1 April 2016 would be a lower cost option, but would compromise the existing pay structure, send out an erroneous message that the Council wants to be a minimum wage employer, and would not represent a significant step towards addressing low pay.

Implications of Recommended Option

15. Resources:

- a) **Financial Implications** – The Strategic Director, Corporate Resources confirms that sufficient funds to fund the current proposals have been set aside within the 2016/17 revenue budget reported elsewhere on this agenda. Future requirements will be considered within a refresh of the Council's Medium Term Financial Strategy.
- b) **Human Resources Implications** – This proposal improves the earnings of the Council's lowest paid workers. As the introduction of the higher pay levels can be accommodated within existing financial plans, it is not expected to increase the risk of redundancy amongst Council employees.
- c) **Property Implications** – There are no property implications arising from the recommendations within this report.

16. **Risk Management Implications** – The proposal maintains the integrity of a pay structure that retains grade/supervisory differentials, and reduces the risk of job evaluation challenges.

17. **Equality and Diversity Implications** – The majority of employees affected by these proposals are part-time females, who are in the lowest paid part of the economy.

18. **Crime and Disorder Implications** – There are no crime and disorder implications.

19. **Health Implications** - There are no health implications.

20. **Sustainability Implications** - There are no sustainability implications.

21. **Human Rights Implications** – There are no human rights implications

22. **Area and Ward Implications** - There are no area and ward implications.

23. Background Information

Gateshead Council Pay Policy 2015

Appendix 2

The percentage increase in the current pay offer for each SCP for each of the two years:

From 1 April 2016:

- On SCP 8, 6.5% (£900)
- On SCP 9, 6.4% (£900)
- On SCP 10, 6.3% (£900)
- On SCP 11, 2.0% (£300)
- On SCP 12, 2.0% (£300)
- On SCP 13, 1.6% (£250)
- On SCP 14, 1.5% (£250)
- On SCP 15, 1.2% (£200)
- On SCP 16, 1.2% (£200)
- On SCP 17, 1.01% (£175)
- On SCPs 18 and above, 1.0%

From 1 April 2017:

- On SCP 8, 3.2% (£475)
- On SCP 9, 2.6% (£400)
- On SCP 10, 2.5% (£375)
- On SCP 11, 1.9% (£300)
- On SCP 12, 1.9% (£300)
- On SCP 13, 1.9% (£300)
- On SCP 14, 1.8% (£300)
- On SCP 15, 1.8% (£300)
- On SCP 16, 1.5% (£250)
- On SCP 17, 1.3% (£225)
- On SCPs 18 and above, 1.0%

Appendix 3

The proposed changes (including the rates proposed under the 2016 NJC pay offer) are shown below:

Grade		SCP	Salary from 1 April 2016	Hourly Rate	Salary (including 2016 pay offer)	Hourly Rate
			£	£	£	£
		8	13,871	7.19	14,771	7.66
	A	9	14,075	7.30	14,975	7.76
B		10	14,338	7.43	15,238	7.90
B	C	11	15,207	7.88	15,507	8.04
	C	12	15,523	8.05	15,823	8.20
	C	13	15,941	8.26	16,191	8.39
		14	16,231	8.41	16,481	8.54
D		15	16,572	8.59	16,772	8.69
D		16	16,969	8.80	17,169	8.90
D		17	17,372	9.00	17,547	9.10
	E	18	17,714	9.18	17,891	9.27
	E	19	18,376	9.52	18,560	9.62
	E	20	19,048	9.87	19,238	9.97
	E	21	19,742	10.23	19,939	10.34
		22	20,253	10.50	20,456	10.60