

MEETING:	Employment panel
MEETING DATE:	18 January 2016
TITLE OF REPORT:	Pay policy statement
REPORT BY:	Chief executive

Classification

Open

Key decision

This is not an executive decision.

Wards affected

County-wide

Purpose

To consider a draft pay policy statement for recommendation to council; to update the employment panel about implementing the living wage, and the current national pay negotiations.

Recommendation(s)

THAT the following be recommended to Council:

- (a) the pay policy statement summarising existing council policies (at appendix A) be approved;**
- (b) authority be delegated to the monitoring officer, following consultation with the chief executive, to make in year technical amendments to the statement to reflect changes to post holder details or approved changes to local or national pay policy; and**
- (c) having regard to the introduction of the statutory national living wage effective April 2016 no further action be taken in response to Council's resolution to consider how to introduce the Living Wage Foundation living wage.**

Alternative options

- 1 There are no alternative options to recommendation a); the approval by Council of a pay policy statement for the authority is a statutory requirement and the statement does not of itself make any policy changes, but provides a summary of those policies already in place.
- 2 It is open to the panel to consider recommending adoption of the Living Wage

Foundation (LWF) living wage. This is not recommended given the additional financial implications for council maintained schools and council contractors, and ending assessment of the impacts following the introduction of the statutory national living wage (NLW).

Reasons for recommendations

- 3 To provide transparency with regard to the council's approach to setting the pay of its employees in compliance with the provisions of the Localism Act 2011 and the Local Government Transparency Code 2015.
- 4 The government announcement about the introduction of the NLW was made after Council had asked for proposals about how to implement the LWF living wage. The latter is voluntary and determined each year. Whilst clarity is still required about how the national living wage will increase, it is known that it will reach at least £9 an hour by 2020, which assists financial planning.
- 5 Each increase has an effect on the pay structure and erodes differentials and relativities between roles. How best to manage this needs to be established. As the council's pay structure is aligned to the national pay structure, implementing the national living wage rather than the LWF living wage would enable us to work with Local Government Employers (LGE) and tap into their advice and guidance about how this can best be achieved.

Key considerations

Pay policy statement

- 6 The Localism Act places a requirement on local authorities to produce an annual pay policy statement for each financial year and for this statement to be approved by council before the start of the financial year to which it relates.
- 7 The statement must set out the council's policies relating to:
 - a) the remuneration of its chief officers;
 - b) the remuneration of its lowest paid employees; and
 - c) the relationship between the remuneration of its chief officers and the remuneration of its employees who are not chief officers.
- 8 The statement must include the council's definition of 'lowest paid employees' and the reasons for adopting that definition.
- 9 The statement must include policies relating to:
 - a) the level and elements of remuneration for each chief officer;
 - b) remuneration of chief officers on recruitment;
 - c) increases and additions to remuneration for each chief officer;
 - d) the use of performance related pay for chief officers;
 - e) the use of bonuses for chief officers;
 - f) the approach to the payment of chief officers on their ceasing to hold office under, or to be employed by the authority; and
 - g) the publication of and access to information relating to remuneration of chief officers.

- 10 The local government transparency code came into effect in February 2015. Local authorities must, under this code, publish the pay multiple on their website, defined as the ratio between the highest paid taxable earnings for the given year (including base salary, variable pay, bonuses, allowances and the cash value of any benefits-in-kind) and the median earnings figure of the whole of the authority's workforce. The measure must:
- a) cover all elements of remuneration that can be valued (e.g. all taxable earnings for the given year, including base salary, variable pay, bonuses, allowances and the cash value of any benefits-in-kind);
 - b) use the median earnings figure as the denominator, which should be that of all employees of the local authority on a fixed date each year, coinciding with reporting at the end of the financial year, and
 - c) exclude changes in pension benefits, which due to their variety and complexity cannot be accurately included in a pay multiple disclosure.
- 11 The pay multiples presented in the pay policy statement comply with the transparency code requirements.
- 12 The statement draws together factual material and provides a summary of the current pay policies of the council.
- 13 All posts, whether chief officer or not, have their level of remuneration established through assessment by a nationally recognised and independent job evaluation scheme. Council must approve any new salary packages, or severance payments, exceeding £100,000.
- 14 The pay policy statement for 2015 was produced when the council was in a state of transition and recruiting to senior posts. The 2016 statement shows a more stable position with fewer contracted services.
- 15 In approving its statement, Council must have regard to any guidance issued by the secretary of state. This has been taken into consideration in the development of the statement.
- 16 The pay policy statement follows a previous format and has been updated to reflect current data relating to roles, salaries and financial information. There have been no subsequent pay policy changes.

Living wage

- 17 On 12 December 2014 Council passed a motion 'that the chief executive, as head of paid service, be requested to report to the employment panel and council on how to achieve the following outcome: introduce the living wage into the council's pay policy in place of the inadequate minimum wage.' This work was planned to be carried out mid-year however the July budget introduced the national living wage. As such the policy was reviewed in this context.
- 18 The living wage referred to by Council is the Living Wage Foundation (LWF) living wage which is a voluntary rate set each year in November. Further information about how it is calculated is available on www.livingwage.org.uk.
- 19 The statutory NLW from April 2016 will be at a rate of £7.20 per hour at age 25 and above, rising annually so that by 2020 it is 60% of median UK earnings per hour which, based on data available, is likely to be around £9.30 per hour. A comparison of the relevant rates, including national minimum wage for completeness, is below:

		Per hour
National minimum wage (NMW) as at 1 Oct 15	Age 21 and over	£6.70
	Aged 18-20	£5.30
	Under 18	£3.87
	Apprentice aged 16-18 and 19 and over in 1 st year of scheme. All others: NMW for their age	£3.30
Living Wage Foundation LW as at 2 Nov 15.		£8.25 (previously £7.85)
Proposed national living wage (NLW) as at 1 April 2016.	Age 25 and over	£7.20 (rising to £9.00+ in 2020)

- 20 The council's policy is to have transparent pay structures that identify the rate for the job through job evaluation based on objective criteria, including the responsibilities and accountabilities of the role, so that is free from bias. It does not take account of the job holder's age so the council will ensure that all employees are paid as a minimum the NLW regardless of age. This excludes apprentices who have their own scheme.

National pay negotiations

- 21 The existing national pay deal was for two years and ends on 31 March 2016. Trade Unions have submitted a three part claim that is identical to their 2014 claim. In particular they are seeking deletion of NJC and local pay points which fall below the level of the UK Living Wage i.e. £8.25 and a flat rate increase of £1 per hour on all other pay points.
- 22 The Local Government Association (LGA) has worked with the regional employers to refresh the intelligence with regard to local authorities who are applying the LWF living wage (see appendix b). Since the last summary published in April, the number of councils that have implemented the LWF rates has increased from 157 to 175. In addition a further 27 councils, while not having specifically adopted the LWF rates, pay all employees above that rate as a result of the minimum pay rate within their grading structure. This could change if increases in the LWF rates are higher than pay settlements within the sector in future years.
- 23 Appendix b shows the status of councils' intent or commitment to paying the LWF living wage. It should be noted that:
- some councils are no longer included in the list, as while they had implemented the LWF rate in previous years they have taken a specific decision not to increase pay in line with the rates at the time of the survey, i.e. £9.15 (London) and £7.85 (rest of UK);
 - some councils have adopted it on an 'open ended' basis, while in others the issue is considered each time the living wage figure increases. These are not distinguished within the table;
 - of the 175 councils that have adopted the living wage, 18 are not covered by national pay bargaining. These are shown in red within the table;
 - 33 councils are now accredited by the LWF, i.e. contracted staff are already being paid at living wage rates or have committed that contracts would be reviewed at living wage rates. These are shown in bold italics;
 - a further eight councils have made a firm political commitment to adopt the

appropriate LWF rate by a specific date;

- f) a number of councils have adopted a locally determined Living Wage that is lower than the nationally set rate;
- g) the survey summary does not identify whether councils have implemented it by moving employees up the pay spine or through paying a separate supplement. The wider survey carried out in 2014 indicated that it had been implemented in a multitude of ways that could not be readily summarised in a simple table.

Implications

- 24 The LGA has estimated that the impact of implementing the union's claim in full would represent an increase of 8.3% on current levels (based on living wage of £7.85, before the increase to £8.25 on 2 November 2015).
- 25 The introduction of the statutory NLW has the following national implications for councils and support staff in schools
 - a) the increase in the base point of the LG pay spine from £5 per hour to the current £7.06 took 13 years. The same increase and more is required over the next four years.
 - b) national employers do not consider that addressing the NLW within the context of a longer term (four year) pay deal is a realistic option in view of the array of unknowns. They will therefore be looking for a two year deal in 2016/17 and 2017/18 so that they can spend time looking at a new pay spine.
 - c) as the NLW rate increases the pay points on the pay structure will drop off the bottom. In four years the lowest pay point is likely to be scp19 which for the council sits within HC5, resulting in loss of differentials and relativities. Work will need to be done by employers (collectively) to design a new approach. Based on current data this would affect 298 employees as follows:

Grade	National SCP	Annual Pay Rate £	Hourly Pay Rate	No of employees		
				F	M	total
HC2	7	13,715	7.11	0	0	0
	8	13,871	7.19	0	0	0
	9	14,075	7.30	0	0	0
	10	14,338	7.43	1	0	1
HC3	10	14,338	7.43	3	2	5
	11	15,207	7.88	1	1	2
	12	15,523	8.05	2	3	5
	13	15,941	8.26	56	11	67
HC4	13	15,941	8.26	26	4	30
	14	16,231	8.41	12	4	16
	15	16,572	8.59	13	2	15
	16	16,969	8.80	78	21	99
HC5	17	17,372	9.00	30	3	33
	18	17,714	9.18	14	11	25
	19	18,376	9.52	18	0	18
	20	19,048	9.87	5	5	10
	21	19,742	10.23	93	23	116

- d) the LGA is not considering a 'single status mark II', however it expects that local authorities will need to review local grading structures and role definitions in order to shift to a new and more flexible spine.

- 26 If the council decided to implement the LWF living wage unilaterally, the breakdown in differentials and relativities would happen sooner and would need to be addressed. In addition, other considerations would include whether:
- a) to create an allowance to enable employees to maintain their substantive pay and received the difference as an allowance;
 - b) to obtain annual agreement when the new rates were announced or to automatically increase;
 - c) to adopt a rate that is lower than the LWF living wage.
- 27 Service areas, together with finance and commercial services, have reviewed the impact of both the national living wage and LWF living wage on current contracts.

Community impact

- 28 The council, as an employer, has a significant role to play in the local economy. We have an explicit corporate objective related to increasing the average wage and the number of people that work in Herefordshire. Consideration should continue to be given to the degree to which the commissioning approach adopted by the council may be used to influence pay policies of local contractors who supply goods or services on behalf of the authority. The council continues to ensure that the resources available are used in the most effective way.

Equality duty

- 29 The statement makes clear that the council's employment policies, and the processes by which pay levels for a post are set, have full regard to relevant equality legislation.
- 30 The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying "due regard" in our decision making in the design of polices and in the delivery of services.

Financial implications

- 31 There are no financial implications relating to the pay policy statement arising from the report; the statement simply summarises current policies and pay levels.
- 32 The financial impact of implementing the national living wage across the council, council schools and contractors at a rate of £7.20 in 2016/17 is estimated to be £700k per year and has been accounted for in the proposed 2016/17 budget, with future years included in the medium term financial strategy (MTFS).

	2016/17	2017/18	2018/19	2019/20	Total
	£000	£000	£000	£000	£000
Council	0	1	4	45	50
Council Schools	1	42	125	231	399
Contractors	686	618	491	539	2,334

Total Cost of National Living Wage	687	661	620	815	2,783
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- 33 The financial impact of implementing the LWF living wage across the council, council schools and contractors at a rate of £8.25 in 2016/17 would have been £1.8m per year, an additional £1.1m.

Legal implications

- 34 Sections 38 – 43 of the Localism Act 2011 require that the Authority prepare a pay policy statement for each financial year. It must be prepared and approved before 31 March and once approved published. This policy statement meets the requirements of the Localism Act and also meets the requirements of the guidance issued by the Secretary of State for Communities and Local Government to which the Authority is required to have regard under Section 40 of that Act
- 35 From 1 April 2016 there will be a requirement in law to pay the NLW to those over the age of 25. There is no legal requirement to pay this rate to all employees. The reason for any difference in treatment is due to the forthcoming legislation which will justify the differential.
- 36 If the council decides to implement for all employees then a change will be needed to affected employees terms and conditions and it is suggested this would be via a collective agreement, whether at national or local level.

Risk management

- 37 Failure to approve and publish a statement would result on non-compliance with a statutory requirement. Arrangements are in place to ensure publication of the statement following approval by council.
- 38 To avoid equal pay claims any decision should be applied across both the council and maintained schools as support staff in schools have the same terms and conditions as core employees.

Consultees

- 39 Management board, trade unions, employees, and employment panel will continue to be engaged as appropriate on future thinking and associated plans to make any further changes to elements of the pay policy, or terms and conditions of employment.

Appendices

Appendix A – Draft pay policy statement

Appendix B – Living wage employers as at October 15

Background Papers

None identified.