

Item

IMPLICATIONS AROUND APPLYING A MINIMUM OF £10 PER HOUR TO STAFF ON COUNCIL CONTRACTS

To:

Councillor Richard Robertson, Executive Councillor for Finance and Resources

Strategy & Resources Scrutiny Committee 08/10/2018

Report by:

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Wards affected:

All

Key Decision

1. Executive Summary

- 1.1 The Council currently pays all its directly employed staff and agency workers a minimum of £10 per hour. The Council currently requires contractors to pay the real living wage of £8.75 per hour to qualifying staff, in line with the Living Wage Foundation's requirements.
- 1.2 At Council on 24th May 2018, it was agreed to "ask officers to bring a report to Strategy and Resources Scrutiny Committee on the feasibility of the Council extending its minimum payable wage rate to all its contracted and subcontracted staff."

- 1.3 This report provides an assessment of the implications of requiring the Council's contractors to pay those staff that qualify for the Living Wage an increased rate of £10 per hour. The report is presented for information and the Executive Councillor is not asked to make a decision at the Strategy and Resources Committee meeting on 8 October 2018. Any decision would need to be considered as part of the Council's budget process.

2. Recommendations

The Executive Councillor is recommended to:

- 2.1 Note the findings of the report regarding the implications of requiring contractors to pay qualifying staff a minimum of £10 per hour when working on Council contracts

3. Background

- 3.1. In November 2014, Cambridge City Council received official accreditation from the Living Wage Foundation. Since then we have been working to encourage and support other businesses in Cambridge to become accredited Living Wage employers, as a key component of our work to tackle poverty in Cambridge. The Real Living Wage enables a person to have a minimum acceptable standard of living with less reliance on benefits, and is calculated annually according to the cost of living in the UK.
- 3.2 The Council currently requires all contractors to pay the real Living Wage rate (currently £8.75 per hour) to all qualifying staff. Qualifying staff work for 2 or more hours on any given day of the week for 8 consecutive weeks or more on our premises or premises upon which we require them to work. This is a requirement of the Council's accreditation with the Living Wage Foundation.
- 3.3 With effect from April 2018, the Council applied a "Cambridge Weighting" to the pay of directly-employed Council staff and agency workers to bring the minimum pay rate to £10 per hour. The £10 per hour rate for staff and agency workers is in recognition of especially high living costs in Cambridge compared to other areas in the UK.

- 3.4 For directly employed staff, the real Living Wage and the Cambridge Weighting are applied as supplements, and this has enabled us to maintain our pay scales.
- 3.5 The real Living Wage supplement is applied in line with requirements of the Living Wage Foundation for accredited employers. However, we apply the real Living Wage earlier on in a member of staff's employment with the Council than is required by the Living Wage. For directly-employed Council staff, the Living Wage rate applies from day one where staff are required to work on our own premises (or premises upon which we require them to work) for 2 or more hours on any given day of the week. For agency workers it is applied following 4 consecutive weeks. The Living Wage Foundation's minimum is 8 consecutive weeks for the real Living Wage. The same payment arrangements apply to the local Cambridge Weighting to pay a minimum pay rate of £10 per hour.
- 3.6 In order to research the impacts of applying the £10 per hour minimum pay rate, we used the Council's Due North contract register to identify contracts where the real Living Wage currently is likely to apply. For the 14 affected contracts, suppliers were asked to provide an indicative assessment of the impact of applying the £10 per hour rate to their contracts.
- 3.7 Of these 14 affected contracts that are now live, there were 5 where implementing the minimum of £10 per hour could have an impact. For the remaining contracts, there were no qualifying employees that were paid below the £10 per hour minimum.
- 3.8 Details of the 5 contracts where applying the £10 per hour minimum rate is likely to have an impact are provided at Appendix A. 4 of these 5 contracts only involve one supplier, so they have been able to provide an assessment of the impact.
- 3.9 The fifth contract is a framework contract involving 7 suppliers. We do not have complete information for this contract, as not all the suppliers responded within the time available. Only one of the 7 suppliers provided information on indicative costs, and three more said there was no impact because they paid £10 or above as a minimum already. A

fifth supplier did share that 4 staff members would be impacted but did not provide a cost for this. However, there is likely to be a low impact overall for the contract due to the majority of jobs needing to be highly skilled, which would mean they are at higher pay grades.

3.10 There is an additional sixth contract that starts in October where there is likely to be a significant impact, but it has not been possible to assess the level of impact as the contract has only very recently been signed with the contractor. This contract is due for review in 2023.

3.11 Of the 5 contracts identified, employees and workers with lower pay rates were working in roles such as administrative assistants, receptionists, security officers, and teaching positions. There were also staff at lower pay bands who were undergoing costly training to help them progress in an industry with very specific skills.

4. Implications

(a) Financial Implications

As shown in Appendix A, the total indicative annual cost of applying the £10 per hour minimum rate to the 4 contracts identified is likely to be around £316,000, based on the information provided by current contractors.

Over the remaining duration of the four contracts, which will run from 21 months to 7 years, including periods of extension, the total indicative cost is around £1,640,000.

It is important to note that these costs are calculated based on a flat rate of £10 per hour applying over the next few years. The costings also assume that the current £8.75 rate for the real Living Wage (that suppliers are already required to pay) will remain constant over the next few years. In reality, the real Living Wage rises in November each year (and suppliers have 6 months in which to implement it). As contractors are already required to increase pay rates in line with the annual increases to the real Living Wage year-on-year, the Council's costs of implementing the £10 per hour rate would effectively reduce year-on-year.

However, we were unable to use figures provided by suppliers to calculate the likely reduction in costs to the Council each year. This is because

suppliers did not provide us with information as to how they reached their calculations, and we do not know in advance by how much the real Living Wage rate will rise each year.

All of the affected suppliers unanimously said that they would be unable to meet the costs of uprating of wages to £10 per hour within the existing terms of their contracts. The Council would therefore need to meet any additional costs.

It should be noted that the total estimated annual costs are based on best estimates suppliers have been able to supply on costs at the time of being asked (August 2018).

Uplifting wages of the lowest paid could, in many instances, have an impact on pay differentials suppliers have put in place (such as the gap between lowest rate and supervisor salaries). The gap between the Living Wage wage of £8.75 and the £10 rate would mean a high percentage of supervisor rates (and potentially pay scales up the chain) would need to increase as well, with the additional consequent costs. Some, but not all, of the figures provided by contractors in Appendix A also include the potential costs of uprating wages of staff paid over £10 per hour in order to keep pay differentials for roles with different levels of responsibility.

The usual process would be for the Council to negotiate the implementation of the £10 minimum wage per hour when an affected contract is up for review. However, for 4 of the 5 contracts, the suppliers stated that they would be able to implement the change straight away if the Council paid the additional costs for the implementation. In these cases we could undertake a Variation of the contract, with the suppliers' agreement, in order to change the conditions to allow for this change. (For the fifth contract (E), not all suppliers provided information on costs or when any change could be implemented.)

(b) Staffing Implications

If we were to apply the uprate to contracted and subcontracted staff, council staff members who manage relevant contracts would need to be made aware of the changes in order to implement them.

If the Council decided to require its contractors to pay qualifying staff a minimum of £10 per hour for work on Council contracts, this could have a positive impact on employees through increasing their pay rates. This could help employees who live in Cambridge, or have to travel into Cambridge for work, to meet high costs of housing and transport for staff in the city on low pay .

If the Council were to implement the proposed change to suppliers' minimum rates of pay to £10 per hour, the positive impact this will have on staff will decrease over time, as the national living wage and the real Living Wage rate increases.

We were unable to obtain information on numbers of contractors/ subcontractor employees currently earning under £10 per hour who would be affected under current contracts because suppliers did not provide this information in all cases. For two of the contracts out of the five, the impact could be quite large – Contract A's supplier said all roles would be affected apart from a few supervisory roles, and Contract C's supplier said 22 contracted staff members would be affected and over 100 casual workers.

Two of the five suppliers also felt that paying the £10 rate would help with the recruitment and retention of staff.

One potential negative impact for staff could be the likely effect on pay differentials for roles with different levels of responsibility. This is explored in section a) above.

(c) Equality and Poverty Implications

An Equality Impact Assessment has been carried out and is presented at Appendix A. Evidence suggests that people with protected characteristics under the Equality Act 2010, including BAME people, disabled people and women, are more likely to be on low incomes. Requiring contractors to apply the proposed £10 per hour minimum pay rate could therefore have a positive impact in helping reduce poverty for these groups.

(d) Environmental Implications

Nil rating

(e) Procurement Implications

Procurement implications identified are as follows:

- Exception relating to Public Contract Regulations 2015 – The minimum rate of pay as £10 per hour for contracted and subcontracted staff would apply on the same terms to which we currently apply the real Living Wage. In our Pay Policy, the real Living Wage is not applied to “contracts where, following evaluation, it is considered inappropriate to impose the requirement”. This would apply where all tenders had come in over budget and we have two options:
 - Re-pricing: The removal of this requirement to make the contract come within budget and thus be deliverable. We would issue a revised invite to all of the suppliers whereby we removed the requirement from the tender and allowed everyone to resubmit using their own wage rates.
 - Retendering: And not stipulate the requirement in the terms and conditions.

The ability to apply these options and our choice of option related to the contract in question would be driven by the Public Contract Regulations 2015 requirement to treat all suppliers fairly and that provides guidance on how to manage when a tender comes in over budget.

- Anti-competitiveness when going out to tender – Employers who do not pay the minimum of £10 per hour might be dissuaded from putting in bids for contractual work. This could limit the pool of suppliers we could choose from to award a contract to, which would reduce the level of competition. However, experience suggests since the Living Wage rate was implemented to all new Council contracts in 2014, anti-competitiveness has not proved to be an issue.
- Framework contracts - The fifth contract is a framework contract (E). This means whenever we need work undertaken in a particular area, we run a mini-competition amongst suppliers in an already prepared framework and call off suppliers who can meet our needs at the best price. Currently the suppliers' charges on Contract E are similar, so each supplier tends to get a share of the work that needs to be undertaken for us. However, if the £10 per hour rate were applied, this would impact on some, but not all of

the contractors. This might make the suppliers that currently pay under £10 per hour uncompetitive in price, so we would call off their services less.

(f) Community Safety Implications

There are no community safety implications.

5. Consultation and communication considerations

We consulted with our current suppliers who would be affected by the changes. The findings of this consultation are presented in Appendix A.

If the wages of contracted and subcontracted staff were to be uprated, we would communicate this through a news release, on our website and on social media. If the change was to be implemented, our procurement templates would also need to be updated to reflect the new rate.

6. Background papers

- Draft Pay Policy Statement 2018/19 presented to the 14/02/2018 Civic Affairs Committee¹.

7. Appendices

Appendix A – Breakdown of costs per contract associated with implementing £10 per hour as a minimum rate of pay for contracted and subcontracted staff
Appendix B – Equality Impact Assessment

8. Inspection of papers

To inspect the background papers or if you have a query on the report please contact Helen Crowther, Equality and Anti-Poverty Officer, tel: 01223 - 457046, email: helen.crowther@cambridge.gov.uk.

¹ See: <https://democracy.cambridge.gov.uk/ieDecisionDetails.aspx?ID=4619>

Appendix A – Breakdown of costs per contract associated with implementing £10 per hour as a minimum rate of pay for contracted and subcontracted staff



Contract	Annual cost to uprate wages to £10 per hour	Length of contract left and cost of uprating wages to £10 per hour over duration of contract
A	£84,538	£147,941 (based on 21 months remaining of contract)
B	£26,812.80	£174,283.20 (contract is for 5 years and option to extend two more years included in this figure)
C	£195,869*	£783,476 (contract is for 4 years)*
D	£0 ²	£294,505.96 (for the period of the contract that is another 4 years) This will be a further £230,482.92 (if we took the option to extend the contract for a further 36 months, so 3 years, after 2022).
E	We do not hold this information as not all suppliers on the contract provided this information	We do not hold this information as not all suppliers on the contract provided this information
Total	The total estimated annual cost for 2019 would be: £316,000	The total estimated annual cost over the duration of the contracts above (so for the next 7 years, including the periods of extension, is £1,630,689.08

² No staff members are currently receiving under £10 per hour

The calculation of these costs does not take into account the likelihood that the real Living Wage will rise each year, which would mean that there will be a reduced cost for us where an estimated rise in the real Living Wage has been factored into the budget for contracts.

Notes on Contract A costs

Contract A's indicative costs reflect costs for increasing the lowest rates across the contract to £10 an hour. This also includes an increase to supervisory roles. For example, for staff currently paid £8.75, this will increase to £10 and for supervisors of those staff currently paid £9.50, this will increase to £10.75. The costs do not include enhanced entitlements for historic council staff members that TUPE transferred to the supplier. If there are any wages paid above £10 currently that would need to be uprated in order to keep pay differentials, the supplier did not provide costs for this.

Notes on Contract B costs

The supplier did not clarify in time for report publication whether costs were for:

- a) Uprating wages to a minimum of £10 per hour for staff not already receiving this amount

Or

- b) Uprating wages to a minimum of £10 per hour for staff not already receiving this amount AND for uprating wages of staff earning higher than £10 per hour if and where need to in order to keep pay differentials for people with different levels of responsibility

Notes on Contract C costs

For contract C, the supplier provided figures for uprating wages to a minimum of £10.20 per hour instead of £10 per hour, which is the London Living Wage. The supplier did not want to provide figures for the £10 rate. The supplier is a London-based company and applying the £10.20 per hour would be in line with what their employees and workers are earning in London. They argued that to pay the £10 rate would have a negative impact on their pay structures and payment processes. The amount provided above for contract C also includes costs of uprating supervisors' pay, even where they are already paid £10 per hour or above, in order to keep pay differentials for roles with different levels of responsibility.

Notes on Contract D costs

The costs provided by the supplier include the costs of uprating wages to a minimum of £10 per hour for staff not already receiving this amount. It would not include uprating wages of other staff to keep pay differentials by the supplier did not indicate that there would be a need for this.

Notes on Contract E costs

Only one supplier out of the 7 provided information on costs. Another supplier shared that 4 roles would be affected – two currently paid at £8.75 per hour, and two paid an amount in between £8.75 and £10 per hour – but did not provide the cost for this (although they confirmed we would need to meet the costs of the uprated wages). Two suppliers already pay £10 per hour or above as a minimum rate of pay. Two suppliers did not respond to our survey.

Appendix B



Cambridge City Council Equality Impact Assessment (EqIA)

This tool helps the Council ensure that we fulfil legal obligations of the [Public Sector Equality Duty](#) to have due regard to the need to –

- (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
- (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
- (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

1. Title of strategy, policy, plan, project, contract or major change to your service:
Implications around applying a minimum of £10 per hour to staff on Council contracts
2. Webpage link to full details of the strategy, policy, plan, project, contract or major change to your service (if available)
The report will be available here from Wednesday, 26th September, 2018: https://democracy.cambridge.gov.uk/ieListDocuments.aspx?CId=159&MId=3422&Ver=4
3. What is the objective or purpose of your strategy, policy, plan, project, contract or major change to your service?
At Council on 24th May 2018, it was agreed to “ask officers to bring a report to Strategy and Resources Scrutiny Committee on the feasibility of the Council extending its minimum payable wage rate to all its contracted and subcontracted staff”. The Council currently pays all its directly employed staff a minimum of £10 per hour. The Council currently requires contractors to pay the real living wage of £8.75 per hour to qualifying staff, in line with the Living Wage Foundation’s requirements.
4. Responsible Service
Corporate Strategy

5. Who will be affected by this strategy, policy, plan, project, contract or major change to your service? (Please tick those that apply)

- ☐ Residents of Cambridge City
☐ Visitors to Cambridge City
☒ Staff

Please state any specific client group or groups (e.g. City Council tenants, tourists, people who work in the city but do not live here):

Contracted and subcontracted staff only, as our directly employed staff and agency workers are already paid £10 as a minimum

6. What type of strategy, policy, plan, project, contract or major change to your service is this? (Please tick)

- ☐ New
☒ Major change
☐ Minor change

7. Are other departments or partners involved in delivering this strategy, policy, plan, project, contract or major change to your service? (Please tick)

- ☐ No
☒ Yes (Please provide details):

If the changes were taken forward, all Services that have contracts impacted upon by current real Living Wage requirements would be expected to amend contracts to require contractors to pay qualifying staff £10 per hour as a minimum

8. Has the report on your strategy, policy, plan, project, contract or major change to your service gone to Committee? If so, which one?

This report will go to the Strategy and Resources Scrutiny Committee on Monday, 8th October, 2018

9. What research methods/ evidence have you used in order to identify equality impacts of your strategy, policy, plan, project, contract or major change to your service?

We consulted with our current suppliers who would be affected by the changes, working through Council Officers who manage the contracts in question. Sometimes the Council Officers had additional insights based on their experience of managing the contracts. However, in the time available we were unable to seek information related to equalities monitoring in terms of which equality groups would be impacted. Research around low pay in relation to protected characteristics has informed this EqIA.

10. Potential impacts

For each category below, please explain if the strategy, policy, plan, project, contract or major change to your service could have a positive/ negative impact or no impact. Where an impact has been identified, please explain what it is. Consider impacts on service users, visitors and staff members separately.

(a) Age

Note that this refers to any group of people of a particular age (e.g. 32 year-olds) , or within a particular age range (e.g. 16-24 year-olds) – in particular, please consider any safeguarding issues for children and vulnerable adults

No impacts have been identified specific to this equality group. The proposal has a potentially positive impact on any person who would be in receipt of an increase in pay to £10 per hour.

(b) Disability

Note that a person has a disability if they have a physical or mental impairment which has a substantial and long-term adverse effect on that person's ability to carry out normal day-to-day activities.

We do not have any data regarding the number of disabled people employed by Council contractors. However, any increase to wages of those on the lowest incomes is more likely to have a positive impact on disabled people. Disabled people are especially likely to have low-incomes or to experience poverty as, in the UK, 30% of people living in a family with a disabled member live in poverty, compared to 19% of those who do not³. Also, as a result of physical barriers to social participation, disabled people face extra living costs on average of £550 per month⁴.

(c) Gender reassignment

No impacts have been identified specific to this equality group. The proposal has a potentially positive impact on any person who would be in receipt of an increase in pay to £10 per hour.

³ Joseph Rowntree Foundation (2017) <https://www.jrf.org.uk/report/uk-poverty-2017>

⁴ Scope (2014) <http://www.scope.org.uk/Scope/media/Images/Publication%20Directory/Priced-out.pdf?ext=.pdf>

(d) Marriage and civil partnership

No specific impacts have been identified for this equality group. The proposal has a potentially positive impact on any person who would be in receipt of an increase in pay to £10 per hour.

(e) Pregnancy and maternity

See 'sex' – We do not have any data regarding the number of women employed by Council contractors. However, in general women are more likely to experience low pay, partly due to more often being primary child carers than men. It is likely therefore that the proposals to require contractors to uprate the minimum pay to £10 per hour would benefit people in this group.

(f) Race

Note that the protected characteristic 'race' refers to a group of people defined by their race, colour, and nationality (including citizenship) ethnic or national origins.

We do not have any data regarding the number of BAME employed by Council contractors. However, in general an increase to wages of those on the lowest incomes is more likely to have a positive impact on Black Asian Minority Ethnic (BAME) people. The UK poverty rate is twice as high for Black and Minority Ethnic (BME) groups as for white groups⁵. In the BAME community needs assessment we carried out in 2015, respondents felt that poor opportunities related to employment were one of the worst things about living in Cambridge, which partly related to low pay experienced by these groups.

(g) Religion or belief

No impacts have been identified specific to this equality group. The proposal has a potentially positive impact on any person who would be in receipt of an increase in pay to £10 per hour.

⁵ Joseph Rowntree Foundation (2017) <https://www.jrf.org.uk/report/poverty-ethnicity-labour-market>

(h) Sex

We do not have any data regarding the number of women employed by Council contractors. However, it is likely that requiring contractors to uprate their minimum pay rates to £10 per hour is likely to benefit women. Women in Cambridge earn less than men, particularly those on low incomes⁶. The average earnings for women in Cambridge with the lowest 25% of earnings is £214.50 per week or less, compared with £419 or less for men with the lowest 25% of earnings. The Fawcett Society, a group which campaigns for equality, says caring responsibilities can play a big part in the gender pay gap. Women often care for young children or elderly relatives. This means women are more likely to work in part-time roles, which are often lower paid or have fewer opportunities for progression.⁷

(i) Sexual orientation

No impacts have been identified specific to this equality group. The proposal has a potentially positive impact on any person who would be in receipt of an increase in pay to £10 per hour.

(j) Other factors that may lead to inequality – in particular – please consider the impact of any changes on low income groups or those experiencing the impacts of poverty

The proposal has a potentially positive impact on any person who would be in receipt of an increase in pay to £10 per hour. The £10 amount is a higher rate of pay than that identified by the Living Wage Foundation as the minimum needed to meet Living costs across the UK (outside of London) that is currently set at £8.75 per hour. This is in recognition that housing costs and transport costs for people travelling into Cambridge to work are especially high.

11. Action plan – New equality impacts will be identified in different stages throughout the planning and implementation stages of changes to your strategy, policy, plan, project, contract or major change to your service. How will you monitor these going forward? Also, how will you ensure that any potential negative impacts of the changes will be mitigated? (Please include dates where possible for when you will update this EqlA accordingly.)

No action required to address the equality impacts identified above

⁶ NOMIS (2017), Labour Market Profile – Cambridge

<https://www.nomisweb.co.uk/reports/lmp/la/1946157205/report.aspx?town=cambridge>

⁷ <https://www.fawcettsociety.org.uk/close-gender-pay-gap>

12. Do you have any additional comments?

N/a

13. Sign off

Name and job title of lead officer for this equality impact assessment: Helen Crowther, Equality and Anti-Poverty Officer

Names and job titles of other assessment team members and people consulted:

David Kidston, Strategy and Partnerships Manager

Date of EqlA sign off: Friday, 21st September, 2018

Date of next review of the equalities impact assessment: N/a

Date to be published on Cambridge City Council website: Wednesday, 26th September, 2018