

<b>Governance and Resources Scrutiny Commission</b> 14 July 2014 <b>London Living Wage – findings from the short inquiry</b>	Item No <b>8</b>
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## **Introduction**

The Commission held two meetings in Spring 2014 to consider the Council's journey to paying all of its staff, including contractors, a London Living Wage. At the time of our inquiries, Hackney was understood to be one contract away from being a total London Living Wage employer. The authority expected to re-let that final contract in September 2014 and complete the journey. This is an achievement the Commission commends highly. We also note that constant vigilance will be required in both future commissioning exercises and through ongoing contract monitoring to ensure compliance with the London Living Wage commitment.

## **The Journey**

During our discussions on this topic we were keen to understand why it had taken almost 10 years in order for Hackney to reach this point. There were ways in which this achievement could have been achieved sooner, including increased spending in areas where the market wouldn't reach London Living Wage on its own. However, the Council has always been aware of competing constraints and pressures, and was mindful of the need to ensure the best overall benefits to the tax payer, including the need to demonstrate Best Value. Procurement reports from 5-6 years ago reflected a different level of risk; Government and public opinion regarding added value had certainly shifted since then.

Indeed time and the historical context were also significant factors in the length of time it had taken to reach the current state of affairs. Paying a London Living Wage to all employees and contracted staff wasn't the only thing that Hackney was trying to achieve 10 years ago and the Cabinet Procurement Committee strived for the best it could do at any one time. The Cabinet Member for Finance noted that it was always a case of balancing the better service that could be delivered against this sort of long-term aim. So an approach had been taken to work through sections of the workforce and a lot was delivered by insourcing as a way to avoid certain types of challenge or onerous contract management and inspection regimes. This also gave the Council more flexibility in some sectors. The Council was also clear that it never wanted to build in profits for others so that we could get a tick in a box; it needed robust service delivery too. There were also other outstanding

issues in some areas of the workforce, for example the gender breakdown of some contracts was not ideal and it was noted that there were some things that would be done differently if the administration had its time again.

### **The Example – Hackney’s Cleaning Contractor**

The Commission was pleased to have the opportunity to consider and example from a contractor recently awarded the Council’s cleaning contract, Servest, a Facilities Management Company that specialised in cleaning.

Representatives from Servest informed us that during the procurement process, the Council had requested submission of two prices against two different service specifications, adjusted from the contract in place. Cost efficiency was a key driver and as the incumbent provider Servest had worked with the Council to identify potential areas for reducing volumes and cost in the specification. The two prices were made available to Members of the Cabinet Procurement Committee so that they could take a view on Best Value and once a decision about a provider was made against the specification, there were negotiations for London Living Wage to become a condition of the contract.

The tender document had asked what could be done to achieve LLW whilst not having to add costs, which could usually incur a 32% price increase, so Servest explored the schedule, focusing on different office areas where cleaning could be modified.

There was an open book tender submission so every aspect of pricing could be challenged. Servest had multiple pay structures so faced no problems paying some staff a London Living Wage. It was not a huge journey for Servest to get to where the Council wanted its provider to be but there were a lot of challenges which the Council’s procurement team helped with and the professionalism of Council staff here was noted by all.

Hackney was described as a sector leader and it didn't start and finish with LLW. Servest had also run pilots with the Council’s Ways Into Work service and was interviewing 5 people who participated. There were also discussions about apprenticeships and traineeships.

Servest was unlikely to implement LLW voluntarily as there was some business they would simply not win as a result. All companies would tender at National Minimum Wage and negotiate TUPE positions. Wage costs were 80% in flatter sectors so couldn't be absorbed easily in tender submissions. The Commission noted that in certain sectors such as cleaning and retail pence could make a huge difference across thousands of hours.

In a recent example Servest had bid for the cleaning contract at a new shopping centre where LLW is paid in London and different elsewhere. The customer had been very impressed by the “community” aspect of Servest’s

bid. However, the company that won the contract paid just below London Living Wage even though client said that was their policy.

There were upsides for providers from paying London Living Wage too. Higher base pay helped with retention and productivity and lower training costs. The retail sector tended not to consider these aspects in part due to the relatively high turnover of staff. In that sector wages were normally 70-75% of total costs so a small percentage increase in salaries would rule-out viability.

There was an issue with low paid workers on in-work benefits. LLW could impact disproportionately on their claim if hours aren't enough or too much to qualify. Servest was in process of sorting out the remaining few staff affected.

### **Public Services (Social Value) Act 2012**

The Commission asked questions about this relatively new piece of legislation, how it was being used and what additional benefits could be gained from it. We learned that if Councils were using Best Value to its full extent they could do more than is done in many places currently without needing the new Act. The Act exempted the Council from several previous legal requirements. However, if the Council could get a benefit in addition to something (like training and apprenticeships) that would be possible now anyway. Big ticket benefits were on building works, which Hackney did already anyway. As had been shown by recent research, very few public sector bodies had made use of the Act in ways that would not have been possible under existing legislation.<sup>1</sup>

### **Private Sector and other local employers**

The Commission learned from local trades union representatives that the private sector could benefit from being better organised. It was better for staff and businesses when they were. Where there was a family relationship there was often more pressure and it was very difficult to organise as trade union structures were not set-up to support that. The Commission also heard from the Five Points Brewing Company, based at Hackney Downs and a local employer that had decided to pay its staff at or above the London Living Wage. Both permanent and Part-time staff were paid at this salary, although apprentices were subject to a different arrangement. The Company was the first Brewery in the country to adopt this approach and others had followed since, including the Hackney Brewery in Haggerston.

The Commission also learned of an awareness and enforcement campaign on National Minimum Wage happening at the time of this short inquiry and

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<sup>1</sup> [www.gov.uk/government/publications/public-services-social-value-act-2012-1-year-on](http://www.gov.uk/government/publications/public-services-social-value-act-2012-1-year-on)

focused on commercial organisations in the borough. However, until the Council could honestly say that it had London Living Wage covered itself, the authority would be unlikely to campaign on it. The Cabinet Member for Finance suggested however that the Council should encourage wider adoption of the London Living Wage once the milestone had been achieved.