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Portsmouth
CITY COUNCIL

Title of meeting:	Employment Committee
Date of meeting:	23 rd November 2021
Subject:	Living Wage Accreditation - Progress Update Report
Report by:	Director of Corporate Services
Wards affected:	N/a
Key decision:	No
Full Council decision:	No

1. Purpose of report

At Employment Committee on 21st September 2021 Members were updated on the joint working Officers have undertaken with the Living Wage Foundation. The purpose of this report is to provide Members with an update on the progress made to date.

2. Recommendations

This report provides an update on progress of the Living Wage working group.

It is recommended that a special Employment Committee meeting is scheduled for early January 2022 to allow for a detailed financial analysis to be completed and so the financial impact of seeking accreditation from the forthcoming financial year can be understood. The financial implications of seeking accreditation would need to be addressed as part of the budget setting process; a decision to seek accreditation would therefore need to be made by Full Council.

Whilst it has been confirmed that statutory National Living Wage will increase to £9.50 from April 2022, the Living Wage Foundation have stated that they will not be announcing the increases to Real Living Wage rates of pay until Monday 15th November.

Providing the Committee with a further report at a special January meeting will allow for an accurate assessment of financial impacts based upon known Real Living Wage rates for the coming financial year rather than via models based upon assumptions.

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3. Background

PCC's approach to paying Real Living Wage rates to employees has previously been reported to the Committee and remains unchanged. This report deals solely with the activities undertaken by procurement in respect of impacts arising in the supply chain of Real Living Wage accreditation.

4. Progress Update

Procurement

Social Value

Procurement are actively incentivising take up of RLW through explicit incorporation within Social Value award criteria for relevant contracts in line with the Council's Social Value Policy. This is currently on an incentivisation basis through allocation of additional scores when bids are evaluated only rather than as a pass / fail mandatory requirement.

Work is currently being undertaken to assess the impact of the implementation of the Social Value Policy upon procurement activities and the awarding of contracts. As the toolkit used to capture and monitor provider social value commitments has specific measures for payment of RLW within it this will allow for specific reporting on this area.

Contract Pipeline Analysis

Procurement have produced contract pipelines by directorate and service area which identify all contracts which are up for re-tender or renewal over a 3 year implementation period starting from 1st April 2022. The contract pipelines have been filtered to remove contracts that do not fall under base LW accreditation criteria - e.g. supply only agreements, concessions, grants, land transactions, less than 8 week duration, etc.

Contracts have then been further filtered by forecast impact of LW implementation, value, re-tender / review date, etc. to enable effective review prioritisation. Procurement have engaged with services, focusing primarily on Adult Social Care, to undertake further analysis and engage with key suppliers.

Supplier Engagement

Procurement have engaged with suppliers over October / November 21 via:

- A focused survey issued to approx. 200 high impact suppliers which received over 40 detailed responses
- Engagement with domiciliary care and residential care suppliers at provider forum meetings
- 1-1 meetings with high impact / high reliance suppliers

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Whilst further analysis of the findings is required summary review has identified the following trends:

- Approximately half of the Council's high impact suppliers are likely to be already paying current living wage of £9.50
- Of those not all are fully accredited Real Living Wage suppliers and so it cannot be assumed that when the Real Living Wage increase is announced that these suppliers will all increase wages accordingly
- Suppliers are all reporting significant financial pressures due to staff shortages, NI, utilities costs, inflation, NLW increase, etc. and are likely to seek a larger increase than the average 2% uplift they have received previously and will be more likely to be between 4-5%
- Irrespective of Real Living Wage factors wages are likely to have to increase significantly in the sector due to scarcity of staff and competition with higher paid less demanding jobs - e.g. supermarkets.
- Increase of wages to RLW will lead to knock on increases to supervisors and other staff for some suppliers which will likely require further pass through of costs to the Council
- At least half of the suppliers have expressed that they are already under significant financial pressure and that the uplifts awarded over the last few years have fallen short of what they actually required, there is little room for any further absorption
- The majority of suppliers would seek to pass any increase associated with Real Living Wage directly to the Council which could mean an average increase of 6-7% compared to the 4-5% we may already be facing
- Some suppliers have suggested that RLW increase could actually reduce costs in the long term as it may improve recruitment and reduce reliance in agencies to fill roles at significant cost
- Due to the majority of high impact contracts having a yearly renewal or yearly uplift mechanism in most cases our 1st year costs would be significant
- Suppliers in general would view Real Living Wage as a positive step on the general condition that any increased costs are covered by the Council
- However, it should also be noted that some significant suppliers to the Council have expressed high levels of negativity and may seek to hand back contracts and / or not bid for future work
- A high number of suppliers are concerned that implementation of Real Living Wage could create significant workforce issues with staff undertaking the same job being paid more or less depending upon which contract their works relates to, there are concerns of how this can be addressed without Hampshire County Council who many of the suppliers also work for also seeking to implement Real Living Wage on the same timescales - there is currently no indication from HCC that they are considering implementation

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- Some suppliers are also concerned that a significant increase would have be offset into rates for private clients which is where costs have been absorbed in previous years, however there comes a point where this potentially makes them uncompetitive in the private market which could force a private vs public decision in terms of business focus
- Further to the above point, within the ['Build Back Better - Our plan for health & social care'](#) government have committed to moving towards paying a fair rate of care, which has been interpreted as self-funders/private clients being able to access local authority rates for care. This has not been implemented yet, but when it does come in will add further costs to ASC and reduce suppliers ability to differentiate between LA customers and private customers which may also put suppliers under pressure if they need to reduce private rates which are currently subsidising the lower public rates.

Peer Review

Procurement have also undertaken research into peer local authorities and have approached the Living Wage Foundation for contact details in respect of the following councils:

- Leicester City Council
- Sunderland City Council
- Preston City Council
- Milton Keynes Council
- Reading Borough Council
- Brighton and Hove City Council
- Bristol City Council
- Sheffield City Council
- City of York Council

To date Procurement have met with Sunderland City Council and have also received contact from City of York Council. Sunderland reported that:

- They sought accreditation as part of a wider 'Community Wealth Building' initiative
- They undertook a very similar contract pipeline and impact analysis to the one undertaken by the Council
- They applied a similar assumption model to the one developed by Council finance for January 2021 Employment Committee report
- They estimate a 6% increases to costs of high impact contracts which by year 3 is estimated to equate to an increase of £3.5M

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- Their high impact social care contracts do not come up for renewal or re-tender until year 3 and they are still currently researching impact into this specific market
- Suppliers have largely been positive although the majority have all required pass through of cost increases
- They have set RLW as a pass/fail criteria upon application to tender for contracts, they have implemented within contractual terms and monitor through open book evidence request of payslips
- Are still assessing positive impacts but have already seen 159 local people receiving increases to RLW within the 1st year

Procurement will continue to engage with peer local authorities who have implemented RLW in order to understand different approaches that have been taken, risks, rewards, resource requirements, etc. and use this analysis to provide potential implementation options for the Committee to consider.

Implementation Options & Plan

Procurement has begun to draw up a list of governance processes and associated documentation that will require alteration in the event that the Council adopts LW including for Procurement Gateway Process, procurement template documentation, contract terms, contract management processes, etc. This will be informed by engagement with further peer local authorities over November 21.

Work will need to be undertaken with Legal and HR in order to assess the legal implications of mandating LW adoption onto suppliers and their sub-contractors.

Whilst there are likely to be significant rewards in adopting RLW associated with staff motivation, retention, reducing poverty, local economic benefits, etc. there remain concerns that:

- The supply base may narrow and some key suppliers may be lost
- Cost increases are likely to be passed back to the Council
- The legality of mandating suppliers adopt LW on an explicit pass/fail basis vs the uncertainty of achieving adoption via encouragement
- Potential for protracted negotiations at uplift / renewal and associated potential for increased re-tendering activities
- The likelihood of cost increases rising sharpest in the 1st year of implementation
- Supplier two-tier workforce issues

Procurement have passed on the analysis undertaken to date along with all of the raw data to officers in social care and corporate finance so that it can be applied as appropriate into the financial analysis which is now underway.

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Finance

The potential full financial impact of Living Wage accreditation arising from increasing the hourly rate to £9.50 has previously been estimated as £3.2m to the General fund. The estimated cost of any uplift to this will not be known until the living Wage Foundation announce their revised Real Living Wage rate. In the event that a decision to implement this revised rate is made, the City Council will need to identify and approve additional savings (over and above the planned £1m) over the next 3 years in order to fund this policy initiative. Similarly, any cost implications to the HRA will need to be factored into the HRA budget over the next 3 years and considered as part of the consultation process with tenants.

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Signed by:

Appendices:

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	Location