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Title of meeting:	Employment Committee
Subject:	Living Wage – Financial Update
Date of meeting:	20 th January 2022
Report by:	Director of Corporate Services
Wards affected:	All

1. Requested by

At its meeting on 23 November the Committee considered an update report on progress regarding the Real Living Wage. At that meeting feedback was provided from engagement with the supplier market, largely focused on the social care sector. It was not possible to prepare a financial appraisal of the impact for the meeting as the Living Wage Foundation only published their hourly rate increase on 15 November, leaving insufficient time to prepare more detailed information in time for the committee meeting on 23 November. The committee therefore requested an extraordinary meeting be scheduled for January 2022 at which a financial appraisal of the impact of adopting Living Wage accreditation could be considered.

2. Purpose

The purpose of this report is to provide a financial appraisal of the impact of adopting the Real Living Wage and seeking accreditation as a Living Wage employer.

3. Information Requested

The Committee requested a detailed analysis of the financial impact that is likely to arise should the council becoming a Living Wage employer from April 2022. The analysis is to assess impact over the coming 3 financial years reflective of the 3 year implementation target set by Real Living Wage upon newly accredited Living Wage employers.

The Committee requested that the financial analysis should clearly show the differential between the impacts of financial pressures already forecast for the coming financial year against the impacts of the likely further financial pressures that would arise should the council become a Living Wage employer within this period.

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4. Background

The Real Living Wage (RLW), set by the Living Wage Foundation, is set annually in November with Living Wage employers then expected to have implemented increases within 6 months. The RLW rate of pay for 2020/2021 is £9.50 per hour. Currently, the equivalent Government set National Living Wage (NLW) is £8.91 per hour.

The Living Wage Foundation announced on 15th November that RLW would rise in 2021/2022 to £9.90 with all Living Wage employers expected to have fully implemented the increase by 15 May 2022. From April 2022, the equivalent NLW rises to £9.50. The financial impact of adopting the RLW and becoming an accredited LW employer is derived from the 40p differential between the rates and then applying that increase to the Employees of PCC as well as the costs that would be passed on to the council via contracts in order for the council's contractors to also be able to pay the RLW.

5. Employee uplift

Although not an accredited RLW employer, PCC currently pays its employees the RLW of £9.50 per hr. and the decision whether to apply the increase of RLW rate is reviewed annually by this committee.

On current pay scales the impact of the RLW will directly affect employees on pay bands below the midpoint of band 4. However, until the outcome of the NJC pay award is available, the extent of any mitigating impact of this is unknown. In addition, the impact on pay differentials is unclear at this stage. It is possible that the applying the RLW to Band 4 might also require higher pay bands to be increased in order to maintain differentials between workers and their supervisors.

PCC is also paying Kickstart job placements RLW pay rates with the estimated cost of £128,500 in 2021/22 being funded by a one-off contribution from the Cabinet Reserve. Should this scheme be extended, there would be a further cost to fund.

Impact on Schools

Members are reminded of the need for consultation with individual schools, as it is for each individual schools governing body to decide whether to adopt the increased RLW rate for their employees.

Schools were contacted in November (following the announcement of the increased RLW) and asked to confirm if they would continue to follow the Council's lead in implementing the 2022/23 RLW rate. 15 of the 18 schools responded and of those, 15 have all agreed in principle to pay the increased rate. 3 have not yet responded.

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At present we do not know the outcome of the National Joint Council (NJC) pay negotiations for those employed on the Green book terms and conditions and therefore, we do not know the impact of this increase on PCC's pay scale in April. Based on the current pay scales (before any national pay award is applied), we are aware that this will impact pay Bands 1 through to approximately the mid-point in Band 4 raising all employee's annual salary in these bands to approximately £19,100 per annum.

If the RLW increase was applied, it could be a significant impact for schools due to the current pay differentials between roles. At present, each role can vary greatly in responsibility, and this is reflected in the pay the role attracts. The pay differentials between roles are often minor, however applying the RLW increase could result in an uplift in pay for all and a loss of the differentials - essentially amalgamating all job roles onto the same pay rate.

Examples of posts that could be impacted are as follows:

- Teaching Assistant has 3 levels at Bands 1,2 and 3
- Midday Assistant is Band 2 and a Midday Supervisor is Band 3
- Nursery Assistant Band 2 and Nursery Practitioner Band 3

If the RLW increase was applied for each of these posts, there would potentially be no pay differential, this would cause imbalance in the school's structure and potential recruitment and retention issues to certain roles.

6. Contractor Uplift

The full year impact of requiring PCC contractors to pay the proposed RLW rate of £9.90 per hour (i.e. an additional 40p per hour) has been estimated at circa £2m. This can be further analysed as follows:

	Year 1	Year 2	Year 3
	£'000	£'000	£'000
Adult Social Care	1,600	1,600	1,600
Other General Fund services	189	284	378
Total General Fund	1,789	1,884	1,978
Schools	3	5	7
HRA	3	5	7
Total Cost to PCC	1,795	1,894	1,992

This estimate is based upon the contract pipeline analysis and supplier engagement information reported to previous meetings.

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As previously reported, much of the General Fund impact relates to Care services; the impact on Adult Social Care in particular is detailed a separate paragraph below.

Other General Fund impacts relate to care provision in Children's services, Homelessness, Leisure contracts, cleaning and security services.

The cost to HRA is small as the majority of these contractors already pay employees above RLW.

The phasing of the financial impact indicates that a high proportion of the cost will be incurred in the first year due to the annual uplift applied to ASC contracts. For other contracts, the renewal dates for larger contracts have been taken into account and reflected in the phasing of the increase.

It should be noted that the current differential between the NLW and RLW of 40p is the narrowest it has been in recent years with the average differential over the past 5 years equating to £1.10. Consequently, if this differential increases in future years, additional funding would be required to cover this extra cost. The RLW rate is reviewed annually in November with implementation of increases required within 6 months of announcement.

However, it should also be noted that in March 2020 the government set a target for the NLW to reach 2/3 of median earnings by 2024 (subject to economic conditions). Forecasts of the NLW from Office for Budget Responsibility (OBR) suggest there could be a convergence between NLW and RLW over time with a NLW forecast of £10.54 by 2024.

Impact on Adult Social Care

Between 2018/19 and 2020/21 the City Council increased its funding for Adult Social Care by £10.7m, to meet the additional inflation and placements costs.

More recently, Adult Social Care has seen a significant increase in the number of people coming through the hospital discharge system with a subsequent increase in demand from the care market for domiciliary care support. The recent change from Medically Fit For Discharge, (MFFD) to Medically Optimised For Discharge, (MOFD) and the application of criteria to reside, means that people also have a greater acuity of need coming out of Hospital and more domiciliary care is therefore purchased to enable safe transition home. The cumulative effect of these factors has required an additional 2,100 hours per week being commissioned at a cost of circa £2 million per year in Portsmouth.

From April 2022, both the National Living Wage rise of 6.62% (from £8.91 to £9.50), combined with the new Health & Social Care Levy (1.25%) will place additional cost burden on care providers. The cost to the City Council of increasing its funding to care

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providers to support these additional cost increases would be c.£3m annually. Additionally, Social Care providers will face the same challenge associated with removing differentials between care staff and supervisors which could increase the financial pressure further.

In September 2021, the government published its Build Back Better Plan for health & social care, which stated that social care demographic and unit cost pressures will be met through Council Tax, social care precept, and long-term efficiencies. For 2022/23 the Spending Review 2021 has limited the increase in the social care precept to a maximum of 1%, (this is circa £870k for Portsmouth). The Comprehensive Spending Review covering the period up to 2024 provides no additional funding for Social Care beyond 2022/23 except for the 1% ASC Precept at (£870,000) p.a, this not even being sufficient to cover general inflation and therefore a real terms cut.

If the Council was to consider increasing its funding to providers by a further 4.5% to support them to pay the hourly Foundation Living Wage rate of £9.90 from April 2022, further funding in the region of £1.6m would be required.

7. Other Costs

A previous report on RLW accreditation indicated that there would be a resource requirement to implement and manage the incorporation of RLW into contracts, together with monitoring & governance to ensure contractor compliance.

Whilst RLW recommend that an appropriately experienced and qualified project manager should be assigned to oversee implementation, ideally on a full time basis, the council could implement without the allocation of additional resource, albeit with a level of opportunity cost that would have some impact upon the implementation of other strategic initiatives.

Without allocation of additional resources monitoring to ensure that contractor employees are being consistently paid RLW rates would be limited to contractor self-certifying, sample audits and employee whistle blowing processes. Sanctions against contractors who do not abide by contractual terms requiring RLW rates of pay could also be imposed through payment deductions, breach notices, termination and barring.

8. Budget

The Council's annual budget process provides each Portfolio with an allocation for inflation so that it is funded to operate 'steady state' services. No provision is included in the current budget for the additional cost of requiring contractors to pay the RLW to their employees.

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In setting the Annual Budget for 2022/23 and Budget Forecast for the following three years, the Council is facing very substantial budget pressures and risks. Some of the more significant are set out below (not an exhaustive list):

- Current financial stress being experienced by Children's Services (not Covid related) of over £2m and Homelessness / Temporary Accommodation of £0.5m
- The Legacy impact of the COVID pandemic amounting to circa £4.5m (including additional caseloads for Children in Need, Adult Social Care Costs and income losses
- The uplift in the National Living Wage (impacting mainly on Adult Social Care at circa £3m as previously mentioned)
- The increase in National Insurance Contributions of 1.25%
- Further unavoidable cost pressures in Children's Services of at least £2m - largely related to Care Leavers, escalating costs of external residential placements and unachievable savings)
- Demographic Pressures in Adult Social Care - £2.5m
- Loss of Housing Benefit subsidy - £754k
- Additional Waste Disposal Costs - £0.5m
- Leisure Contract income reduction £0.4m
- These costs and risks are unlikely to be covered by additional funding from Central Government with the likely prospect of the Council's savings requirements for future years exceeding £1m per annum.

At the point any decision is taken to implement the RLW, the City Council will simultaneously need to identify and approve additional savings of £1.978m (over and above the planned £1m) in order to fund this policy initiative. Similarly, any cost impact on the HRA will need to be factored into the HRA budget and considered as part of the consultation with tenants.

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Signed by Natasha Edmunds, Director of Corporate Services

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:

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Title of document	Location