

Title of meeting:	Employment Committee
Date of meeting:	7 July 2022
Subject:	Real Living Wage
Report by:	Director of Corporate Services
Wards affected:	None
Key decision:	No
Full Council decision:	No

1. Purpose of report

At Employment Committee on 20th January 2022 Members were updated on progress made towards becoming an accredited Living Wage Employer. The purpose of this report is to provide Members with an update on current market conditions, the impact on PCC pay structure and staff and the benefits and challenges of accreditation. Members are asked to determine how they wish to progress towards becoming an accredited Living Wage Employer given the current economic pressures faced by the Council.

2. Recommendations

2.1. It is recommended:

- (i) Group leaders nominate members from their group to form a task and finish group to investigate how Living Wage accreditation can be taken forward through the governance cycle and budget setting process and report back to the committee with recommendations at its next meeting in September.
- (ii) For PCC staff currently in receipt of pay below the 2022/23 Real Living Wage (RLW) rate, to be paid an uplift to £9.90 to bring their rate in line with the current RLW rate pending the outcome of the national pay negotiations.
- (iii) The Committee reiterates its commitment to the policy of paying PCC employees the Real Living Wage and resolves to report annually on the impact of this policy.

3. Background

Throughout 2021 work was undertaken to understand in detail the impact of accreditation to become a Real Living Wage employer and progress was regularly reported to the Employment Committee. At its meeting in January 2022 members were presented with a

financial appraisal which outlined that the likely financial impact would be circa. £2m per annum over the next three years as set out in the extract below:

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

Although not an accredited RLW employer, PCC is committed to paying its employees the RLW rate and the decision whether to apply the increase of RLW rate is reviewed annually by Employment Committee.

The January 2022 report also outlined the impact of paying the RLW rate of £9.90 from April 2022 to PCC staff in line with the Council's commitment to paying its employees the RLW rate. In summary, based on the current pay scales (before the 2022/23 national pay award is applied), pay points one and two are £9.50. An increase in pay to £9.90 will impact staff on pay bands 1 through to approximately the first pay point in pay band 4 raising all employee's annual salary in these bands to approximately £19,100 per annum. The effect of this change to pay rates is to remove any differentials between job roles within those pay bands - essentially amalgamating all job roles onto the same pay rate (subject to the outcome of national pay negotiations which may nullify this impact).

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, which would cause imbalance in a team's structure and potential recruitment and retention issues to certain roles as supervisors would be paid the same rate as those they are supervising. This would be replicated in all services across the council, including in schools. The full impact is difficult to quantify at this stage and would need to be kept under review; the full impact may also be nullified by the outcome of national pay negotiations.

At present we do not know the outcome of the National Joint Council (NJC) 2022/23 pay negotiations for those employed on the Green book terms and conditions and therefore, do not know the impact of this increase on PCC's pay scales. Those who were on the £9.50

RLW rate as of April 2022 have been written to to explain that the uplift to £9.90 is on hold pending the outcome of the 2022/23 NJC pay award.

The timeline for pay negotiations is set out below:

Key Dates	Negotiation Progress
February 2022	Pay agreement 2021-22 agreed at 1.75%
March 2022	Employers pay briefing -information only
6 th June 2022	This NJC pay claim for 2022/23 is made by the Joint Trade Union Side (UNISON, GMB and UNITE) to the Local Government Association. Claim details in Appendix 1
21 st June 2022	Employers pay briefing commences - formal consultation to confirm the employers offer
July 2022	Employer expected to respond to Unions' offer

There are approximately 171(fte) current employees in total (including schools) whose hourly rate currently falls below £9.90 as at 1st April 2022, of which 79 (fte) are schools employees. PCC also pay TUPE employees RLW rate and Kickstart job placements, which was funded by a one-off contribution from the Cabinet Reserve in 2021/22. The Kickstart scheme is not being extended by government and therefore there will be no further costs for this group of staff.

4. Benefits of Real Living Wage Accreditation

As previously identified for the committee, the most significant financial impact is in Adult Social Care. Therefore, a key part of the research into accreditation was engagement with the Adult Social Care provider market via forum meetings, consultation and a survey.

The analysis was undertaken circa. nine months ago, however the current context was known at that time and the benefits and challenges of introducing the Real Living Wage remain, particularly those concerned with staff recruitment and retention.

Questions regarding the benefits of Real Living Wage were included in a survey and the agendas for meetings with providers. While the majority of providers are in support of higher rates of pay for the sector, there is concern of the effects it could have at this moment in time.

Over two thirds of survey respondents cited staff recruitment and retention as the biggest benefit of paying the RLW. Introduction of RLW would bring the private care sector closer to NHS pay scales and thus would make it more competitive in that job market.

Some suppliers have suggested that paying RLW rates could actually reduce costs in the long term as it may improve recruitment and reduce reliance on temporary agency staff to fill roles at significant cost.

An interesting point raised within the survey is that providers felt able to justify an increase in staff responsibilities if they were paying RLW, improving job design and in turn improving staff motivation, morale, and engagement.

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

In addition to points identified in our own research, the Living Wage Foundation themselves are clear in their documentation about the benefits of Living Wage introduction. Some of these points are as follows;

- 93% of business claim they have benefitted since accrediting
- 86% claim it has improved the reputation of the business
- 75% say it has increased motivation and retention rates for employees
- 64% say it helped differentiate themselves from competitors in the market
- 58% say it improved relations between managers and staff

5. Challenges of Real Living Wage Accreditation

In terms of the engagement with suppliers the following challenges were raised:

- Suppliers are all reporting significant financial pressures due to staff shortages, NI, utilities costs, inflation, NLW increase, etc. and are likely to seek larger increases than in previous years. It should be noted that last year's increase was significantly higher to reflect the increases in the national living wage and the introduction of the health & social care levy and other pressures.
- The majority of suppliers would seek to pass any increase associated with Real Living Wage directly to the Council.
- 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 work 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. This may impact on future bids for contracts from suppliers.
- Some suppliers are also concerned that a significant increase would have to 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.

The general context within which Adult social care operates is also changing and 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 cost of care, which is likely to

impact the rates paid for care within the city. It is currently unclear as to the adequacy of future funding, as discussed below.

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 - currently Lidl have paid Real Living Wage rates since 2015 but in March 2022 raised the entry level hourly rate above the RLW to £10.10 per hour (outside of M25)

As with PCC staff increases to RLW pay rates will lead to a loss of differential in pay between supervisors and other staff for some suppliers, therefore increases further up the hierarchy to maintain pay differentials will likely require further pass through of costs to the Council.

Subsequent to the work of reviewing the benefits and negative impacts of the RLW, further information has emerged around social care funding reform. This reform includes three significant elements related to Local Authority financial pressures:

- The Fair cost of care exercise referred to above
- The provisions in the Health & Social Care Act (2022) to amend the Care Act (2014) to apply a cap to the amount people will pay for social care in their lifetime
- The provisions in the Health & Social Care Act (2022) to amend the Care Act (2014) to enable citizens who fund their own care, (in residential and nursing settings) to access Local Authority contractual arrangements with care providers. This will reduce suppliers' ability to differentiate between LA customers and private customers. This may also put suppliers under pressure if they need to reduce private rates which are currently subsidising the lower public rates.
- The provisions, (in draft regulations) for the upper capital limit (UCL), the point at which people become eligible to receive some financial support from their local authority, to rise to £100,000 from the current £23,250.

A recent report commissioned by the County Council's network, estimates that the £3.7 billion government funding allocated to the above measures will be insufficient for implementation. The costs of reforms in the nine years from when they are introduced to 2032 could be a minimum of £10bn higher than currently estimated and could require over 5,000 extra staff to carry out extra care and financial assessments for those seeking to benefit from the reforms.

Given the potential impact on Council finances and the likelihood of significantly increased ASC costs to the Council, employment committee should be aware of these circumstances when considering the costs of implementing the RLW.

6. Market Conditions

Over the last 12 months market conditions have become increasingly challenging. As outlined above, there is greater competition in the market with higher rates of pay for less demanding jobs. The latest labour market data shows unemployment at an all time low with all regions in the UK showing a decrease in the unemployment rate compared with the same period last year. According the Office for National Statistics the number of job vacancies in March to May 2022 rose to a new record of 1,300,000 - an all-time high.

Labour market conditions in the context of high employment means there is strong competition for jobs and pay rates will be a significant factor in attracting candidates.

Other factors also need to be considered:

Government policy

Government has announced that the qualified 'pay freeze' in the public sector is over. Although this never applied directly to local government, it was a factor considered by some councils and reflected in recent years' consultations.

Current government pay policy has less clarity than previously, with remits for pay review bodies making reference to 'affordability' and 'consistency with private sector pay increases.

Inflation And Cost of Living

Inflation is rising and is likely to either rise further or not fall below the current level in the region of 9.1 percent (May22), and with additional burden from rising energy, fuel and food costs the average salary does not go as far as it used to resulting in many people feeling a pay cut. Inflation and Cost of Living increases also increase the overheads cost base of the supply chain to whom RLW would apply.

National Insurance

From April 2022 employees started paying higher levels of national insurance (an additional 1.25 percent increase). Within PCC this is resulting in some staff seeing a pay cut. Beyond PCC not only will some staff be experiencing a pay cut the increase affects employer national insurance contribution as well and is therefore also adding to cost pressures among the supply chain to whom RLW would apply.

National Living Wage

The Government has set a target for the National Living Wage to reach two thirds of median earning by 2024, and this was reiterated in the Chancellor's Spring Statement. The forecast, supplied by the Low Pay Commission, currently estimates that the statutory NLW will be around £10.70 in 2024, this is 37p higher than the forecast in April 2021. The Local Government Association (LGA) has identified that these current forecasts will be an additional financial burden amounting to circa. £400 million across the public sector over the next two years which is currently unfunded. The LGA is calling on government to fund this additional burden to avoid service cuts in local government. Any subsequent Real Living Wage rate will be higher again though the amount is currently unknown and therefore unable to be factored into the financial impact analysis with any degree of accuracy at this time.

Capacity pressures in local government

Capacity pressures have grown, and PCC are increasingly experiencing difficulty in recruiting and retaining key professional staff. The causes of these difficulties, very broadly, fit into two categories:

The first is those professions where there are simply too few qualified individuals in the labour market to meet the demand, such as social workers and regulatory services specialists.

The second group consists of those professions where PCC has difficulty recruiting because pay levels are too far adrift of competitor employers (often the NHS as much as the private sector). In this group sit building control and planning specialists, IT, finance, digital, analytics and legal professionals at all levels.

Beyond the specialist professions, PCC are also increasingly experiencing difficulties in recruiting senior managers, we also have an aging workforce demographic, with some senior leaders near retirement age and a reducing pool of applicants for existing roles. Whilst these challenges are increasingly acute for PCC they represent and are typical of the market conditions nationally within the public sector.

The NHS is undergoing rapid expansion providing strong competition for jobs in the public sector and in the social care sector in particular. With higher rates of pay for similar work, a better reputation and a perception of better career pathways the competition is stark for both social care providers and for PCC especially for entry level roles or those at the bottom of the pay spine.

7. Reasons for Recommendations

The paper sets out the benefits and challenges of Living Wage accreditation. The committee has previously been advised of the financial impacts that are likely to arise. A decision to become an accredited Living Wage Employer rests with the Full Council and needs to simultaneously identify and approve funding of such a policy initiative (see section 11 below). The recommendation therefore seeks cross party engagement on the policy position and associated governance requirements to progress a decision.

The Committee has previously set out its policy on Real Living Wage with regard to PCC employees and this paper seeks to confirm the policy for those staff in eligible pay grades for the 2022/2023 financial year.

8. Integrated Impact Assessment

This report does not require an Integrated Impact Assessment as there are no proposed changes to PCC's services, policies, or procedures included within the recommendations. In the event that a policy decision is taken and integrated impact assessment will be completed.

9. Legal Implications

The report contains within it the relevant issues with respect to a) the cost to PCC re its own employment base and b) the potential cost to third party contractors. The additional thing to consider is that in dealing with Living Wage some contractors may wish to not contract with PCC, thereby diminishing the availability of choice. It is to be noted that existing contracts would not be affected without an agreed variation- a pay differential will exist which could lead to considerations of Equal Pay by way of comparison.

10. Budget Impact of paying PCC staff the Real Living Wage

On the basis of a 2% pay award to PCC employees for 2022/23, the estimated budget shortfall to uplift PCC staff to the current RLW of £9.90 per hour is as follows:

- Schools £16,000
- General Fund £13,400
- HRA £1,900

11. Director of Finance Comments

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 (as set out in section 3 above).

The largest impact here is in the Adult Social Care service. Currently a national exercise is being undertaken as part of the Social Care Reform programme with a planned implementation date in Autumn 2023. This includes a review of the fair cost of care. Until this work is completed, and the impact understood, it would be premature to conclude anything regarding the cost to the Council of ASC suppliers adopting the RLW.

Whilst the 3-year forward forecast for 2023/24 to 2025/26 included in the Budget report to City Council in February 2022 did not plan for any savings requirement to balance the budget, there are now cost pressures emerging which will impact budgets going forward e.g. energy, fuel, waste and general inflation.

At the point any decision is taken to implement the RLW, the City Council will simultaneously need to identify and approve savings of £1.978m 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 (Director)

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
Employment Committee: Living Wage Report - Financial Appraisal, January 2022	EC012022 - Living Wage - Financial Appraisal .pdf (portsmouth.gov.uk)
Office for National Statistics - Labour Market Overview, June 2022	Labour market overview, UK - Office for National Statistics (ons.gov.uk)
Local Government Association press release 21 June 2022	LGA - Unfunded National Living Wage increases would risk local services and jobs Local Government Association