

Low Pay Commission consultation on National Living and Minimum Wages

Purpose of report

For decision.

Summary

The Low Pay Commission is currently consulting on setting the level of the statutory National Minimum Wage and the National Living Wage for April 2020. The consultation also seeks views on the approach to be taken after 2020. This report sets out the LGA's proposed response to the consultation.

Recommendation

That members of the Resources Board agree the draft response and determine the specific approach that should be taken in response to the questions concerning the future remit of the Low Pay Commission regarding the National Living Wage (NLW) after 2020.

Action

Officers to finalise the submission following the comments of members

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Low Pay Commission consultation on National Living and Minimum Wages

Introduction

1. In the initial period following the introduction of the National Minimum Wage (NMW), the LGA/national employers generally did not respond to the Low Pay Commission's (LPC) consultation on changes to the rates. This was largely because in the early years of the NMW the minimum local government rates were up to 25 per cent higher than the statutory minimum. However the impact of big increases in the NMW and the impact of austerity on local government pay settlements had eroded most of that headroom by 2014.
2. In 2015 the government announced that from April 2016 it would introduce a new higher statutory minimum for workers aged 25 and above. This was the National Living Wage (NLW). From the outset it was indicated that the NLW would have a target level of 60 per cent of median hourly earnings by 2020. This new statutory rate caused (and still causes) some confusion as there was already a voluntary living wage published by the Living Wage Foundation (LWF). That rate was higher than the suggested statutory rate and by 2015/16 more than 175 councils in England and Wales had applied the voluntary rate to its workforce and in some cases started to roll it out to the contracted workforce through procurement arrangements.
3. The view of the National Joint Council (NJC) was always that the voluntary living wage was a matter for individual councils and should not be an approach to be taken forward through the NJC, although coincidentally the LWF rate currently mirrors the NJC minimum rate. Note that the current minimum London local government pay spine rates (which are linked to NJC increases) currently exceed the LWF rate for London which is £10.55.
4. The approach the local government sector took on the NLW from 2016 to 2019 is set out in the draft submission (see question 5).
5. The key current minimum rates are:
 - 5.1 National Minimum Wage £7.70.
 - 5.2 National Living Wage (statutory) £8.21.
 - 5.3 Living Wage Foundation (voluntary) £9.00.
 - 5.4 National Joint Council £9.00

Summary of issues covered in draft response

6. The draft submission (see Appendix) covers the following issues:

- 6.1 The background to the relationship over time between the minimum statutory rates and local government pay rates.
 - 6.2 The approach taken by the sector to meet the challenge of the NLW.
 - 6.3 The impact on the pay bill.
 - 6.4 The impact on procuring adult social care services.
 - 6.5 The existing headroom between minimum local government rates and the NLW which means that the likely 2020 NLW rate can readily be absorbed with few (if any implications) for our pay negotiations.
 - 6.6 Issues relating to apprenticeships
7. Most of our evidence on this is either factual and/or historical and we are not seeking a specific steer from members. However questions 12 and 13 seek views on the approach to take after 2020 when the NLW has reached its original target of 60% of median hourly earnings. **It is that part of the submission on which officers would particularly welcome the views of members.** The full submission is included as an appendix for information.

The future remit of the Low Pay Commission

8. In the October 2018 Budget, the Chancellor stated, *“Next year we will need to give the LPC a new remit beyond 2020. We will want to be ambitious with the ultimate objective of ending low pay in the UK but we will also want to be careful – protecting employment for lower paid workers. So we will engage responsibly with employers, the TUC, and the LPC itself over the coming months gathering evidence and views to ensure we get this right – and I will confirm the final remit at the Budget next year.”* At the same time the Treasury noted that the OECD define relative low pay as two-thirds of median earnings.
9. This would seem to be a clear indication that once the NLW has reached its initial target of 60 per cent of median hourly earnings that a new target is to be considered. Using the current Office of Budgetary Responsibility (OBR) estimates and noting the Treasury reference to two-thirds of median earnings, a new target of 66.6 per cent of median earnings would result in NLW rates as follows:
 - 9.1 2021: £9.79.
 - 9.2 2022: £10.10.
 - 9.3 2023: £10.43.
10. It should be noted that at the last General Election: the Labour Party commitment was to a statutory minimum of £10.00 an hour by 2020; the

Liberal Democrats approach was the commissioning of an independent review to determine how to set a genuine living wage; and the Green Party was committed to a genuine living wage. What all this indicates is a broad political consensus that the current target for 2020 is unlikely to be the final settled position for any lengthy period of time.

11. Using the OBR projections and **for illustrative purposes only** assuming that the NJC pay settlements in each of 2020, 2021 and 2022 were 2 per cent, the bottom four points on the NJC pay spine would be below the potential new statutory minimum from 2023. That would cover the bottom 2-3 grades in many councils, where in many cases the reduction of pay points within lower grades has been an inevitable consequence of introducing the new pay spine in 2019, in some cases resulting in spot point salaries rather than multi-point grades.
12. There are too many potential variables for us to get too focused at this stage on a particular potential future level for the NLW or a particular timescale. However what is clear is that any significant increase would need several years to plan and manage implementation at a time when many councils have still to make further tweaks to their grading structures in the light of the introduction of the new NJC pay spine.
13. The further the NLW gets increased the greater the impact it would have on differentials. One of the successes of the new NJC spine was to deal with historical anomalies in the spine structure and provide uniform gaps of 2 per cent between pay points in the lower half of the spine. Unless all pay points were to get identical increases to those that would be needed at the lower end of the spine the evening-out work would unravel were there to be a further significant increase in the NLW.
 - 1.
14. The key issue for the sector would be that any future increase (and the associated costs of maintaining differentials) would need to be fully funded by central government.

The LGA's response on the post-2020 NLW

15. The draft response to questions 12 and 13 are set out below:

(Question 12) Reflecting on your experience of the NLW since its introduction in 2016, what lessons do you think should be learned for the period after 2020?

Were there to be significant change from the current 'ceiling' of 60% of median hourly earnings, this would require a long lead-in as the impact on pay differentials at the lower end of the NJC pay spine would need to be considered and costed.

In our experience the impact on differentials throughout the pay structure of

complex organisations should not be under-estimated. We would anticipate that this would become a bigger issue if further real terms increase in the NLW are proposed.

(Question 13) Given the Chancellor's statements in the 2018 budget, what are your views on the future trajectory of the NLW and other NMW rates after 2020? What considerations should inform this?

There will inevitably be further pressure on local government funding if there is a further significant realignment e.g. an increase from 60% to 66% of median earnings over four years. This would outstrip several of the NJCs bottom pay points. This runs the risk of the NJC (nationally) and councils (locally) having to unpick and adjust the complex work that went into meeting the challenge of the introduction of the NLW. However the bigger issue would still be the need for any further increase (and its impact on differentials) to be treated as a new burden and fully-funded for employers such as local government.

The fact that public sector bodies are also major procurers of services where the NLW is a direct cost should also be taken into account in the funding provided to councils.

16. The draft response does not seek to address whether a further increase in the benchmark for the NLW is appropriate. However, as indicated in paragraphs 8 and 10 there appears to be a broad political consensus on that point. Therefore, it focuses on the implications for national pay structure and the need for both direct funding (to cover lower rates and differentials) and costs relating to procured services. Another point that is stressed is the need for a significant lead-in period to enable the change to be managed. It should be noted that the initial target has been brought in over a four year period.
17. Members are asked to consider whether there are any specific changes they would wish to see to the submission on these questions, such as:
 - 17.1 Is there a specific element on funding that should be added?
 - 17.2 Would they want to take a firmer position on a specific implementation period?

Implications for Wales

18. All councils in Wales are covered by NJC pay bargaining and therefore all the changes in the NJC pay framework have applied in Wales. It should be noted that previous LGA earnings surveys have consistently indicated that a greater proportion of the workforce in Wales is paid at

the lower end of the pay scale. Therefore the changes made to meet the NLW typically cost councils in Wales more than the average in England. Any post-2020 changes to the NLW also would be likely to have a greater cost impact in Wales.

Financial implications

19. There are no specific financial implications for the LGA.
20. Local government spends a significant proportion of its resources on pay. The Local Government Services pay bill for England and Wales is approximately £20 billion. Over the period 2016-2019 the two pay deals to meet the challenge of the NLW added approximately 2.25 per cent to the pay bill in terms of bottom-loading and re-configuration of the spine in addition to the cumulative 6.1 per cent impact of the headline rate increases over the four year period. Any further significant increase in the NLW beyond 2020 could have implications for direct costs (noting the current headroom in the NJC rates), further costs relating to the maintenance of differentials and the cost of procured services such as those in adult social care.