

David Massey
Low Pay Commission
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Dear Mr Massey

Consultation on April 2020 National Minimum Wage Rates

We have generally kept our response to questions that directly relate to the local government workforce and have not commented on questions concerning the wider economy.

About you

1. Please provide some information about yourself or your organisation. If possible, include relevant details about your location, the occupation or sector you are involved in, your workforce if you are an employer (including number of NMW/NLW workers), and anything else you think is relevant.

The LGA is the national voice of local government. We work with councils to support, promote and improve local government. The LGA covers every part of England and Wales and includes county and district councils, metropolitan and unitary councils, London boroughs, Welsh unitary councils (via the Welsh LGA), and fire and national park authorities. The Workforce Team of the LGA offers advice on employment issues and represents local government employer interests to central government, government agencies, trades unions and European institutions.

The LGA manages the Employers' Secretariats for a variety of pay bargaining groups. The largest of these is the National Joint Council for Local Government Services (NJC). This group in theory covers more than 90% of the workforce of approximately 1.1 million (excluding school teachers). However, approximately 55 councils (largely in the South East and East of England regions) choose to negotiate locally on annual pay settlements.

We do not anticipate that changes to the National Minimum Wage will have any direct impact on the local government workforce. However the increases in statutory minima rates will continue to have a direct impact on employees in adult social care where local government is a major procurer of services.

While most councils' pay rates are linked to the NJC pay spine, grading structures and pay progression are entirely a matter for local determination. Therefore while we can make some general observations about the impact on differentials between various pay points,

we cannot translate this into a clear picture about the impact on different job roles or specific reductions in employee / supervisor differentials.

Economic Outlook

2. What are your views on the outlook for the UK economy, including employment and unemployment levels, for the period up to April 2020?

We have no comments on this question

3. What are your views on the current state of the labour market? Has the labour market tightened over the past year? If you are an employer, what has been your experience of filling vacancies?

Recruitment problems are generally not at the part of the pay spine directly or indirectly affected by the NLW.

4. What has been your experience of wage growth and inflation in the last year and what do you forecast for the next couple of years?

Within our sector we have just entered the second year of a two year national pay agreement which included 2% for the majority of employees in each year. The impact on the lower paid is set out in more detail below. We have yet to begin the negotiations on a pay agreement to apply from April 2020. However the most obvious elements of the context for those negotiations are continuing financial restraint for local authorities in the context of the level of funding available and the trade unions' expectations that the era of pay freezes and settlements of 1% is over.

We have no comment to make regarding inflation forecasts.

Impact of the National Living Wage

5. What has been the impact of the NLW since April 2016? The rate is currently £7.83 and will rise to £8.21 in April 2019.

Our critical interest is in views or data on the NLW's effects on employment, hours and earnings.

We are also very interested in evidence on pay structures, differentials and benefits (including premium pay and impacts on parts of the workforce above the NLW), outsourcing, progression, job moves, training, contract type, business models, productivity (and the different ways in which productivity improvements can be achieved), prices or profits.

Note that the standard working week on which our national calculations are based is 37 hours.

In 2015 when the then Chancellor announced the introduction of the National Living Wage, the minimum hourly rate on the NJC pay spine was £7.00. That meant that it would have to increase by approximately £2.00 in five years if the initial 'target' for the NLW in 2020 of

£9.00 was to be reached. By way of context, the increase in the bottom rate from £5.00 to £7.00 had taken thirteen years to achieve (2002-15).

Local government's first response to the NLW was a two-year pay agreement covering 1 April 2016 to 31 March 2018, which made some headway in bridging that gap and introduced minimum hourly rates of £7.52 (1 April 2016) and £7.78 (1 April 2017). That agreement included some further bottom-loading in each of the two years to assist in maintaining differentials and then annual pay awards of 1.0% further up the pay spine. That two-year deal added 2.40% to the national pay bill. The two-year increase for the lowest pay point was 10.28%. These rates provided some headroom in relation to the NLW which was £7.20 (1 April 2016) and £7.50 (1 April 2017).

The current two-year pay deal covering 1 April 2018 to 31 March 2020, made further progress in creating headroom between the bottom NJC rate and the NLW. The agreement included some further bottom-loading in each of the two years to assist in maintaining differentials and then annual pay awards of 2.0% further up the pay spine. The two-year 2018-20 deal added 5.58% to the national pay bill.

At 1 April 2018, the NJC bottom rate increased to £8.50 (NLW was £7.83) and on 1 April 2019 the minimum NJC rate went up to £9.00 (NLW is £8.21). This headroom has been achieved by increasing the bottom pay point by 15.65% over the two-year period. The increase in the lowest rate over the four year period 2016-19 has been 27.5%.

Local government has continued to see its funding reduced in recent years and that has undoubtedly had an impact on employment levels. It is not possible to separately identify the specific impact of the NLW on employment numbers in the sector.

6. To what extent has the NLW particularly affected certain occupations or industries, types of firms (small, large etc), regions or groups (for example women, ethnic minorities, migrant workers etc)?

The local government services workforce is approximately 75% female and that proportion is even greater at the lower end of the pay scales. Of those earning less than £21,000 (FTE salary), 95% are women. £21,000 is the pay level up to which the re-configuration of our pay spine to meet the challenge of the NLW has been applied. This would indicate that the introduction of the NLW and its future increase to 2020 has had a bigger impact on the earnings of women than men. Overall 2 in 3 of the workforce is part-time, again this figure is higher at the lower end of the scale and the vast majority of part-time employees are women, so part-timers will have seen a similar impact.

We would expect that employers in the social care sector will respond to the LPC in more detail on the direct impact in terms of cost. However the main issue for local government as a purchaser of services from that sector is the impact on contract costs at a time when there are already a wide range of pressures on adult social care budgets.

April 2020 rates of the NLW and other minimum wage rates

7. Under our latest forecasts, the target April 2020 rate for the NLW would be £8.67. Do you agree that the LPC should seek to meet this target?

While our pay negotiations for 2020 are not due to commence until later this year, if (for illustrative purposes) we were to increase pay rates by 2% and achieve a minimum rate of £9.18, the differential between the two rates would reduce from 9.62% currently to 5.9%. However we are content for the LPC to seek to meet this target

8. What do you predict would be the effects of a rate of £8.67 in 2020 (earnings, employment and competitiveness)?

We have no comments on this question

9. At what level should the 21-24 Year Old Rate be set in April 2020?

At the time the introduction of the NLW was being considered, the local government employers took a decision to not seek to differentiate by age within the NJC pay arrangements. Therefore, the NJC pay spine does not apply age thresholds on rates of pay and we have no comment on any of the age-related rates.

10. At what level should each of the other rates of the minimum wage be set in April 2017 – that is, for 16-17 year olds, for 18-20 year olds, for apprentices, and the Accommodation Offset?

We have no comments on this question

11. What, if any, are the barriers to larger increases in the 21-24 Year Old rate, 18-20 Year Old Rate, 16-17 Year Old Rate and Apprentice Rate?

We have no comments on this 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 us to have 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 significantly bigger issue should a further 'ratcheting up' of the NLW be proposed. The increases since 2016 have had implications for grading structures and the erosion of differentials between jobs of different sizes (in job evaluation terms). Further increases will make this more likely to have a greater impact on the differentials between those with supervisory responsibility and those they manage. Unless organisations can afford to put in similar levels of pay increases further up their pay ranges that is likely to make those supervisory roles much less attractive.

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.

Also a key consideration should be an evidence-based analysis of actual and potential increases in workforce productivity resulting from increases in the level of the NLW.

21-24 year olds

14. What has been the effect of the minimum wage and the NLW on workers aged 21-24 and what effect do you think this has had on their employment prospects?

See '9' above.

15. To what extent are firms using the 21-24 Year Old Rate (set at £7.38 since April 2018 and rising to £7.70 in April 2019)?

The NJC pay spine does not apply age thresholds on rates, as far as we are aware there are no local authorities using the 21-24 year old NMW rate as part of any locally agreed arrangements for employees.

Young people and apprentices

16. What do you think has been the effect of the minimum wage on young people, and on their employment prospects?

We have no comments on this question

17. What has been the effect of the Apprentice Rate on the pay, provision and take-up of apprenticeship places, and training volume and quality?

We have no comments on this question.

18. What are your views on the Apprentice Rate given the substantial policy changes to apprenticeships in England? Should the design of the Apprentice Rate change in response? If so, how?

Councils vary on how they pay apprentices depending on the council's local policy. For example we are aware of councils that apply the Living Wage Foundation rate to apprentices while others use the national statutory apprenticeship rates. The key for the sector is that the role / job dictates the level of pay along with the local economy and not all apprentices are entry level or 'young people'.

19. What influence do other policies – for example, National Insurance and/or the Apprenticeship Levy – have on employers when deciding whether to employ young workers or apprentices?

The levy has increased the number of apprenticeship starts in local government and has therefore been a significant influence.

Compliance and enforcement

20. What issues are there with compliance with the minimum wage? Has the NLW affected compliance and enforcement? Are there any other trends, for example in particular sectors or groups?

We have no specific comments about compliance within our workforce, although we are aware of the issues relating to travelling time that have arisen in the social care sector, where local government is a significant purchaser of services.

21. What comments do you have on HMRC's enforcement work? What is your opinion on the quality and accessibility of the official guidance on the NLW/NMW?

We have concerns about the approach taken in recent years with regard to guidance on the approach to take on the NMW/NLW and sleeping-in arrangements. We are aware that litigation continues on the issue of sleeping-in payments, but the lack of clarity and shift in guidance from central government has been unhelpful.

22. What more could be done to improve compliance with the NLW/NMW?

We have no comments on this question

23. What are your views on the Accommodation Offset and the extent to which it is protecting low-paid workers? What difference, if any, have the increases in the rate since 2013 made to the provision of accommodation?

We have no comments on this question

Yours sincerely,

Simon Pannell

**Simon Pannell
Employers' Secretary**