

National Living Wage

Report of the Chief Executive

Recommended:

1. That, in response to the increase in the National Living Wage, Grade 1/2 is deleted from the Council's pay scales and employees on Grade 1/2 be assimilated onto the relevant salary point of Grade 3.
2. That the Human Resources Manager be authorised to update all relevant policies accordingly.

SUMMARY:

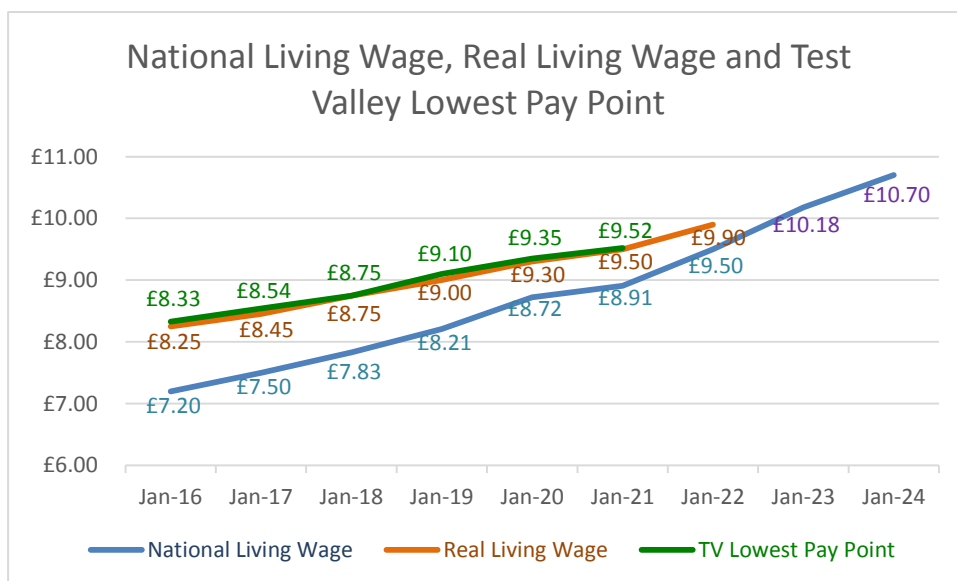
- This report recommends the removal of Grade 1/2 from the Council's pay scales, making Grade 3 the lowest grade to enable the Council to stay compliant with the National Living Wage (NLW), which was previously called the National Minimum Wage, now and in the next few years. This will have the additional benefit of supporting the recruitment and retention of good employees in a tight local labour market.

1 Introduction

- 1.1 Over recent years the National Living Wage (NLW), which was previously called the National Minimum Wage, has been increasing at a faster rate than inflation which has led to it butting up against the bottom point of the Council's pay scales. This report considers the implication of the recent and ongoing anticipated rise in NLW and the impact this has and will have on the lowest paid workers at the Council.
- 1.2 The NLW is the statutory minimum wage for those age 23 and over. For those under the age of 23 there is a statutory minimum wage for their age. With the exception of apprenticeship grades, the Council does not have different pay rates for those under the age of 23. Currently our training grade also complies with the NLW.
- 1.3 The hourly pay rate formerly described as the National Living Wage was not a statutory pay requirement and that is now described as the Living Wage Foundation real living wage.
- 1.4 Wherever the term NLW is used in this report it refers to the statutory minimum wage, however it was described at the time.

2 Background

- 2.1 In March 2020, the Government introduced a new target for the NLW to reach two-thirds of median earnings by 2024, providing economic conditions allow. This has led to some higher than inflation increases in the NLW in recent years. The Low Pay Commission's recommendation on the NLW for those age 23 and over which applies from 1 April 2022 is to increase it from £8.91 to £9.50, an increase of 6.6%. This brings the NLW very close to our Grade 1/2 pay spine point of £9.52. It is anticipated the National Living Wage will rise to £10.18 in April 2023 and £10.70 in April 2024. These increases could be more than this if inflation pushes up the anticipated median earnings for 2024.
- 2.2 The question of the bottom of the pay spine is common across Local Government, the National Joint Council (NJC) pay spine for Green Book employees the lowest pay point is £9.50 an hour, the same as the NLW when this is increased in April. Initial indications from the LGA is that they will need to consider a notional bottom pay point figure of £10.25 for April 2023 and £11.00 for April 2024, this is to allow a bit of room should the predicted NLW rates rise at a faster rate than currently predicted.
- 2.3 Below is a graph which shows the changes in the NLW, the Living Wage Foundation real living wage and the Council's lowest pay spine point. Whilst we are not signed up to the Living Wage Foundation as an accredited living wage employer, we have had sight of this over recent years and sought to increase the bottom pay spine point to be just above this rate. The real living wage rises in October each year, and organisations have 6 months to bring their lowest pay rates in line with this. The current real living wage is £9.90 per hour.



2.4 The matter of the NLW and maintaining some daylight between our bottom pay point and the NLW is compounded by the fact that annual inflationary awards are not agreed in time for the 1 April each year. In order to remain compliant and not dip below the NLW this means the previous year's pay award needs to have sufficient headroom to allow for the NLW increase on 1 April. By example:

2.5 The current NLW for April 2021 to March 2022 is £8.91, our current lowest pay point is £9.52. There is currently some headroom between the NLW and our lowest pay point. When the NLW goes up on 1 April 2022 to £9.50 our lowest pay point will remain compliant as it is 2p above this rate.

3 Corporate Objectives and Priorities

3.1 All organisations are required to pay people age 23 and over above the National Living Wage and for those under 23 above the National Minimum Wage for their age.

3.2 We strive to be a good employer and an employer of choice in the local area. In order to be able to recruit and retain good people the Council needs to offer a competitive total remuneration package, this includes a rate of pay considered to be fair for the work undertaken. Both Test Valley Borough Council and the LGA share a principle of not believing Local Government to be a minimum wage employer.

4 Consultations/Communications

4.1 This proposal has been shared with the Unions for their comment and any feedback will be provided at the meeting.

5 Options

5.1 With the NLW rising faster than inflation this report proposes

- the deletion of Grade 1/2, the bottom pay grade in our current pay scales (save for apprentice/trainee grades) as of 1 April 2022; and
- updating the job evaluation scheme to merge the points from Grade 1/2 with the points for Grade 3 to create a new Grade 3.

5.2 This is an option to provide some headroom between the NLW and the lowest pay point. Currently there are 51 FTE employees on Grade 1/2, these are cleaners and waste collection operatives and we have a further 27 casual roles at this grade, café/bar workers at The Lights and casual environmental services roles. There are 15 FTE employees on Grade 3, these are premises assistants, street cleaning operatives and admin and scanning assistants and a further 10 casual roles.

- 5.3 Deleting Grade 1/2 as of the 1 April 2022 from the Council's pay spine would make the new lowest pay point £10.43 per hour and would create some headroom above the NLW of £9.50 and help to make the Council more competitive in the local recruitment market. Test Valley is an area of full employment and there are some large local employers such as Ocado and Coop which we compete with.
- 5.4 Annex 1 to this report contains the current pay scales. Annex 2 contains the proposed pay scales following the deletion of current grade 1/2 .

6 Risk Management

- 6.1 The Council has always sought to be an employer of choice and with the impending increase in the NLW, our Grade 1/2 pay point is now butting up against the NLW in a way in which it previously never has. This increases the risk of being able to attract suitable candidates into these roles as we will be competing with a range of employers who pay at the NLW level, a recruitment market that we have never previously entered.

7 Resource Implications

- 7.1 The budget cost of deleting Grade 1/2, points 1-3 of the current pay scales are a total pressure over 2 years of £110,000. This is split as a maximum year 1 pressure of £60,000 and a maximum year 2 pressure of £50,000.
- 7.2 The budgetary pressure identified in this report can be contained within the balance of the general contingency provision that was approved as part of the 2022/23 budget. The ongoing financial impact will be built into the next Medium Term Financial Strategy update that will be considered in the autumn. The Head of Finance and Revenues has the required authority to update Service budgets in respect of the recommendations in the report.

8 Legal Implications

- 8.1 Approval of the proposed deletion of Grade 1/2 from our pay scales is a function delegated to the General Purposes Committee.

9 Equality Issues

- 9.1 An equality impact assessment has been completed. The increase in pay for those on Grade 2 will have an impact on household income at a time when inflation is high, having a positive impact on those from lower socio-economic groups.

10 Conclusion and reasons for recommendation

- 10.1 This report sets out the impact of the NLW on the lowest pay points of the Council's pay scales and the impact this will have over the next few years as it is anticipated the NLW will continue to rise at a faster rate than inflation.

10.2 It is recommended to

- remove Grade 1/2 from the Council's pay scales (see Annex 1) to create some headroom between the Council's lowest pay point and the NLW
- update the job evaluation scheme and merge the job evaluation points from Grade 1/2 with Grade 3 to create a new grade 3.

This will be helpful in enabling the Council to remain compliant in the next 2-3 years with NLW increases.

<u>Background Papers (Local Government Act 1972 Section 100D)</u>			
None			
It is considered that this report does not contain exempt information within the meaning of Schedule 12A of the Local Government Act 1972, as amended, and can be made public.			
No of Annexes:	2	File Ref:	n/a
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Report to:	General Purposes Committee	Date:	29 March 2022