National Employers for local government services

To: Chief Executives in England, Wales and N Ireland
(additional copies for HR Director and Finance Director)
Members of the National Employers' Side
Regional Directors

2 February 2022

Dear Chief Executive,

Update on the 2021 pay round and the challenge ahead

The National Employers met on 31 January to take stock of the unhelpful delay in finalising the 2021 pay round, due to the unions' protracted timetables for consultations and ballots.

The National Employers share councils' frustration that the unions' actions mean that, six months after the full and final offer was made, employees are unlikely to receive the monies due to them before the increase to National Insurance Contributions comes into effect in April.

I thought it would be useful to remind you of the timeline of this year's process. I also thought it timely to again bring to your attention the continuing challenge that we face in ensuring that the NJC pay spine is able to absorb the impact of significant annual increases to the statutory National Living Wage (NLW) rate, which are forecast to continue.

Timeline of the 2021 pay round

The unions (UNISON, GMB and Unite) tabled their pay claim on 15 February 2021, which was much later than in previous years when claims were usually lodged before Christmas. The National Employers met three days later on 18 February and agreed to conduct pay consultation briefings in the nine English regions, Wales and Northern Ireland between 8 and 23 March 2021. The employers also informed the unions that they would defer making a formal pay offer until after the local elections that were to take place on 6 May.

The National Employers met again on 31 March in order to receive feedback from the consultations.

On 14 May, the National Employers reconvened and made a pay offer of 1.50 per cent on all pay points, plus proposals for joint discussions on Term-Time Only, homeworking policies, mental health support and maternity etc leave. The employers' offer was rejected by the unions on 21 May.

After taking further political soundings, the National Employers met again on 27 July and voted by a majority to make an improved, full and final pay offer of 2.75 per cent on SCP1 and 1.75 per cent on SCPs 2 and above and reaffirmed their proposals for joint discussions on the non-pay issues set out above. The employers also agreed at this meeting to make full and final pay offers of 1.50 per cent to Chief Executives and Chief Officers.

In mid-August the three unions announced plans to conduct consultative ballots on the employers' offer. All three unions recommended that the offer be rejected. Those ballots ran through to the beginning of October and all three unions received resounding majorities in favour of rejecting the employers' final offer, albeit they did not (nor were they obliged to) divulge the turnout figures in each ballot.

The National Employers met again on 19 October and voted by a majority to reaffirm their offer as full and final.

In mid-November UNISON announced it would be conducting a formal national strike ballot that would close in mid-January. GMB announced it would be conducting another consultative ballot (in order determine whether there was support for a subsequent strike ballot) that would close in mid-December. Unite announced a much later timetable: its formal national strike ballot would run from mid-January to mid / end-February.

The turnout in UNISON's strike ballot was just 14.5 per cent, far short of the minimum 50 per cent required in order for any industrial action to be lawful. GMB has not proceeded to a formal strike ballot. At the time of writing, Unite is still conducting its ballot. So, at present we do not have an agreed pay award for 2021 and we will of course keep you informed of any developments in relation to that process. Notwithstanding the outcome of the 2021 pay award, looking ahead there is a major challenge facing us with which we need to engage.

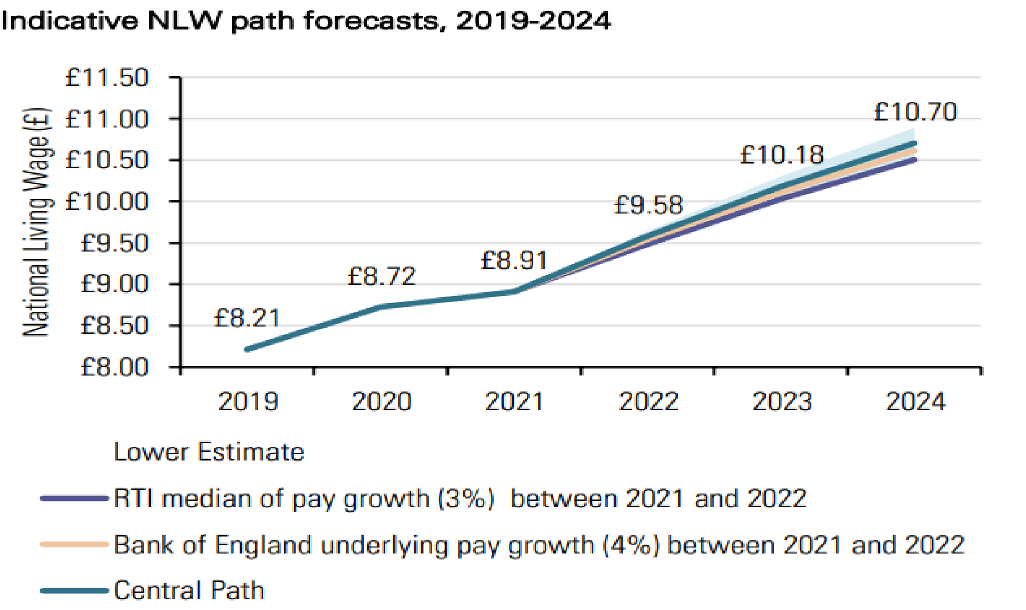
Each of the three unions are not expected to begin to consult their members on the content of their 2022 pay claim until at least March, which means we do not expect it to be tabled until at least April (which will already be beyond the usual pay award implementation date of 1 April). In light of this, the National Employers agreed at their meeting on 31 January, that arrangements should be made for Leaders, senior elected members, Chief Executives, HR and Finance Directors from every council in each of the nine English regions, Wales and Northern Ireland to be invited to briefings with members of the LGA's Workforce Team, with National Employer members also in attendance.

Arrangements for these meetings will be coordinated by each of the Regional Employer Organisations in England, the WLGA and NILGA and details will be provided by them in due course. For the reasons set out below, it is imperative that every council is represented at these meetings, which we hope to conclude by the end of March.

The challenge in 2022 and beyond

The employers' full and final offer would result in the bottom pay point (SCP1) reaching £9.50 (backdated to take effect from 1 April 2021) and it will remain at that level until the 2022 pay round is completed. The statutory NLW will increase to £9.50 on 1 April 2022, which means that the 'headroom' between SCP1 and the NLW, which the National Employers have tried hard to maintain over the past few years, will have completely eroded from a peak of 79p per hour in 2019. Maintaining headroom has been a key principle of the employers since the original National Minimum Wage, and subsequent NLW, were introduced. The National Employers do not believe that local government should be a minimum wage employer.

The Low Pay Commission (LPC) has updated its forecast for the NLW, as shown:



	2020	2021	2022	2023	2024
Assumed Eligibility	25+	23+	23+	23+	21+
Central Path	£8.72	£8.91	£9.58	£10.18	£10.70
RTI median of pay growth (3%) in 21/22	£8.72	£8.91	£9.48	£10.03	£10.50
Bank of England underlying pay growth (4%) in 21/22	£8.72	£8.91	£9.54	£10.11	£10.61

The Chancellor's reiteration of the target for the NLW to reach 66 per cent of median earnings in 2024 provides confirmation of existing policy but the forecasts from the LPC show that their central path (with an indicative margin of +/- 20p per hour) leads to a NLW of £10.70 in 2024. This is 37p per hour higher than the forecast made in April 2021, which illustrates the erratic nature of the forecasts against which we are trying to plot a path ahead for the NJC pay spine.

Using the current 2024 LPC forecast figure of £10.70 as the starting point, we have considered a cautious assessment of the NJC's bottom pay point at that time to be £11. This would allow for a margin of forecast variance in line with past experience and potentially start to restore some of the lost headroom, which in 2019 stood at 79p. This would require increasing SCP1 by 15.8 per cent from £9.50 (the hourly rate for SCP1 when the 2021 pay deal is eventually finalised).

However, because the NJC's negotiating timescales almost always run past the implementation date of 1 April each year, it is the 2023 pay deal that would need to achieve the relevant rate in order to be compliant with the NLW on 1 April 2024 (if the forecast is correct), as that year's pay deal is unlikely to be agreed in time.

Without having the luxury of time in which to be able to implement the necessary changes to the pay spine over a longer period and thereby reduce the burden of cost and effort for councils, there are only a limited number of ways in which the NLW challenge can be met. The National Employers will of course consider all available options but I have highlighted a few here for consideration.

Deleting pay points

One way of keeping ahead of the NLW would be to delete pay points from the bottom of the NJC pay spine. However, time is against us. It is now too late to contemplate deleting the bottom pay point with effect from 1 April 2022; we know that councils would need at least six or more months to reconfigure and implement such a change. Additionally, there has been no discussion with the trade unions, with whom agreement would be necessary.

Some pay deals in the past have included agreement to delete pay points at the mid-year stage (1 October) but even that could only realistically be achieved this year if the 2022 pay deal is agreed relatively quickly (ideally before the end of April), which looks very unlikely at his point.

However, regardless of the timescale consideration, the challenge we face goes beyond deleting just one or two pay points. This is illustrated by the table below, which shows the lower quartile of NJC pay spine should agreement be reached on the employers' 2021 pay offer:

SCP	**FTE**	**01-Apr-21 *(subject to agreement)***	
1	8,425	£18,333	£9.50
2	7,647	£18,516	£9.60
3	10,266	£18,887	£9.79
4	15,362	£19,264	£9.99
5	13,619	£19,650	£10.19
6	29,877	£20,043	£10.39
7	10,152	£20,444	£10.60
8	10,526	£20,852	£10.81
9	10,397	£21,269	£11.02
10	1,744	£21,695	£11.25

In many councils, these ten pay points would typically cover at least the first two or three grades, possibly four. So, by deleting pay points, the impact on local grading structures would be significant in some councils and would come just a few years since grading structures were last changed as result of the introduction of the revised pay spine in 2019. You will note from the FTE figures that the numbers of staff potentially affected are substantial, it should be noted that there is a high volume of part-time employment at these grades, so the headcount is significantly higher.

Some councils do not employ anyone on the first few pay points so would be unaffected should one or more be deleted. However, in other councils the numbers are relatively large.

A snapshot survey conducted in October 2021 showed totals of staff on the bottom three pay points as follows:

SCP 1		**SCP 2**		**SCP 3**	
Full-time headcount	**Part-time headcount**	**Full-time headcount**	**Part-time headcount**	**Full-time headcount**	**Part-time headcount**
919	16,162	1,362	21,090	3,054	20,910

Bottom-loading

Another option that could be used alongside deletion of pay points is bottom-loading. However, this too is problematic. The differentials between pay points are so minimal, there is very little space to increase lower pay points by a higher amount than those further up the pay spine before ‘leapfrogging’ occurs, which means lower pay points overtake higher pay points in terms of monetary value.

Moreover, it cannot be taken for granted that bottom-loading will be desirable to all. In recent years there has been a focus on the pay levels in professional jobs, the so-called ‘squeezed middle’; this is likely to intensify as lower-paid staff are now effectively guaranteed pay awards each year by virtue of the government’s NLW policy.

Reducing the working week

The only other available option might be to reduce the length of the standard working week and thus improve hourly rates by default (although the unions’ starting point would be a shorter working week with no loss of pay, which has been a feature of recent pay claims and met with widespread opposition in regional employer consultations). However, we do not underestimate the huge amount of work in negotiating, agreeing and implementing such a change. Reducing the working week would require considerable groundwork over a relatively long period (two to three years), so would not be a short-term fix to the NLW challenge we are facing.

Other pressures on 2022 local government pay

The NLW is not the only pressure on 2022 pay. While the National Employers are not yet in receipt of a pay claim from the trade unions, the landscape around pay is in many ways different from recent years:

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 – NJC pay awards have rarely been linked to inflation but are often referred to as 'cost of living' increases. Inflation has been low for some years now but it is now rising and is likely to either rise further or stay at the current level in the region of 5-6 per cent.

National Insurance – from April 2022 employees will pay higher levels of national insurance (there is a headline 1.25 per cent increase to employee national insurance). The government has confirmed that public sector employers will have their additional national insurance costs covered, in the case of local government, through the Settlement.

Capacity pressures in local government have grown at multiple levels. Councils have been reporting difficulty in recruiting and retaining key professional staff for some years and this has escalated in recent times. 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. In this group we may count social workers, public health officers and regulatory services specialists.

The second group consists of those professions where local government 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 and legal professionals at all levels and health and education workers such as registered nurses, occupational therapists and educational psychologists.

Beyond the specialist professions, councils are also increasingly reporting difficulties in recruiting senior managers and many are conscious of the proximity of many senior leaders to retirement age and a reducing pool of applicants for existing roles. Here, pay is clearly not the only factor causing difficulties but it is cited anecdotally as an issue in particular within the context of significant expansion of NHS roles at similar levels.

Finally, and perhaps to come full circle, councils have increasingly reported difficulties in the current labour market recruiting to entry level roles at and just above the base of the pay spine; primarily, these appear to be public facing roles where competition with the private sector has become increasingly fierce in a number of regions (not all, but the majority).

Conclusion

It is clear that 2022 is going to be a particularly difficult year for the national bargaining machinery, and the National Employers in particular, who will have to make decisions on pay that will be challenging, albeit they will be taken primarily as a result of decisions and policies emanating from government and the LPC.

All options for meeting the NLW challenge will lead to increased costs to councils and as a result will divert money away from other critical pay issues including those high up councils' agenda such as local government workforce capacity.

I look forward to hearing your views on the issues set out above at the regional meetings that are being arranged.

Yours sincerely,

Naomi Cooke

Naomi Cooke
Employers' Secretary