

24 June 2022

**TO: ALL EAST MIDLANDS MPs**

Dear MP

I am writing to you in my capacity as Chair of the Regional Employers' Board of East Midlands Councils (EMC) which represents 41 local authorities within the region.

Local authorities are employers of significant numbers of directly employed staff as well as those working in commissioned and outsourced services, and I wish to draw to your attention a very real funding concern that has arisen in light of the recent forecast of increases in the National Living Wage (NLW) in 2023 and 2024.

EMC supports initiatives to address low pay and is supportive of the National Living Wage, however we want to raise awareness of the implications of the policy to increase the NLW in line with two-thirds of median earnings by 2024.

The proximity of the NLW to the bottom rates of pay in local authorities has been a cause of concern since the NLW was introduced in 2014. The NLW was increased to 60% of national median earnings in the last parliament, and ahead of the last General Election, the current government announced a policy of increasing the NLW to 66% of median earnings by April 2024. This has formed the remit of the Low Pay Commission (LPC) and has resulted in some significant annual increases in the NLW.

In March, the LPC set out forecasts for the NLW in 2023 and 2024 which stated that its best estimate for the on-course NLW rate in April 2023 is £10.32, within a range of £10.14-£10.50 and its best estimate of an NLW set at two-thirds of median earnings for those aged 21 and over in 2024 would be £10.95 within a range of £10.58-£11.33. These estimates will be revised again in the summer to reflect any change in wage growth.

This projection is the highest rate yet predicted for the NLW in 2023 and 2024 and there is no guarantee it won't rise further due to the ongoing economic volatility, the potential impact of the international context and expected additional increases in the rate of inflation.

The lack of a fixed figure to work towards and the volatility of the forecasts of what the NLW rate will be, has made it very difficult to plan effectively over the past few years. The broader national economic turmoil over the past two years has increased the volatility of the projections.

Councils wish to recognise the positive impact their employees make on their local communities - as highlighted by the response to the Covid pandemic - and to be able to attract and retain a skilled workforce. However, the NLW projections will severely distort pay levels and have not been reflected in funding for the sector.

The bottom pay point on the local government pay spine is now at parity with the NLW at £9.50. The direction of travel of the current forecasts causes a major issue for local authorities as their paybills and associated costs will increase significantly in order to agree a 2022 pay award at a sufficient level to ensure a) compliance with the NLW and b) a workable pay spine. Current projections could result in the lowest ten pay points on the 43-point local government pay spine all being set at the NLW level which would cover all levels of customer assistant staff, cleaners, almost all non-teaching schools staff as well as waste crew, directly employed social care staff and tens of thousands of other front line workers providing key local government services.

In fact, on a full-time equivalent basis more than 35% of council staff nationally would be on the NLW. This would be completely unworkable and, among other issues, would give rise to very costly equal pay claims as employees of various seniority would all be on the same rate of pay.

The pressure on local government services pay set out above also applies to the many thousands of outsourced workers; the significant increases in cost brought about by the level and uncertainty of the latest NLW forecasts will be passed on by contractors to commissioning councils or the contracts will be returned. This impact will be particularly acute in areas such as cleaning, catering, waste and social care where pay is the most significant proportion of cost, and the current state of the labour market is already leading to recruitment and service delivery issues across the country. Local authorities are increasingly seeing skills shortages and are facing recruitment and retention difficulties across many professions, adding to the financial pressures and capacity issues.

From the points made above, the unintended consequences of the policy for NLW increases are clear. It is important to flag that Councils need to be funded appropriately to be able to meet the additional costs of the forecast NLW increases and to address the capacity issues that are placing jobs and service delivery at risk.

Yours sincerely



Cllr Kate Foale  
Chair, Regional Employers' Board  
East Midlands Councils