



## FINANCE AND AUDIT SUB COMMITTEE – 16 NOVEMBER 2015

### NATIONAL LIVING WAGE

#### REPORT OF THE DIRECTOR & CONSORTIUM TREASURER

##### Purpose of Report

1. The purpose of this report is to outline the potential impact of the implementation of the National Living Wage (NLW).

##### Background

2. The summer budget increased the national minimum wage by 11% from £6.50 per hour to £7.20 from April 2016 for over 25's and renamed it the National Living Wage (NLW). Thereafter it will increase to 60% of the national median wage by 2020.

##### Overall Costs

3. The table below shows that the cost to ESPO of this Government policy could be in the region of £1.5m in 2020/21 and £570k in the year when we are targeting to achieve a £6m surplus.
4. Whilst we intend to absorb the 2016/17 impact of the Living Wage changes, the outer years are not currently factored into the MTFS.

	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</u>
	<u>£k</u>	<u>£k</u>	<u>£k</u>	<u>£k</u>	<u>£k</u>
Existing Staff	0	100	250	430	700
Impact on School Budgets	10	20	50	80	130
Impact on Suppliers	5	20	20	30	50
Impact on Wage Differentials	5	100	250	430	700
<b>TOTAL</b>	<b>20</b>	<b>240</b>	<b>570</b>	<b>970</b>	<b>1,580</b>

5. The Government has not stated whether under the new burdens agreement the impact on will be offset by additional resources. However, should it be the case, it is not likely to be afforded to organisations such as ESPO.

6. As such at this stage the assumption is that there will be a major impact on the MTFS.

### **Assumptions**

7. The following assumptions have been made in arriving at the above figures:

- a) That the NLW increases in the following linear manner:

<b>Year</b>	2016-17	2017-18	2018-19	2019-20	2020-21
<b>Rate</b>	7.20	7.84	8.48	9.11	9.75

- b) This assumes the most prudent rate of £9.75 in 2020/21 referred to under risks below.
- c) The impact on pay for ESPO has been calculated on an individual basis by looking at the budget payroll file for 2015-16. The assumption is that everyone on pay-point 15 or below will be impacted directly.
- d) The impact on pay differentials is important. As it stands, housekeepers in the warehouse at ESPO would earn the same as drivers without taking this in to account. To ensure the differentials are maintained, the working assumption is that at least the same amount needs to be allowed for in differentials as the increase in pay under the NLW. It may be more.
- e) Consumables are a day-to-day reality for schools and are not a large individual item in the budget. If schools' budgets are however not compensated, then a possible 1% drop in volume could be expected on store sales.
- f) We expect to be exposed to increases in supplier costs; however, there are a number of ways that we can seek to reduce the impact of these items including:
- Increased competitions/sales
  - Overseas sourcing
  - Increased prices
  - Looking to serve a wider audience is also likely to become important, and this may now be the catalyst to explore the creation of a vehicle whereby we may serve the private as well as the public sector.
- g) We need to consider and plan for the impact to ESPO, the protection of the shift premium structure, and Leicestershire County Council approach to the Living Wage.

### **Risks**

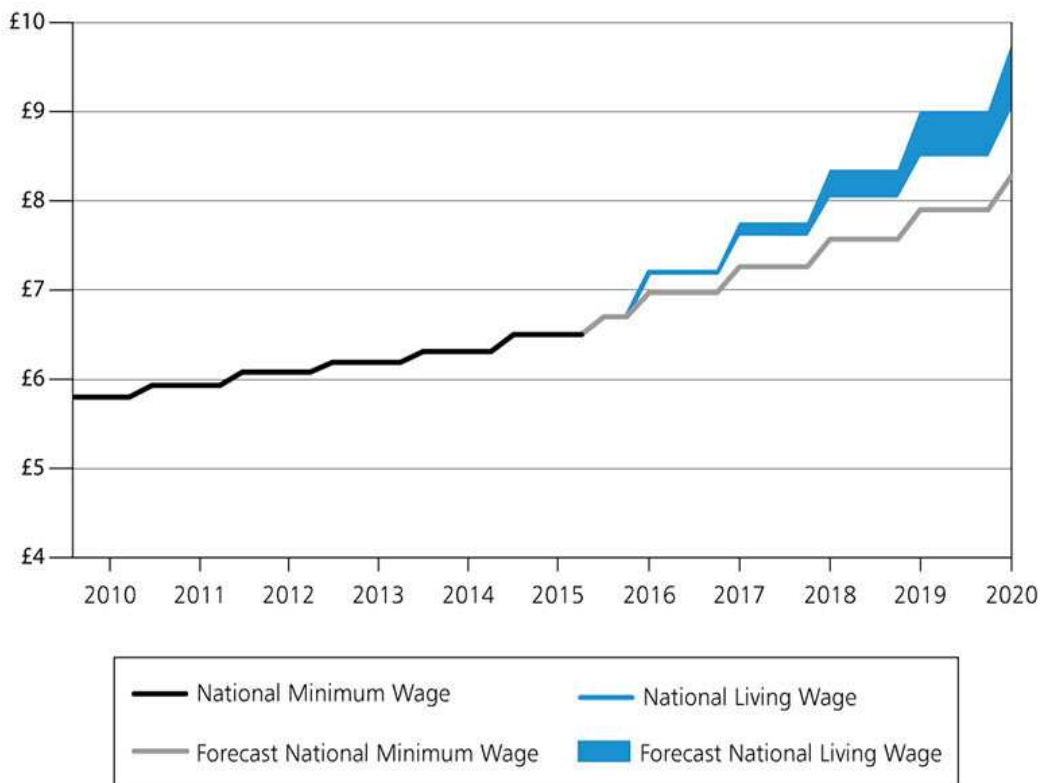
8. It is not straightforward to forecast the impact on the ESPO's budget due to a number of uncertainties and unknowns. The estimate needs to be treated with

caution; however, it does indicate the scale of the challenge.

9. Some of the risks and uncertainties are set out below:

- Knock on impact on pay scales - to maintain an element of pay differential, this has been factored in above but may be more;
  - Knock on impact on the labour market - unintended consequences;
  - Under 25 impact - the minimum pay for people under 25 will continue to be set by the minimum wage.
- Impact on customers as they have less to spend is included in the assumptions above, but clearly this is an initial estimate.
  - The path of change is from £7.20 to £9 or more by 2020/21; however, the Office of Budget Responsibility (OBR) forecasts £9.35 by 2020/21, although a range from £9 to around £9.75 is suggested by the chart reproduced below.
10. HM Treasury suggests that the NLW 'will mean a direct boost in earnings for 2.7m low wage workers, and the OBR have indicated that knock-on effects further up the wage distribution could mean a further 3.25m people see an increase in wages as a result of the NLW'.

### National Minimum Wage and National Living Wage, historical and forecast



Source: HMT calculation based on OBR forecast of average hourly earnings and historical and announced National Minimum Wages.

11. There is no doubt that this is a significant government policy where the implications can at best be described as uncertain. There will be a number of implications which could include:
  - Schools coming under increasing financial pressure especially in low funded areas such as Leicestershire.
  - Pressure to maintain margins at the supplier base as they seek to pass the impact on in prices.

### **Next Steps**

12. The following challenges will need to be considered:
  - Identify the potential impact on our organisation;
  - See how, in the short term, this can be accommodated within our budget;
  - Efficiencies have already been baked into the revised MTFS and, therefore, it is unlikely that we would be able to create further efficiencies to absorb this hike in our cost base.
  - Reshape our growth ambitions to ensure we are not wholly dependent on the increased margin costs.
13. This obviously has a significant impact on the MTFS. Appropriate contingency plans will need to be made to ensure the budget can be balanced in 2016/17 and later years.
14. Whilst the ESPO Leadership team continue to identify as much savings as possible and also consider the likely impact on the delivery of the MTFS surplus, the material cost impact of the Living Wage will be overlaid on the current MTFS plan and considered in the planning for wider initiatives being developed for the outer years.

### **Resources Implications**

15. Over £570k of extra costs are likely to be incurred in 2018/19.

### **Recommendation**

16. Members are asked to note the content of this report.

### **Officer to Contact**

John Doherty, Director  
[J.Doherty@espo.org](mailto:J.Doherty@espo.org), 0116 265 7931