

REPORT TO: Executive Board

DATE: 25 February 2016

REPORTING OFFICER: Strategic Director, People and Economy

PORTFOLIO: Health and Well-Being

SUBJECT: The National Living Wage – Care Provider Contracts

WARD(S) Borough-wide

1.0 PURPOSE OF THE REPORT

1.1 To inform Executive Board on the planned introduction of the National Living Wage and the potential impact for the pooled budget for Health and Care Services in Halton.

2.0 RECOMMENDATION: That approval be given to actively enter into discussions with Care Providers, to agree how additional costs will be met, as set out in paragraphs 5.4.3 and 5.4.4 below.

3.0 SUPPORTING INFORMATION

3.1 The Government announced that from 1st April 2016, it will introduce a new mandatory National Living Wage (NLW) for workers aged 25 and above. Initially, it will be set at £7.20 an hour, with a target of it reaching more than £9 an hour by 2020. Part-time and full-time workers will benefit from it.

3.2 The National Minimum Wage (NMW) will remain in place, and the compulsory National Living Wage (NLW) will be a top-up for workers aged 25 and over.

The statutory definitions are:

- **National Minimum Wage (NMW)** – the statutory rate applicable to adults aged 21 years to 24.
- **National Living Wage (NLW)** – An enhanced statutory rate of pay, applicable to adults aged 25 years and above, which to be introduced from 1st April 2016.

3.3 The (NMW) minimum rates are as follows:

Year	21 and over	18 to 20	Under 18	Apprentice*
2015 (current Rate)	£6.70	£5.30	£3.87	£3.30
2014	£6.50	£5.13	£3.79	£2.73
2013	£6.31	£5.03	£3.72	£2.68

*This rate is for apprentices aged 16 to 18 and those aged 19 or over who are in their first year. All other apprentices are entitled to the National Minimum Wage at their age.

- 3.4 The Chancellor of the Exchequer has commented that in order to help businesses to afford the increases in wages he is cutting Corporation Tax by 2% to 18% by 2020. In addition employers will be able to reduce the amount of national insurance contributions (NIC's) they pay for their employees by 50% up to £3,000.
- 3.5 In 2014/15 over £20m was spent on the external provision of adult care and the top 10 providers accounted for half of this expenditure. Out of these providers, over 82% of care was provided by private limited companies who will therefore benefit from the cut in corporation tax. The other 18% of care was provided by registered charities. The majority of private limited companies provide residential care which accounts for 64% of their market, domiciliary care 28% and supported living 8%.
- 3.6 A Government spokesperson said: "The National Living Wage will benefit hundreds of thousands of care workers who will see their pay increase. The overall costs of providing social care will be considered as part of the spending review later this year and we are working with the care sector to understand how the changes will affect them."
- 3.7 In Halton there are currently 12 domiciliary care providers who work across the Borough and 29 care homes. Skills for Care (Jan 2015) have estimated that there are approximately 2,100 direct care workers within the Borough of which 92% are over the age of 25. The majority of the contracted organisations are stating that this will place economic challenges on their organisation and will impact their ability to remain economically viable in the future.

4.0 POLICY IMPLICATIONS

- 4.1 None identified.

5.0 FINANCIAL IMPLICATIONS

5.1 A finance model to establish the potential impact of the cost of the NLW has been designed and adopted by local authorities across the North West region. Although more detailed modelling is required to determine an accurate estimate of the potential impact, this initial analysis gives some indication of the costs involved for Halton.

Staff cost %	Cumulative Total Cost Per Year				
	2016/17 £k	2017/18 £k	2018/19 £k	2019/20 £k	2020/21 £k
100%	1,345	2,564	3,779	4,994	6,209
90%	1,215	2,308	3,401	4,495	5,588
75%	1,012	1,923	2,834	3,745	4,656

5.2 The assumptions upon which the above model is based are as follows;

- Assumes a 50p increase from 2015/16 to 2016/17, followed by a 45p increase each following year.
- It applies to staff over 25 years only. As the age profile of workers is unknown with any degree of certainty, the increase has been calculated on the workforce as a whole, then subsequently on 90% and 75% of the workforce.
- No increase to client contributions has been accounted for. Any increase in contributions would reduce the costs above.
- No incremental costs have been included e.g. the impact on supervisor salaries caused by junior staff rising to the same level of pay.
- The increased cost does not account for changes in demand. It is based on expected spend for 2015/16. Demographic growth and inflation needs to be considered separately.

5.3 The tables below show the effect of the NLW on the unit cost of services for 2016/17 and 2017/18. The assumptions on which the unit costs are based are as follows:

- Annual inflation is 1% for Domiciliary & Direct Payments & 0.82% for Residential Care.
- Indicative hourly/weekly rates includes the impact of NLW increase for 90% of the workforce.
- Indicative Weekly Rate (Residential) average staff to service user ratio is 1:7 and is a 24/7 service provision.
- This excludes any contribution to meet the NLW from the care providers through reduction in corporation tax and NI liabilities.

Service	2015/16		2016/17		2017/18		
	Average Hourly Rate	Inflated Hourly Rate	Indicative Hourly Rate	Increase on Previous Year	Inflated Hourly Rate	Indicative Hourly Rate	Cumulative Increase
	£	£	£	%	£	£	%
Domiciliary Care	11.65	11.77	12.22	3.82	11.88	12.74	7.19
Direct Payment: PA	9.64	9.74	10.19	4.62	9.83	10.69	8.69
Complex	11.71	11.83	12.28	3.80	11.95	12.80	7.16
Agency	11.45	11.56	12.01	3.89	11.68	12.54	7.32
Complex Agency	11.81	11.93	12.38	3.77	12.05	12.90	7.10
NLW			7.20			7.65	

Service	2015/16		2016/17		2017/18		
	Weekly Rate	Inflated Weekly Rate	Indicative Weekly Rate	Increase on Previous Year	Inflated Weekly Rate	Indicative Weekly Rate	Cumulative Increase
	£	£	£	%	£	£	%
Residential Care	379.16	382.27	393.07	2.83	385.40	405.92	5.32
NLW			7.20			7.65	

Options Appraisal

- 5.4 The potential increase in costs identified in paragraph 5.1 above needs to be met from April 2016. Options to be considered are as follows;
- 5.4.1 Take no immediately action, see what costs the Care Providers can absorb and wait for them to approach the Council.
- 5.4.2 Pay full cost to the Care Providers on receipt of evidence of the additional financial burden.
- 5.4.3 Actively enter into discussions with Care Providers to agree how the additional costs will be met. The Medium Term Financial Forecast includes an additional £0.5m each year from 2016/17 towards the cost of the NLW. As referred to in paragraphs 3.4 and 3.5 above, it is assumed that at least 41% of the additional costs could be met from Care Providers via the increase in their retained profits due to the 2% reduction in corporation tax and the reduction in their National Insurance contributions. Taking the 90% cost of £1.215m in 2016/17, this would suggest £0.5m could be met by Care Providers and £0.5m met by the Council. The remaining funding gap would then be met by increased contributions

from Clients.

5.4.4 If any individual Care Providers were to subsequently demonstrate financial hardship, through providing the Council with full open-book access to their records and financial accounts, then the position regarding the impact of the NLW in respect of that particular Provider would be reviewed

Conclusion

5.5 It is recommended that the options outlined in paragraphs 5.4.3 and 5.4.4 above, be adopted. The £0.5m cost to the Council, in addition to the inflationary increase in contract prices already agreed (as per paragraph 5.3), would result in a total increase in the Council's costs for 2016/17 of 3.2%.

6.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES

6.1 Children & Young People in Halton

None Identified.

6.2 Employment, Learning & Skills in Halton

None identified.

6.3 A Healthy Halton

The Adult Social Care budget supports the delivery of services which contribute towards this priority.

6.4 A Safer Halton

None.

6.5 Halton's Urban Renewal

None.

7.0 RISK ANALYSIS

7.1 The options identified in 6.0 above have a number of risks associated with them and consideration needs to be given to the following:

- Taking no action may destabilise the care market as businesses are no longer sustainable as a going concern due to increased costs.
- The burden of the additional full cost on the authority will result in further efficiencies having to be made as no additional funding has been made available from government.
- Sharing the financial burden with care providers will also share the risk, however, the position would need to be reviewed annually through open book accounting and increased information sharing and transparency with providers.

8.0 EQUALITY AND DIVERSITY ISSUES

8.1 None.

**9.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D
OF THE LOCAL GOVERNMENT ACT 1972**

9.1 There are none under the meaning of the Act.