

**TO: ADULT SOCIAL CARE OVERVIEW & SCRUTINY PANEL
19 JANUARY 2016**

**POTENTIAL IMPACT OF THE NATIONAL LIVING WAGE
Head of Performance & Resources**

1 PURPOSE OF REPORT

- 1.1 To provide the Panel with an assessment of the potential cost impact on Adult Social Care budgets 2016-2020 of the National Living Wage

2 RECOMMENDATION(S)

- 2.1 **That the Panel note the potential cost impacts on Adult Social Care budgets 2016-2020 of the National Living Wage**

3 REASONS FOR RECOMMENDATION(S)

- 3.1 To ensure members of the Panel are informed of the potential impact of the National Living Wage on the Department's budget over the next 5 years.

4 ALTERNATIVE OPTIONS CONSIDERED

- 4.1 None.

5 SUPPORTING INFORMATION

- 5.1 On July 8th 2015 the Chancellor of the Exchequer announced the replacement of the National Minimum Wage (NMW) with the National Living Wage (NLW) with effect from April 2016. The current NMW is £6.50 per hour. The NLW will be £7.20 in April 2016, rising in increments to £9 per hour in 2020.
- 5.2 Following the Chancellor's announcement care providers and others have been saying that this policy will have very significant impacts on the cost of social care – the Local Government Association (LGA) estimated initial costs of £330m rising to £1bn by 2020; Care England, an industry body, has also estimated this will cost the sector £1bn; and the UK Home Care Agency (UKHCA), an industry body representing home care providers, estimates that this (along with other argued under-funding) would cost £750m.
- 5.3 Following this, the ADASS North West Region have produced a ready reckoner model to enable local authorities to estimate the impact that the NLW will have at individual local authority level. As this is a model, it relies on a number of assumptions, and for clarity these are outlined below:
- The % of staff employed, either by the local authority or by providers, who are on the minimum wage. For illustrative purposes, this has been set at 75%, 90% and 100% of staff.
 - The % of the cost of the service that relates to staffing costs – industry estimates have been used.

Unrestricted

- The value of increments in the NLW between 2017 and 2019 – this has assumed to be in equal steps of 45p, so that the rates would be £7.20 (2016), £7.65 (2017), £8.10 (2018), £8.55 (2019) and £9.00 (2020).
- That all staff are aged over 25, and that the NLW applies to all staff
- That there are no changes in demand
- That taxation (e.g. National Insurance, Corporation Tax etc, VAT) are neutral.
- That there is no additional funding made available to Councils in recognition of the additional costs
- That the impact is passed on its entirety to local authorities.

5.4 These assumptions may not all turn out to be true – for example, the UKHCA estimates that in order to ensure providers are adequately paid to enable them to pay staff the NLW, the hourly rate of domiciliary care needs to be £16.70. Bracknell currently pays £16.71, and so potentially there would be no direct pressure on wage costs, and therefore fee levels, next year. However, other market factors do come into play.

5.5 In respect of taxation, it is understood that thoughts are turning to allowing care providers to reclaim their VAT input costs – at the moment as providers of VAT exempt supplies they are unable to do this. Such a change would help mitigate some of a care provider's costs, although VAT-able input costs are probably a low proportion of a provider's cost base.

5.6 The table below lays out the potential cumulative impact of the NLW based on the lowest assumption, that 75% of people are on the current NMW.

Costs (£k) of Minimum Wage Legislation if 75% of staff are on the minimum wage

	2016/17 Potential cumulative cost increase	2017/18 Potential cumulative cost increase	2018/19 Potential cumulative cost increase	2019/20 Potential cumulative cost increase	2020/21 Potential cumulative cost increase
Residential Placements	135	222	309	396	483
Nursing Placements	216	355	494	633	772
Specialist Residential (LD, MH, Complex)	198	326	453	580	708
Home Care	538	883	1,229	1,574	1,920
Supported Accommodation	29	48	66	85	103
Community Support (Supported Living, ILF, Daycare, Extracare)	282	464	646	827	1,009
Direct Payments (PA's,)	147	241	336	430	524
Total	1,545	2,539	3,533	4,526	5,520
Total if 90% of staff are on M Wage	1,855	3,047	4,239	5,431	6,623
Total if 100% of staff are on M Wage	2,061	3,385	4,710	6,035	7,359

- 5.7 It has also been assumed that there is no impact on income from care contributions. This is likely to be overly cautious, however it is likely that the impact of this will be small, perhaps £100,000.
- 5.8 The authority has tried to open up dialogue with providers of care homes locally to understand their assessment of the impact of the NLW on them, however feedback has been limited. What has become apparent is that the Council is becoming less able to hold down prices paid for residential care, as the rates offered are becoming less and less viable for the sector, and the impact of the living wage will therefore be real and significant.

6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

Borough Solicitor

- 6.1 Not sought at this stage.

Borough Treasurer

- 6.2 These are contained within the report.

7 CONSULTATION

Principal Groups Consulted

- 7.1 N/A

Method of Consultation

- 7.2 N/A

Representations Received

- 7.3 N/A

Background Papers

Contact for further information

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