

CORPORATE AND COMMUNITIES OVERVIEW AND SCRUTINY PANEL 23 NOVEMBER 2023

OVERVIEW OF WORCESTERSHIRE COUNTY COUNCIL'S CONTRACTUAL AND PAY INFLATION

Summary

1. The Panel will receive an overview of:
 - a. Contractual inflation
 - b. Pay inflation
2. This overview follows initial information provided to the Panel at its meeting on 29 September 2023.
3. The Cabinet Members with Responsibility for Corporate Services and Communication / Communities, the Strategic Director of Commercial and Change and the Chief Financial Officer have been invited to the meeting to update the Panel and respond to any questions the Panel may have.

Part A – Contractual and Market Inflation

4. Worcestershire County Council's (the Council's) expenditure on third party goods, works and services during financial year 2022/23 was approximately £670m (including capital and grant funded projects). This is an increase of £37m from the previous year's spend of £633m and represents a majority of the Council's budgetary expenditure. Managing Council third party contracts effectively is therefore vitally important if the Council is to ensure its financial resources are used appropriately and remain sufficient.
 5. A significant element of the increased third party spend has been driven from contractual price increases. With inflation being above 10% for much of the 2022/23 financial year and maintaining an average of 8.7% during 2023/24. It would be reasonable to anticipate increases totalling in excess of £65m from inflation alone, before increasing demand is taken in to account. Whilst inflation is now reducing during 2023/24, in the areas of the Council's majority spend, these reductions are slower to materialise, and average inflation across some of the key cost drivers remain much higher than the national average figure for the Consumer Price Index (CPI) (detailed below). It should also be noted that any reduction in levels of inflation does not mean a reduction in contracted costs, but rather a slow down in the rate at which they increase. For those areas contributing most significantly to Council overspend (Children's Services, Adult Services, and Home to School Transport), the nature of the cost increases are systemic, and it limits the Council's ability to mitigate those costs.
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6. The chart below outlines UK inflation across specific categories of spend and how these are continuing to translate into higher contractual costs during 2023/24. CPI has averaged 6.93% during 2023/23 and has fallen to 4.6% in the 12 months year to date. However, those areas that impact the Council most acutely have generally seen much bigger increases on average.

Category of spend	UK national average inflation
Adults Social Care	10%
Childrens Social Care	10.80%
Construction	8.50%
Transport (taxi)	5.50%
Software	8.70%
Wage growth	8.20%
Gas	1.70%
Electricity	6.70%
Food and Beverage	12.20%
Property leases	10.10%

7. Areas of particular concern for the Council are children's and adults' placement costs, where there is forecast increases of in excess of 19% on children's placements over a 12 month period, and 10.8% on adult placements
8. Details of increased placement costs have been provided to the Children and Families Overview and Scrutiny Panel on 27 September 2023 (appendix 1), and the Adult Care and Wellbeing Overview and Scrutiny Panel on 13 October (appendix 2), with more information due for the 5 December meeting (see background papers).
9. There are a number of factors which are exacerbating these increases, including:
- a. Fewer providers in the market following the COVID 19 pandemic
 - b. Greater demand for services driving up costs
 - c. Lag in inflationary pressures translating into contractual cost increases (for example, only 3% placement cost increase during 2021/22 for children's placements despite inflation peaking at 11.1% mid-way through the financial year).
10. In respect of adult placement costs, whilst increases have been delayed for a short period, the Council is not able to delay these indefinitely, and they will continue to translate into higher costs in this financial year.
11. When considering Adult and Childrens placements, the top four direct factors impacting provider costs most acutely are:
- Food and Beverages
 - Electricity
 - Property lease and maintenance
 - Employee wages

12. In each of these areas, inflation is tracking at above the national average rate, and in some areas has been as much as three times the national average at points in the year.
13. Other areas of concern for the Council relate to construction and building material costs which will directly impact on the capital programme. Average inflation, year to date for the construction industry has been 8.5%. Whilst the Commercial Team, working closely with colleagues in the Economy and Infrastructure Directorate, have sought to mitigate these increases through value engineering processes (challenging proposals, resources, specification etc), contractor proposals continue to show significant increases on a like for like basis.
14. In order to support service areas across the Council as a whole, the Commercial Team are endeavouring to commit more resources, and more time and effort, into contract and supplier relationship management. On average, 30% of any benefits derived from effective sourcing are lost in the first year of the agreement where they are not effectively managed, and consequently the benefits for supporting these activities are significant given the level of spend. The Council's commercial team is however constrained by recruitment challenges which are endemic across the Midlands, and the continued increasing demand on resources.

Part B – Pay Inflation

15. The Council remains committed to national pay bargaining as a way of determining the annual pay award for its staff groups.
16. Under the provisions of the Localism Act the Council is required to publish an annual pay policy statement. The statement includes information on:
 - a. Salary scales
 - b. Chief Officer pay information
 - c. Gender pay gap figures (since 2018)
17. The [Pay policy statement | Worcestershire County Council](#) sets out the County Council's strategic stance on pay in order to provide direction for councillors and officers making detailed decisions on pay and to provide the citizens of Worcestershire with a clear statement of the principles underpinning decisions on the use of public funds.
18. A number of negotiating bodies exist for staff employed by the Council. These are as follows:
 - d. National Joint Council for Local Government Services (NJC)
 - e. Joint Negotiating Committee for Chief Executives of Local Authorities
 - f. Joint Negotiating Committee for Local Authority Craft and Associated Employees
 - g. Joint Negotiating Committee for Chief Officers of Local Authorities (JNC)
 - h. Soulbury Officers (Soulbury Committee)
19. The following table provides an overview of the current status and outcome (where applicable) of national pay bargaining for these groups:

Negotiating Body	Current Status	Summary of agreed outcome/latest position
NJC	Agreed	Effective from 1 April 2023: <ul style="list-style-type: none"> an increase of £1,925 on all NJC spinal column points 2 to 39 based on a 37-hour working week. Normal pro-rata rules will apply an increase of 3.88% for PO4 and above an increase of 3.88% on all NJC allowances i.e. Standby, sleep in
JNC – Chief Execs	Agreed	Effective from 1 April 2023: <ul style="list-style-type: none"> an increase of 3.50%
JNC – Chief Officers	Agreed	Effective from 1 April 2023: <ul style="list-style-type: none"> an increase of 3.50%
JNC – Craft Workers	Not agreed	As yet no indication of when the pay deal for JNC ('Red Book') Craftworkers might be reached. Both unions (Unite and GMB) continue to reject the Employers' full and final pay offer
Soulbury	Not agreed	National Employers remain in dispute with the Soulbury Officers' Side (TUs) on pay for 2022. The National Employers made a revised final multi year offer on 27 September which consisted of a £1,925 pay increase for 2022, a 3.5% pay increase for 2023 and some additional changes to the Soulbury pay spines. The Officers' Side has formally rejected this offer and called for mediation.

20. The budget for 2023/24 included an assumption that the pay award would be 4% for the Council and provision was made at this rate. As the final offer is a flat rate of £1,925 on a 37 hour working week, this is bottom loaded with increases ranging from 9.42% spinal column points 2 to 4.23% at spinal column point 39.

21. The Council was aware of the final offer from the national employers which was made earlier in the year and the additional costs are in the region of £2.6m which is currently held within the Finance Risk Reserve to cover the amount that was assumed in the 2023/24 budget. This national agreement was made on 1 November 2023 and the pay increase will be paid to staff including backpay in their November salary which is positive news for Council employees.

Purpose of the Meeting

22. The Panel is asked to:

- Consider the information provided on pay and contract inflation.
- agree any comments to highlight to the Cabinet Member and the Strategic Director of Commercial and Change

- Agree any comments for the Panel Chair to highlight to the Overview and Scrutiny Performance Board on the 15 December, as part of scrutiny of the 2024/25 budget
- Determine whether any further information or scrutiny on a particular topic is required.

Supporting Information

Appendix 1 - [Childrens Placements 27 September 2023](#)

Appendix 2 - [Adults Placements 13 October 2023](#)

Contact Points

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Background Papers

In the opinion of the proper officer (in this case the Assistant Director of Legal and Governance) the following are the background papers relating to the subject matter of this report:

- [Agenda and Minutes for Children and Families Overview and Scrutiny Panel on 27 September 2023](#)
- [Agenda and Minutes for Adult Care and Well Being Overview and Scrutiny Panel on 13 October](#)

[All agendas and minutes are available on the Council's website here.](#)