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BRIEFING

Rising to the challenge

Early evidence on the introduction of the National Living Wage in the social care sector

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Any errors or omissions are of course the author's own.

Summary

The National Living Wage (NLW) – the new higher minimum wage for workers aged 25 and over – was introduced at a rate of £7.20 in April 2016. It is set to rise over the parliament, such that it is equivalent to 60 per cent of median pay among workers aged 25 and over by April 2020. While broadly welcomed by business, the introduction of such a significant jump in the wage floor has sparked some concerns about affordability and prompted discussions around likely employment responses – especially in lower-paying sectors where the wage increase is set to bite hardest.

Our June survey of businesses found no evidence of widespread reductions in hours, employment or non-pay compensation since April – pointing instead to price increases and profit reductions. It will be some time before we have the hard data that lets us assess definitively the impact of the NLW across the economy. However, by accessing comprehensive and timely pay data from adult social care providers in England we can consider how the implementation of the NLW has played out to date in one of the key low-paying sectors.

In this note we focus on those firms that report fully implementing the NLW to assess how social care providers have acted both in relation to those legally eligible for the increase, and in relation to their other staff. While in many ways the sector is distinctive, we believe that the response in social care offers wider insights on how businesses may be dealing with the implementation of the NLW across the economy as a whole. Our findings are in many respects encouraging:

- *There is no evidence that working hours have been reduced to offset NLW costs. Average hours for workers previously paid below the NLW have risen very slightly faster than the increase in hours for higher-paid workers.*
- *Social care providers have overwhelmingly passed the benefits onto their staff aged under 25. Over four-fifths of under-25s previously below the NLW are now paid £7.20 or above.*
- *There is evidence of wider 'spillover' effects across all age groups:*
    - *Average pay for workers aged 25+ who were previously below the NLW increased by 9.2 per cent following its introduction. That's over one third higher than the increase providers had to offer in order to just satisfy legal minimums.*
    - *Across the workforce as a whole, providers have invested more than twice as much in raising pay over this period than if they had only satisfied NLW requirements and nothing more.*

  Not all of this will directly relate to the NLW as pay tends to rise over time, but it appears likely that it has played an important role here.

However, despite these positive wider effects, there is clear evidence of increased 'bunching' of pay. One third of the workforce is now paid the top adult minimum wage rate of £7.20, up from one fifth during June-September 2015 when the top adult rate was £6.50. This bunching raises concerns about opportunities to progress within the sector, and increases the risk of non-compliance when time not covered by contracted pay rates but legally covered by minimum wages is accounted for. Rates of non-compliance, as well as the impact of the NLW on overall employment levels, are areas that we are not able to explore directly in our analysis, and so on many important questions the picture remains unclear.

On top of the introduction of the NLW, social care faces pressures from falling public funding, rising demand for services and the potential for reduced inflows of migrant workers on which it is very reliant. Together, these factors are driving a serious recruitment and retention challenge. So it is encouraging that many of our early findings are positive. Indeed, this may reflect the sector's attempts to remain competitive and attractive given these recruitment difficulties.

However, as the level of the NLW rises in the coming years, so the challenge facing the sector is set to grow. Our estimate is that the NLW will cost the sector an extra £2.3 billion per year by 2020, raising serious questions as to the ability of providers to continue to spread the associated benefits in the ways we have identified in this report. We are clear that the solution should not be to water down the policy. Rather, the imperative must be to ensure that there are sufficient funds for providers to continue to implement the NLW without adverse consequences for workers; to recruit and retain the staff needed; and to prevent too much further bunching of the pay distribution and allow for progression opportunities.

As a large and relatively low-paying sector, social care is especially sensitive to the introduction and development of the NLW

The NLW – announced by the then-Chancellor at the July 2015 Budget – represents a bold and ambitious step on low pay. The higher wage floor for those aged 25 and over was introduced in April 2016 at a rate of £7.20, and is expected to rise over the parliament to a value equal to 60 per cent of the typical wage for an employee aged 25 and over. Our expectation was that up to 4.5 million workers would receive a pay rise as a result of the policy in 2016 (rising to 6 million by 2020), comprising both those *directly* affected (i.e. those who would otherwise be paid below the new wage floor) and those experiencing *indirect* or 'spillover' effects (i.e. whereby firms and sectors seek to maintain pay differentials between staff).[1]

While clearly welcome from the perspective of the employee, the NLW obviously comes with a price tag attached. Given the nature of those workers standing to benefit, wage bill effects appear relatively easy to absorb in the majority of firms but look more acute for those operating in the lowest-paying sectors of the economy. It is in these industries that any adverse consequences – such as lower use of labour, reduced employee benefits or a hit to profits – will likely manifest themselves.[2]

As well as retail, hospitality and administration and support services (which includes roles like cleaning), adult social care stands out as a low-paying sector (and a large one – there were 1.5 million people working in it in England in 2015[3]). And it is a sector in which the affordability of wage increases is strongly linked to its public funding settlement. We have previously estimated that the NLW – by delivering a pay rise to up to 1 million frontline care workers by 2020 – would add an extra £2.3 billion per year to the public cost of care across the UK.[4]

Crucially, this new higher wage floor is just one of the pressures the social care sector is experiencing. Its introduction follows years of falling funding as local authority budgets have been reduced (social care is a non-ring-fenced element of these), while demand for services from an ageing population is rising. These competing pressures mean low pay in the sector has increased,[5] and non-compliance with the National Minimum Wage (NMW) has emerged as a particular concern when working hours not covered by contracted pay rates (such as time spent travelling between clients or on call) are accounted for.[6]

[1] C D'Arcy, A Corlett & L Gardiner, *Higher ground: Who gains from the National Living Wage?*, Resolution Foundation, September 2015

[2] C D'Arcy & A Corlett, *Taking up the floor: Exploring the impact of the National Living Wage on employers*, Resolution Foundation, September 2015

[3] Skills for Care, *The size and structure of the adult social care sector and workforce in England, 2016*, 2016

[4] L Gardiner, *Care to pay? Meeting the challenge of paying the National Living Wage in social care*, Resolution Foundation, November 2015

[5] L Gardiner & S Hussein, *As if we cared: The costs and benefits of a living wage for social care workers*, Resolution Foundation, March 2015

[6] L Gardiner, *The scale of minimum wage underpayment in social care*, Resolution Foundation, February 2015

These trends mean social care already faces a big recruitment and retention challenge[7] – one that is likely to be exacerbated by any reduction in migrant worker inflows (on which the sector is very reliant) following the EU referendum.

The adult social care sector, then, must be a key focus for those interested in the NLW's implementation and impact. In advance of our annual *Low Pay Britain* publication,[8] this briefing note offers an initial look at how this significant shift in minimum wage policy has affected the workforce since April.

Early evidence suggests that the new wage floor has provided a significant boost to pay in the sector

It will be Spring 2017 before sufficiently granular data is available to allow a full assessment of the impacts of the NLW on individual- and firm-level pay across the economy. However, we can make use of a large and timely dataset – the *National Minimum Dataset for Social Care* (NMDS-SC) – to focus specifically on the social care sector in England.

Our data covers the period from June 2015 (shortly before the NLW was first announced), to the latest data from July 2016. The sample contains recently-updated records of those in their jobs both before and after April 2016, who work for providers reporting full implementation of the NLW. This means there are things we can't measure, including overall impacts on employment and rates of non-compliance. However, we can put together an indicative picture of the wider impacts of the NLW on hours and contracted pay rates within firms that we know for sure are implementing it. A fuller discussion of the data we use and our methodology is provided in Box 1 overleaf.

Unsurprisingly given the prevalence and growth of low pay in social care, the NLW appears to have *directly*[9] affected the wage of a sizeable proportion of workers in our sample of up-to-date records from firms reporting full implementation:

- Comparing the NLW period (April-July 2016) to the full NMW period preceding it, 54 per cent of workers had their pay raised from below £7.20 per hour to £7.20 or above.
- For frontline care workers, who make up around three quarters of the workforce and have been the focus of our previous work on pay in care, this figure is 57 per cent, in line with our expectations prior to the NLW's introduction.[10]

These results might be affected by our sampling techniques – for example, inflated because some genuinely non-compliant providers are excluded along with those making reporting errors – but they provide an indicative picture and are useful for the comparison across different worker characteristics we provide later in this briefing.

Between the ten-month full NMW period and the four-month NLW period, hourly pay increased (in nominal terms) by an average of 6.9 per cent across the workforce in our sample as a whole. For NLW-eligible workers (aged 25 and over, non-apprentices) earning below £7.20 prior to April 2016, hourly pay increased by an average of 9.2 per cent.

[7] I Koehler, *Key to Care: Report of the Burstow Commission on the future of the home care workforce*, Local Government Information Unit, December 2014

[8] S Clarke & C D'Arcy, *Low Pay Britain 2016*, Resolution Foundation, forthcoming

[9] We assess indirect or 'spillover' effects later in this briefing.

[10] L Gardiner, *Care to pay? Meeting the challenge of paying the National Living Wage in social care*, Resolution Foundation, November 2015

Box 1: Data and methods

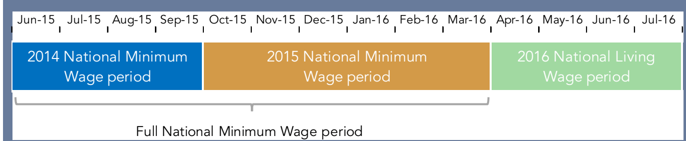
This analysis uses the *National Minimum Dataset for Social Care*, an online database completed by social care providers in England and collected by Skills for Care. This provides a large sample of regularly-updated information about those working in the sector (including pay, hours, training, and demographic characteristics) and the providers they work for. After standard cleaning procedures and other restrictions described below, our sample consists of over 80,000 worker records (representing a total of 1.5 million people working in the sector in England) from over 2,000 providers.

This data should be treated with some caution compared to official government surveys, for example because there is no verification of the information supplied by providers. However, its timeliness and size make it a useful tool for analysis of recent trends, and the patterns it shows at the aggregate have historically tracked other sources.

We use 14 monthly snapshots of the worker-level dataset covering June 2015-July 2016 – the period from just before the announcement of the NLW to the latest data available. These are linked via worker identification numbers to create a longitudinal sample.

Because records are updated continuously but sporadically by many providers, we isolate records that have been updated at some point in three different periods, set out in Figure 1.

Figure 1: Time periods within the NMDS-SC sample used for this analysis



To ensure consistency we limit our sample to worker records for which pay information was updated during both the full NMW period, and in the NLW period. This means that our analysis covers a continuous group of workers, and we do not account for the experiences of those joining or leaving the sector in this period, or the impact of the NLW on overall employment levels.

We limit our analysis to providers who report paying at least the NLW of £7.20 to all eligible workers (aged 25 and over, non-apprentices) in the NLW period from April 2016, exploring how these firms have handled its introduction. This means that we purposefully don't look at non-compliance. We do this because of concerns about the accuracy of seemingly non-compliant records since the NLW's introduction, an issue that Skills for Care has flagged and is currently investigating.

In a similar vein, we take reported pay rates and working hours at face value. This means that unlike some of our previous analysis of the sector, we don't make adjustments for working time not covered by reported rates but eligible for the minimum wage by law. Thus our focus is on *stated* pay structures within firms and how they've changed as a result of the NLW.

Finally, because we measure change between periods before and after the introduction of the NLW, our results are descriptive and indicative, rather than giving a direct picture of its impact in comparison to a counterfactual. Pay and hours will have shifted over the period our data covers for reasons other than the NLW, for example as a result of usual annual pay settlement procedures. Therefore we don't attribute all our results directly to the NLW itself, but rather make judgements as to the role it is likely to have played.

Median pay was £7 per hour in both the 2014 and 2015 NMW periods. In the NLW period it had risen to £7.48. Undoubtedly, then, the introduction of the NLW is correlated with an immediate and profound increase in pay in the sector.

In the main, providers appear to have waited until April to raise pay rates

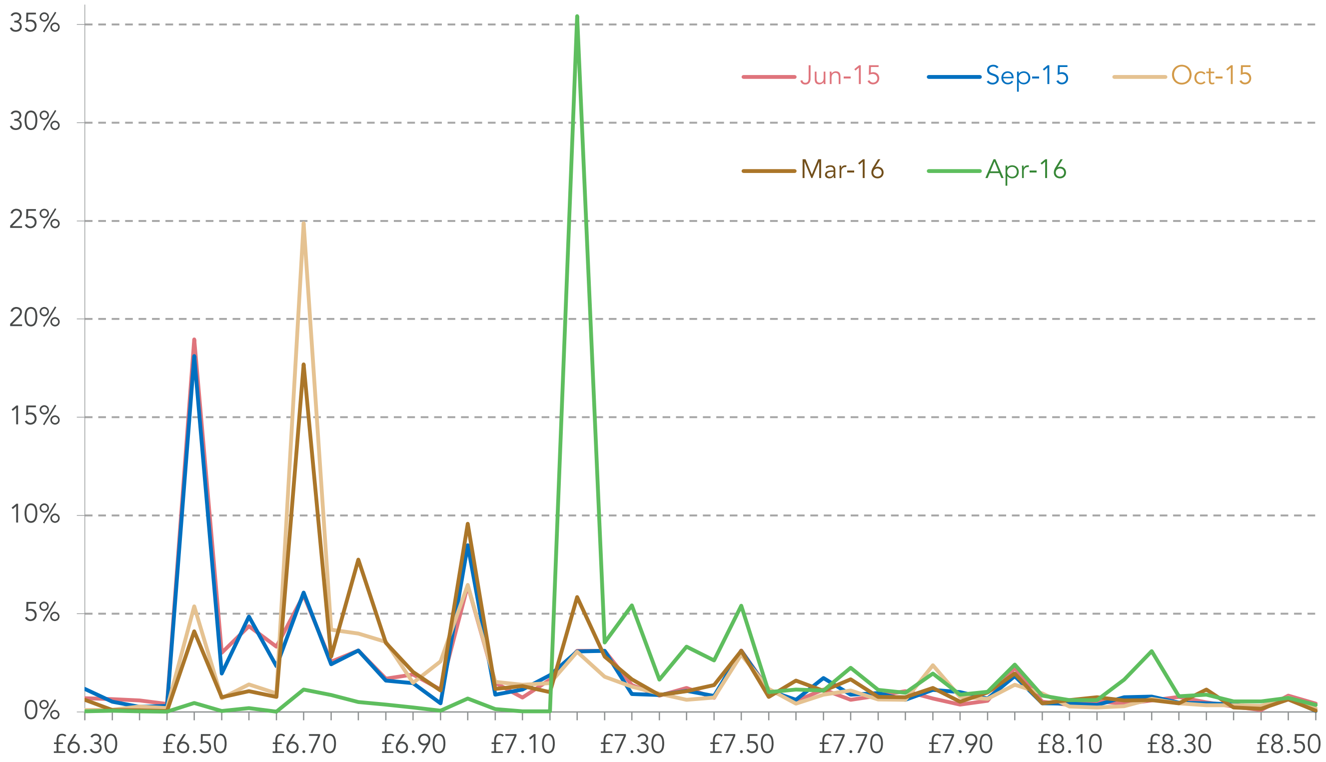
Since the announcement of the NLW in the July 2015 Budget, there has been speculation that businesses would raise pay for eligible staff prior to April 2016, with some high-profile firms doing so publicly in Autumn 2015.[11] By isolating pay records updated in each successive month in our

[11] A Armstrong, 'Sainsbury's trumps Government's living wage with 4pc pay rise', *The Telegraph*, 27 August 2015; 'Costa Coffee brews 'living wage' for baristas', *Financial Times*, 30 September 2015

sample period, we can get an insight into the extent to which this happened in social care. Figure 2 shows the pay distribution (for workers with records that were updated in the month in question) at the beginning of the period, and immediately before and after both the uprating of the NMW on 1 October 2015 and the introduction of the NLW on 1 April 2016.

Figure 2: The evolving social care wage distribution around wage floor uprating dates: 2015-2016, England

Proportion of all workers earning at each hourly wage rate (rounded to nearest 5 pence, nominal)



Notes: Data covers all workers with up-to-date pay records both before and after the introduction of the NLW, and pay records that were updated within the given month, in firms that report full NLW compliance for staff aged 25 and over. See Box 1 for full methodological details.

Source: RF analysis of Skills for Care, NMDS-SC

We find no evidence of staff shifting up to £7.20 (or a little above) between the announcement of the NLW and the end of October 2015, and only a very small increase in the share of the workforce paid £7.20 between then and March 2016. As with the NMW uprating in October 2015, the vast majority of firms in our sample appear to have waited until the NLW became law before moving staff to or above the new minimum rate of pay.

So far, there is no evidence of working hours being reduced in order to lower the NLW burden on firms

One of the ways that employers might absorb a higher wage bill is by reducing the among of labour they use, either by reducing employment via redundancies or slower hiring, or by reducing the working hours of existing staff. There have been some publicised cases of employers apparently taking this course of action following the introduction of the NLW.[12] Such a response might be particularly relevant in a sector like care with its highly scheduled and time-and-task-based

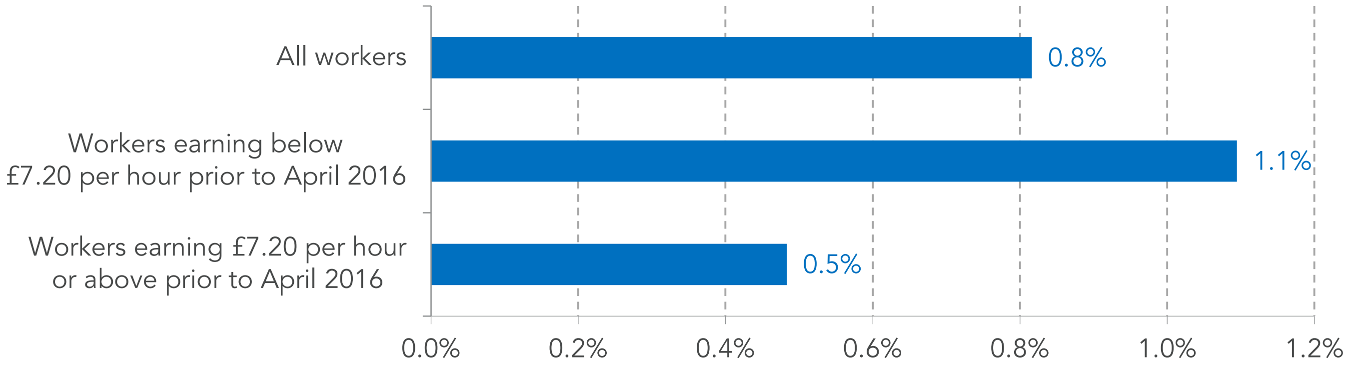
[12] For example: S Butler, 'Employers claw back living wage in cuts to perks, hours and pay', *The Observer*, 16 April 2016

working patterns (although on the other hand, minimum staffing requirements set out by the Care Quality Commission might preclude any labour reductions). It's not possible to assess *employment* reductions in our data, but we can investigate whether reducing *hours* has been a feature of the sector's immediate response.

In fact, from the full NMW period of June 2015-March 2016 to the four months following the NLW's introduction, average working hours in care were fairly stable, increasing slightly by 0.8 per cent from 30.0 to 30.3 hours. Furthermore, Figure 3 illustrates that this small increase was slightly more pronounced for workers previously earning below the NLW (and therefore directly affected by it) than it was for workers already above the new wage floor – increases of 1.1 per cent and 0.5 per cent respectively.

Figure 3: Changing working hours in social care between the pre- and post-NLW periods: 2015-2016, England

Increase in average hours worked between full NMW period (June 2015-March 2016) and NLW period (April-July 2016)



Notes: Data covers all workers with up-to-date pay records both before and after the introduction of the NLW in firms that report full NLW compliance for staff aged 25 and over. See Box 1 for full methodological details.

Source: RF analysis of Skills for Care, NMDS-SC

The evidence suggests, then, that reductions in hours have not been a feature of the care sector's initial response to having to raise the pay of certain staff. This is in line with the findings of our June survey of employers' responses to the introduction of the NLW, which noted that only 14 per cent of affected businesses had made any reductions to labour by June 2016.[13]

Of course, social care is a sector facing rapidly rising demand for services, and what we do not know is whether aggregate hours across the workforce have increased more slowly than they would have done in the absence of the NLW. Nonetheless, no evidence of slower working hours growth for workers previously below the new wage floor compared to those previously above it is encouraging.

Providers appear to have gone beyond the minimum, over-whelmingly passing the pay increase on to staff aged under 25

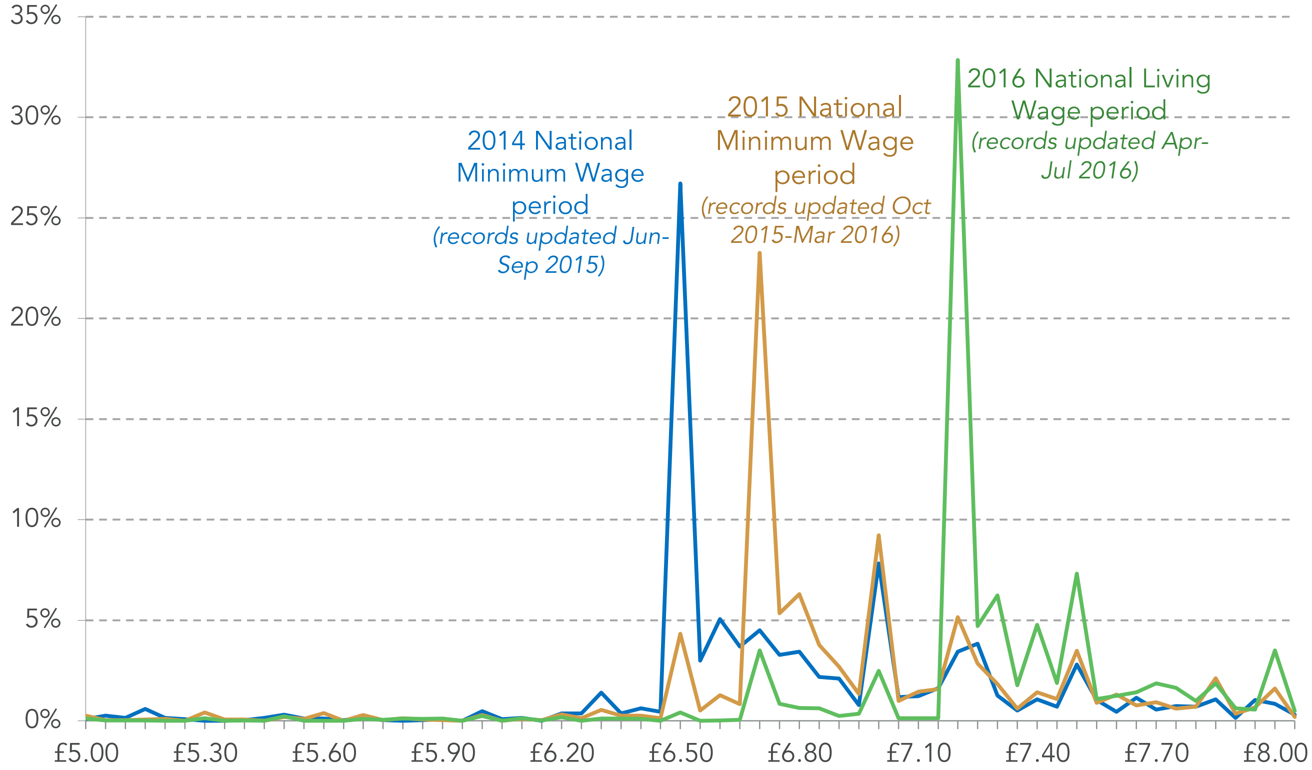
Also encouraging is the fact that social care providers implementing the NLW have for the most part shifted younger workers up to higher rates of pay as well. In our sample of providers with up-to-date and fully compliant records for eligible workers (aged 25 and over, non-apprentices), 83 per cent of those aged under 25 who were earning less than £7.20 prior to the introduction of the NLW had their pay raised to £7.20 or above.

[13] C D'Arcy & M Whittaker, *The first 100 days: Early evidence on the impact of the National Living Wage*, Resolution Foundation, July 2016

This is evident in the pay distributions for workers aged under 25 in Figure 4 – the 'spike' at £6.70 almost entirely shifts up to £7.20 in the post-April 2016 period.

Figure 4: The compressing wage distribution for workers in social care aged under 25: 2015-2016, England

Proportion of workers aged under 25 earning at each hourly wage rate (rounded to nearest 5 pence, nominal)



Notes: Data covers all workers with up-to-date pay records both before and after the introduction of the NLW, in firms that report full NLW compliance for staff aged 25 and over. See Box 1 for full methodological details.

Source: RF analysis of Skills for Care, NMDS-SC

Furthermore, there is no evidence of a lesser impact on under-25s in the aggregate data on pay increases. Average pay for all workers aged 25 and over increased by 6.9 per cent in nominal terms in the NLW period compared to the full NMW period preceding it, while for under-25s the figure was a very similar 6.8 per cent.

It should be noted that, compared to the other sectors most affected by the NLW, adult social care has a relatively small proportion of workers aged under 25 and so not legally entitled to the wage uplift (around one in ten, compared to more than one third in hospitality, for example). Therefore it is relatively less costly to pass the wage increase on to these younger workers than in other sectors. It might also be considered harder to withhold the higher wage from what is quite a small proportion of the workforce, given such standardisation of pay structures around legal minimums.

So while these early results suggest a sizeable knock-on effect on younger workers, it's quite possible that the treatment of under-25s varies significantly by sector, something our future research on the implementation of the NLW will assess in detail.

And there is evidence of 'spillover' effects more widely

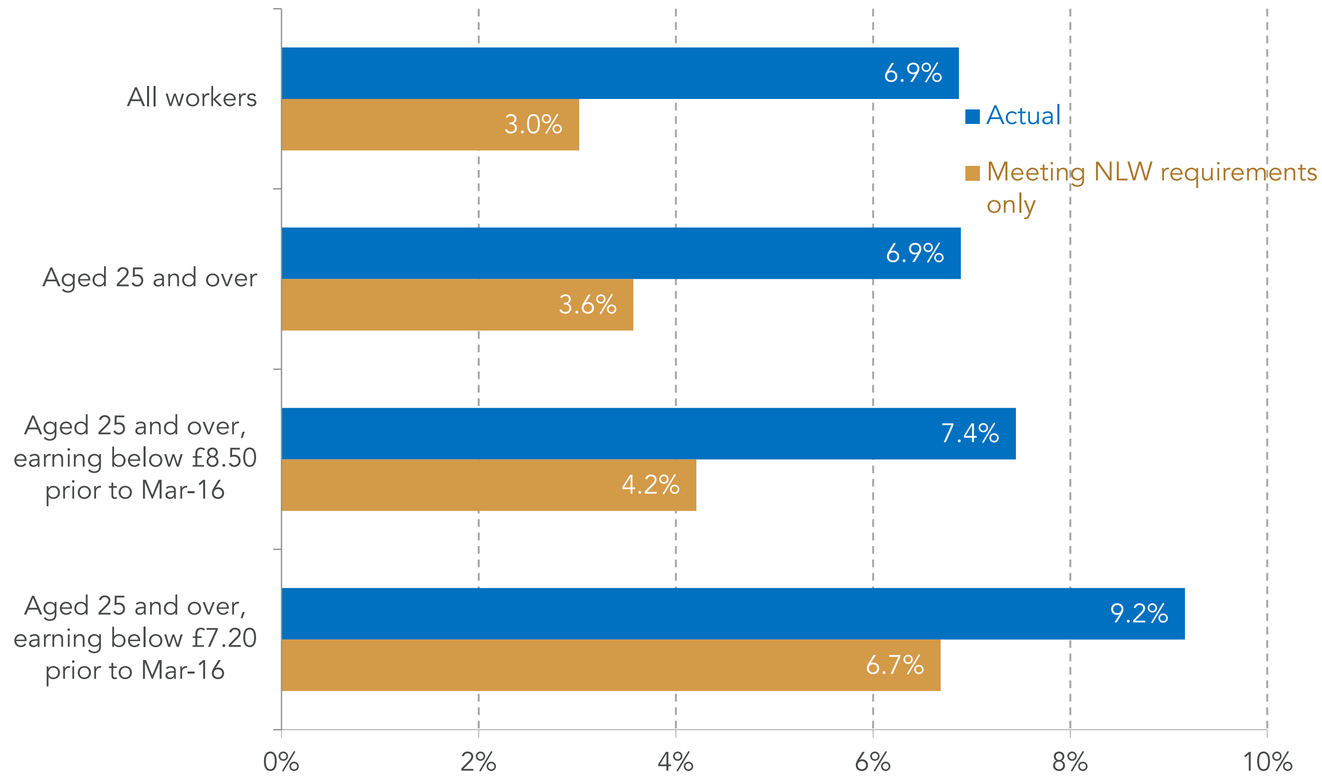
'Spillover' effects from a higher minimum wage take two forms. First, firms can take workers previously below the wage floor to a position above (rather than merely on) it. Secondly, they can raise the pay of workers previously above the floor higher still, in order to maintain some form of pay differentia for example.

Our sample cannot completely isolate these effects because we don't know how pay would have changed in the absence of the NLW. We are also capturing ongoing pay improvements not connected to it such as those resulting from normal annual pay settlement activities. But our analysis over time does allow us to make indicative judgements.

To do this, we calculate the average increase in pay in the NLW period (compared to the full NMW period preceding it) and compare this to the scale of pay increase associated with doing no more than lifting eligible workers to the NLW. Looking across the workforce as a whole, pay only needed to rise by 3 per cent to satisfy the new legal requirements of the NLW but was instead lifted by 6.9 per cent between the full NMW period and the NLW period, as Figure 5 shows.

Figure 5: Comparing actual pay increases in social care to minimum NLW requirements: 2015-2016, England

Average nominal pay increase between full NMW period (June 2015-March 2016) and NLW period (April-July 2016)



Notes: Data covers all workers with up-to-date pay records both before and after the introduction of the NLW, in firms that report full NLW compliance for staff aged 25 and over. The 'meeting NLW requirements only' estimates are based on the pre-NLW wage from June 2015-March 2016, increased to £7.20 if below that value for non-apprentices aged 25 and over. See Box 1 for full methodological details.

Source: RF analysis of Skills for Care, NMDS-SC

Even when isolating eligible workers previously paid below £7.20 (as the bottom pair of bars in Figure 5 do), the average pay increase actually recorded in the NLW period was over one third larger than it would have been had providers done only the minimum required.

Another approach is to estimate pay bill increases at the provider level in comparison to what firms would have paid out in order to only meet NLW requirements. The average provider wage bill increased by 7.1 per cent from the full NMW period to the NLW period in our sample, more than twice as high as the 3.1 per cent increase required to pay the NLW to 25 and overs only. In other words, providers have invested more than twice as much in improving pay across the workforce in April-July 2016 compared to the ten-months before than they legally had to.

It's worth reiterating that not all of this increased investment will be directly attributable to the NLW itself – nominal pay almost always rises gradually over time and April each year is when many firms conduct pay re-negotiation activities. However, it seems probable that a sizeable proportion of the 'extra' spend beyond minimum requirements is connected to the NLW. Taking this into account, the magnitude of spillovers we observe and their apparent impact on the shape of the wage distribution in social care appear consistent with both our and the Office for Budget Responsibility's spillover predictions for the economy as a whole.[14]

The impact has been felt relatively evenly across different groups of workers

Disaggregating the headline statistics discussed earlier in this briefing – the proportion of workers in our sample directly affected by the NLW's introduction, and the size of the pay increase between the full NMW and NLW periods – we can get a picture of the differential impact of the NLW across groups and areas. This is summarised in Figure 6 overleaf.

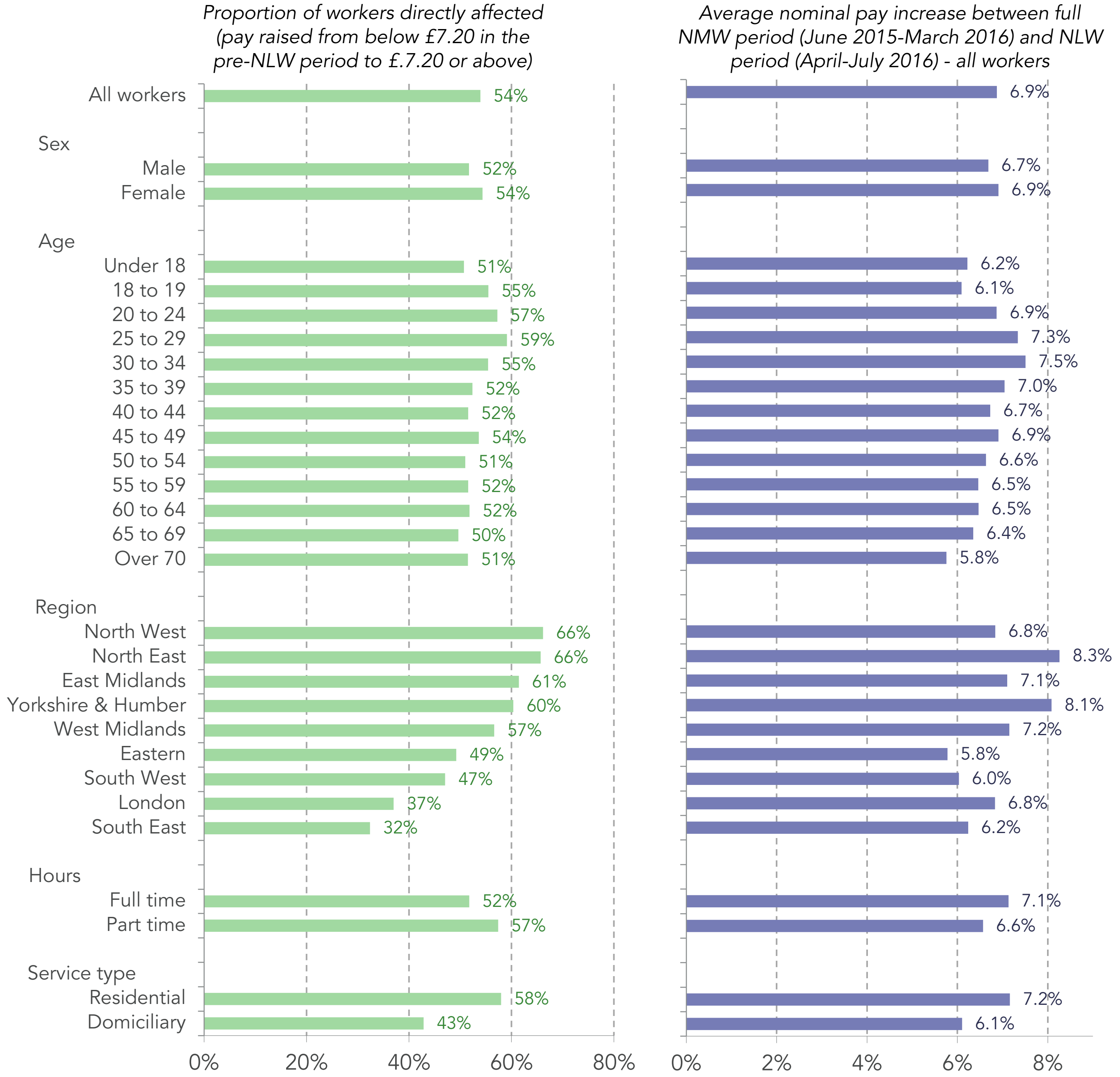
We find relatively similar impacts – both in terms of the share of workers affected and the size of average pay increases – by age (reflecting the discussion above on the treatment of under-25s), sex, and between full-time and part-time workers.

However a more distinct pattern emerges when comparing regions of England. More than 60 per cent of workers in our sample are directly affected by the introduction of the NLW in the North West, North East, East Midlands and Yorkshire & Humber (regions where pay increases are also larger), compared to less than one third in the South East. This largely reflects economy-wide pay differentials between different parts of England, with workers in the care sector in lower-paying regions more 'bunched' at legal minimum pay rates.

Finally, in terms of the reported or 'contracted' rates of pay our analysis assesses, we find a more pronounced impact of the NLW in the residential (care home) sector compared to domiciliary care. Unsurprisingly, this reflects the fact that contracted rates tend to be lower in residential care. However, the well-publicised issue of unpaid travel time in domiciliary services reduces effective pay rates for the purposes of comparing to legal minimums and therefore narrows the apparent pay gap between these two service types.

[14] C D'Arcy, A Corlett & L Gardiner, *Higher ground: Who gains from the National Living Wage?*, Resolution Foundation, September 2015; Office for Budget Responsibility, *Economic and Fiscal Outlook*, July 2015

Figure 6: The impact of the NLW across different groups of workers in social care: 2015-2016, England



Notes: Data covers all workers with up-to-date pay records both before and after the introduction of the NLW, in firms that report full NLW compliance for staff aged 25 and over. See Box 1 for full methodological details.

Source: RF analysis of Skills for Care, NMDS-SC

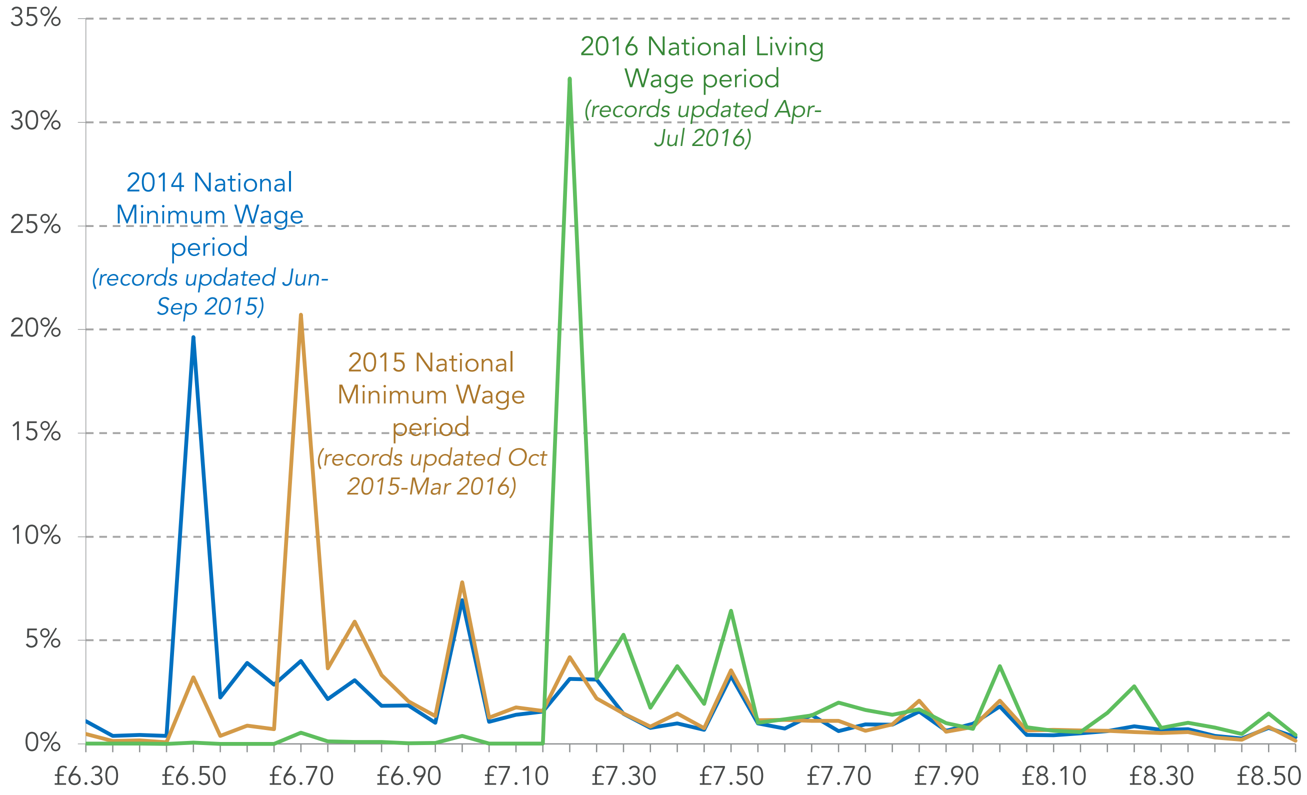
The increasing concentration of workers at the legal wage floor in care poses potential challenges going forward

While much of the analysis above provides encouragement about the introduction of the NLW in the care sector – with gains being spread to under-25s and to workers above the NLW for instance – the higher wage floor and subsequent 'bunching' of more workers at or near £7.20 increases the already-significant challenge of pay progression.

In our previous analysis of the social care sector, which focused on frontline care workers only, we highlighted the increasing concentration of workers at adult minimum wage rates with each successive NMW increase.[15] Figure 7 shows that this trend continued both in the period after the NMW increase in October 2015, and in the NLW period. During April-July 2016 nearly one third (32 per cent) of all staff in our sample earned at the main wage floor rate (£7.20 in that period), up from less than one fifth during June-September 2015.

Figure 7: The compressing social care wage distribution: 2015-2016, England

Proportion of all workers earning at each hourly wage rate (rounded to nearest 5 pence, nominal)



Notes: Data covers all workers with up-to-date pay records both before and after the introduction of the NLW, in firms that report full NLW compliance for staff aged 25 and over. See Box 1 for full methodological details.

Source: RF analysis of Skills for Care, NMDS-SC

This is lower than the concentration we would expect in the absence of any 'spillover' effects (we estimate the 'spike' would be around 50 per cent), but it nevertheless represents a sizeable portion of the overall workforce.

In addition to potentially reducing the rungs in the pay ladder that care workers might hope to climb as they gain experience, the tendency for the wage floor to account for an ever-increasing share of the sector's workforce also increases the exposure of firms to each future increase in the NLW.

Finally, while we do not assess non-compliance or account for unpaid time in this analysis, it is important to note that this bunching on the floor increases the risk of minimum wage under-payment once time not covered by contracted pay rates but legally covered by minimum wages is accounted for.

[15] L Gardiner, *Care to pay? Meeting the challenge of paying the National Living Wage in social care*, Resolution Foundation, November 2015

Funding pressures in the sector need urgent consideration, but it is right to press on with the NLW

This analysis provides a first look at how the NLW has been implemented in one of its key sectors, adult social care in England. Many of the signs are encouraging. Providers implementing the NLW fully have overwhelmingly passed the pay increase on to their workforces aged under 25; have raised pay by significantly more than their minimum obligations (evidence of the so-called 'spillover' effect); and haven't curbed working hours for affected workers.

On the other hand, there is concerning evidence of increased 'bunching' at the main minimum wage rate: one third of workers in the sector are now paid £7.20 per hour. And there are key areas that our analysis cannot shed light on and so the picture remains unclear, in particular overall employment impacts and levels of non-compliance.

The positive signs we have identified are notable in light of the well-publicised funding challenge within the sector. How providers have managed to behave in this way in the face of pressures on budgets is an important question for further research. Speculatively, it is possible that some contracts with local authorities were adjusted to reflect the resource implications of the NLW prior to its introduction. Alternatively, providers may have felt it necessarily to implement the NLW in this way in order to remain in some way competitive given the deep recruitment and retention challenge facing the sector, and thus reduced profits or trimmed other areas of spend still further.

We shouldn't be complacent about the future. As the NLW rises rapidly towards its target value, the ability of the sector to continue to spread its benefits in the ways we have identified will become more limited. Even with the new Council Tax precept, which allows local authorities to raise Council Tax specifically to fund care services, the current expectation is that public funding increases will be insufficient to meet the extra costs associated with a rising NLW.[16]

However, the solution should not be to row back on the policy. As our forthcoming analysis in our annual *Low Pay Britain* publication will explore further, the target value of the NLW *in relation to median earnings* remains achievable even in our more uncertain post-referendum economy, and all the more necessary for low-paid workers given the weaker earnings growth now predicted.

Rather, the course of action must be to ensure that there are sufficient funds for firms to continue to implement the NLW without adverse consequences for workers, and to prevent too much further bunching of the pay distribution and allow for progression opportunities. This is particularly the case in the social care sector, where rising demand and the prospect of lower migrant worker inflows will exacerbate the existing recruitment challenge further still.

Although social care has some distinctive features, these insights around public funding, adjusting to lower inward migration and supporting pay progression within industries have wider implications for how businesses deal with the implementation of the NLW across the economy as a whole.

[16] *Association of Directors of Adult Social Services*, 'Council Tax Precept Fails to Close Adult Social Care Funding Gap', 13 July 2016

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» *developing practical and effective policy proposals; and*

» *engaging with policy makers and stakeholders to influence decision-making and bring about change.*

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