About the National Minimum Wage (NMW)

The National Minimum Wage is the UK’s pay floor - designed to protect as many low-paid workers as possible without hurting jobs or the economy.

It is set annually on the basis of recommendations from the Low Pay Commission: an independent body of employers, unions and experts.

In February 2015 we recommended to Government a rate of £6.70 to take effect from October, which has been accepted. It is the largest real terms increase in the NMW since 2007 and could return the NMW three-quarters of the way back to its highest previous real terms value.

<table>
<thead>
<tr>
<th>Group</th>
<th>Current Rate (to October 2015)</th>
<th>Proposed % increase</th>
<th>Recommended Rate from October 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adults</td>
<td>£6.50</td>
<td>3</td>
<td>£6.70</td>
</tr>
<tr>
<td>18-20s</td>
<td>£5.13</td>
<td>3.3</td>
<td>£5.30</td>
</tr>
<tr>
<td>16-17 year olds</td>
<td>£3.79</td>
<td>2.2</td>
<td>£3.87</td>
</tr>
<tr>
<td>Apprentices*</td>
<td>£2.73</td>
<td>2.6</td>
<td>Recommended rate £2.80*</td>
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<td></td>
<td></td>
<td></td>
<td>Actual rate £3.30</td>
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</tbody>
</table>

* Applicable in Year One of the apprenticeship only for those aged 19 and over, but in all years for those aged 16-18.
An evidence-based balancing act….

Our aim is a minimum wage that helps as many low-paid workers as possible without significant adverse impact on employment or the economy.

To help as many low-paid workers as possible…

...without significant adverse impact on jobs or the economy

A Social Partnership

Independents (frame denotes stepping down March 2015)

David Norgrove, Chair

Professor Richard Dickens, Sussex University

Professor Bob Elliott, Aberdeen University

Employee representative background

Kay Carberry, Assistant General Secretary, TUC

John Hannett, General Secretary, Usdaw

Brian Strutton, GMB National Secretary

Employer representative background (frame denotes stepping down March 2015)

Neil Carberry, Director of Employment and Skills, CBI

Peter Donaldson, Managing Director, D5 Consulting Ltd

Neil Goulden, Neil Goulden Consulting Ltd
What is the Low Pay Commission (LPC)?

- Independent of Government
- Set up in 1997, to define the NMW and make wage rate recommendations
- Partnership model: (3 independents, 3 employer representatives, 3 employee representatives)
- Detailed process of evidence-based decision making and high quality research drawing on latest data and economic analysis and stakeholder views.
- Consider factors including: economic growth, average earnings, productivity, employment, the impact of past increases

### 2015 process

Consultation: 163 written responses and 547 online responses.

15 organisations presented at Commission meetings throughout the year.

10 Commissioner meetings.

8 Commissioners’ field trips around the UK.

5 academic research projects commissioned for 2015 report (and 1 for following year’s report).

2 day oral evidence sessions.
Micro and small firms account for a fifth (21%) of the total workforce but two fifths (37%) of all minimum wage jobs.

Large firms account for two-thirds (65%) of the total workforce but under half of minimum wage jobs (48%).

There are 1.4 million minimum wage jobs in the UK: 5.3% are paid below or within 5p of the minimum wage.

NMW jobs are made up of: 1.2 million jobs held by those aged 21 and over; 40,000 jobs held by 16-17 year olds; and 139,000 held by 18-20 year olds.

Percentage of Minimum Wage Jobs in the UK

West Lancashire has the highest % of minimum wage jobs: 21.4%

Mole Valley in Surrey has the lowest % of minimum wage jobs: 0.3%

In April 2014, 5.3% or 1.4m UK jobs were paid at or below the NMW.
Minimum Wage Jobs

59% of NMW jobs are held by women
20% of NMW jobs are held by migrants
14% of NMW jobs are held by a member of an ethnic minority
13% of NMW jobs are held by those with no qualifications
13% of NMW jobs are held by people with disabilities
13% of NMW jobs are held by those under the age of 21
3% of NMW jobs are held by those aged 65+

Hospitality, retail and cleaning account for 52% of NMW jobs
Small firms account for 37% of NMW jobs
31% of jobs in cleaning are paid at or below the NMW
29% of jobs in hairdressing are paid at or below the NMW
25% of jobs in hospitality are paid at or below the NMW
10% of jobs in retail and 9% of jobs in social care are paid at or below the NMW

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25% of jobs in hospitality are paid at or below the NMW
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Since 2008 the number of jobs among workers aged 21 and over covered by the minimum wage has increased by a third from around 900,000 to 1.2 million. The 2014 increase and recommended 2015 increase (if accepted by Government) could raise coverage further to 1.4m.

Share of NMW jobs per sector (%)

- Retail: 22%
- Non low paying sectors: 26%
- Hospitality: 26%
- Social care: 7%
- Cleaning: 7%
- Leisure, travel, sport: 4%
- Hairdressing: 2%
- Food processing: 2%
- Childcare: 2%
- Agriculture: 1%
- Textiles and clothing: 1%

Three quarters of NMW jobs are found in low paying sectors, a quarter in the rest of the economy.

NMW jobs per firm size (%)

- Large: 48%
- Micro: 17%
- Small: 20%
- Medium sized: 15%
What difference has the NMW made?

The minimum wage has increased wages for workers at the bottom...

1997 – tail to the left hand side of the earnings distribution

2014 – distinct cut to the left hand side of the earnings distribution

Source: Annual Survey of hours and Earnings, UK, 1997 and 2014

...without damaging jobs or the economy

We have commissioned around 140 research projects since 1999 on the impact of the NMW. Over that period the low paid have received higher than average wage increases but the research has found:

- Little negative effect on overall employment, the employment shares of low-paying sectors, individual probabilities of workers being unemployed, regional employment and unemployment differences.

- A small reduction in hours worked and increases in productivity. Profits may have been squeezed, particular in small firms but have not led to an increase in business failure.
The NMW has increased faster compared with prices and average wages since its introduction.

Over the recession the real value of the NMW has fallen, but it is now recovering, and its value compared with other wages is at its highest ever. This is the first recession where the low-paid have done better than other groups.

A fall in real value reflects high inflation relative to earnings growth: like all other workers recently, wages have lagged behind prices.

But the real value of the NMW is now beginning to recover. The 2014 and 2015 increases could restore three quarters of its lost real value relative to its 2007 peak.

The NMW is now at its highest ever relative value compared to other wages.

This is the first recession going back to at least the 1970s, when the lowest paid haven’t fared worse than everybody else.
What difference has the NMW made?

“The NMW has had cross party support and has been voted the most successful government policy of the past 30 years”. (Political Studies Association)

“During the recessions of the 1980s and 1990s the lowest paid fared worse than everybody else. This time they’ve done better, and the main reason for it is the National Minimum Wage, which has protected them against the largest reduction in their real wages that history suggests would otherwise have taken place”. David Norgrove, Chair of the LPC

Since its introduction the adult rate of the NMW has increased faster than average earnings growth or price inflation. The NMW grew by over 80% between 1998 and 2014

What do our stakeholders think?

The Low Pay Commission has received widespread input from worker and employer representatives, who value our independence, ability to adapt to economic circumstances, and evidence-based approach.
We have no presumption that further increases above average earnings are required — LPC Report 2006.

“There has been little evidence of employment effects up to 2012 but we await further evidence of the impact of recession” — LPC Report 2012.

We believe that there is a case for increasing the effective rate of the minimum wage, implying a series of increases for a number of years above average earnings…” — LPC Report 2003

“We have taken a prudent approach in choosing the initial rate, to find the balance between improving low pay and avoiding damage to efficient businesses and employment opportunities” — LPC Chairman (1999)

To balance the protection of low paid workers with the ability of businesses to perform profitably and maintain employment levels.
The NMW as a proportion of median earnings is often described as the ‘bite’.

This is a measure of how its value compares with typical earnings: a higher bite means the NMW is affecting more workers and firms.

The minimum wage has the greatest impact on workers with no qualifications.

**Bite by groups of workers**

- 86% No qualifications
- 64% Women
- 65% Disabled workers
- 63% Migrant workers
- 62% Ethnic minorities

The 'bite' of the NMW is now at its highest since records began in 1999. It is 53% for workers aged 22 and over.

It is at 92% for the lowest paid 10% of the UK’s workforce.

It is at 80% for low-paying sectors.

It is at 67% for micro firms and 60% for small firms

The minimum wage has the greatest impact in the cleaning sector - closely followed by hospitality.

**Bite by industry**

- Cleaning 92%
- Hospitality 88%
- Hairdressing 85%
- Childcare 83%
- Retail 79%
- Social care 78%
In April 2014, 0.8% or 208,000 employees aged 21 and over were paid less than the NMW.

Some employees are legitimately paid below the hourly rate of NMW, such as when employers deduct small sums for accommodation up to the level of the ‘accommodation offset’.

However others are not. We believe there is continued under-reporting of unlawful non-payment of the NMW, especially within the grey economy. We continue to urge the government to target key sectors such as social care and to raise awareness of the Apprentice Rate.

**Key groups at risk:** apprentices; workers in social care; interns; seafarers; migrant workers; hotel cleaners.

HMRC enforces the NMW. If you, or someone you know, is not being paid the NMW, call the **Pay and Work Rights Helpline**: Tel 0800 917 2368

We recommended that the adult rate of the National Minimum Wage be increased by 3 per cent, or 20 pence, to £6.70 an hour. This has been accepted by government.

Minimum wage rates:

<table>
<thead>
<tr>
<th>Year</th>
<th>21 and over 18 to 20</th>
<th>16-17 Apprentice*</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>£6.50</td>
<td>£3.79</td>
</tr>
<tr>
<td>2013</td>
<td>£6.31</td>
<td>£3.72</td>
</tr>
<tr>
<td>2012</td>
<td>£6.19</td>
<td>£3.68</td>
</tr>
<tr>
<td>2011</td>
<td>£6.08</td>
<td>£3.68</td>
</tr>
<tr>
<td>2010</td>
<td>£5.93</td>
<td>£3.64</td>
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Since the introduction of the NMW, increases in the NMW have been above average earnings growth in most years, which has protected the lowest earners.

The October 2014 increase in the NMW was the first real increase (vs CPI inflation) since 2007.

We recommended an increase of 3.3 per cent in the Youth Development Rate to £5.30 an hour.

We recommended an increase of 2.2 per cent in the 16-17 Year Old Rate to £3.87 an hour.

We recommended an increase in the Apprentice Rate of 2.6 per cent, to £2.80 an hour.

We recommended an increase in the Accommodation Offset of 27 pence, to £5.35 per day.

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GOV.UK: Low Pay Commission