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CONSULTATION ON THE NATIONAL MINIMUM WAGE RATES (INCLUDING NATIONAL LIVING WAGE) TO APPLY FROM APRIL 2017

The Low Pay Commission (LPC) has been asked to recommend to the Government in October of this year the level of the UK's minimum wage rates to apply from April 2017-2018. I am writing to invite you to submit evidence to our consultation, which runs until 29 July.

The background of course is the recent introduction of the National Living Wage (NLW), which has introduced a higher rate for workers aged 25 and over. It means that there are now five minimum wage rates in total - the NLW, the 21-24 Year Old Rate, the 18-20 Year Old Rate, the 16-17 Year Old Rate and the Apprentice Rate, which are all being aligned to run on the same calendar from next April.

The NLW has two key differences from the other rates. First, it is subject to a target of 60 per cent of median earnings by 2020. Second, it has been established with somewhat greater tolerance of negative employment consequences. The Office for Budget Responsibility (OBR) estimates job losses of 20,000-120,000 by 2020, whereas the other rates have traditionally been set with a view to avoiding any employment detriment.

These differences are reflected in a change in the remit of the LPC that bears on the evidence we are seeking in this consultation. For the NLW, we are asked to advise on the path to 60 per cent of median earnings by 2020 'subject to sustained economic growth'. For the rates affecting those aged under 25 and apprentices, we are asked to continue to make recommendations on our traditional basis of 'helping as many low-paid workers as possible without damaging their employment prospects'.

On the National Living Wage, we are particularly interested in:

- evidence on the effect of the introductory rate of £7.20 on workers, employers, the labour market and the economy - including how firms are adjusting and impacts on pay, terms and conditions, income, hours, employment and competitiveness;
- views of the projected 'on target' rate for April 2017. The figure will change between now and the autumn as new pay data and forecasts are published but we currently estimate it to be around £7.60 in April 2017, rising to just over £9 by 2020.
- views on the LPC's proposed approach to making recommendations on the NLW. (This is set out in detail below in Appendix Two but, in summary, we propose a path

based on tracking the relative value or 'bite', with a starting point each year of identifying the rate to keep the NLW on course for the 2020 goal. We will then draw on evidence to decide whether to depart from this level by varying the profile. In the absence of economic shocks or other strong evidence of economic impacts, our default is likely to be a straight line path to 60 per cent. A relative earnings target is - by definition - a moving one, changing in response to annually updated data on pay levels and twice yearly revisions to pay forecasts. We will seek both to recommend the rate and provide an update on the implied 2020 level to give firms and workers maximum information without spurious certainty).

On the other minimum wage rates, we are particularly interested in:

- evidence on the impact of the rates on younger workers' employment prospects including evidence on how widely the new 21-24 Year Old Rate is used, and whether the NLW has affected the employment prospects of workers aged under 25.
- views on how we adjust the level of the recommendations given that an April 2017 increase will come six months after the forthcoming October 2016 increases. This reflects the fact that the NLW was introduced on a different calendar to the other rates, whose schedule is being revised to align with it. The consequence is two increases in 18 months rather than the 24 that would otherwise apply.

This consultation is similar to previous years in that we will use its results to inform a report to Government in the autumn recommending rates. As in the past our views will be based on the best available evidence including: in-house monitoring of trends in the macroeconomy, GDP growth, employment growth, pay and productivity; commissioned independent research from academics and research institutes; and a programme of visits to business and workers across the UK.

For the rates affecting workers under 25 and apprentices our approach will look broadly familiar. For the NLW, our approach will be different in two respects. First, it will take time for the effects of the NLW to work through the labour market, and then be captured in surveys. This means softer intelligence – including the results of this consultation – will be relatively more important as an evidence source. Second, our remit means there is a different relative balance in wage-setting and monitoring (for the NLW there is a starting presumption in relation to the level of the increase, with a less strict test of harm than applies to the other rates).

One key practical difference applying across all the rates is that the move to an April cycle reduces the period between key pay data becoming available and giving Government our recommendations. So our next report will be less detailed than those we have previously published.

We would welcome any evidence you may wish to submit on the rates. You can respond to our consultation questions via lpc@lowpay.gov.uk, or send it to the address at the top of this letter.

The deadline for responses to the consultation is 29 July 2016.

Our policy is to make responses to our consultation available publicly and list names unless respondents request otherwise. We may also quote from responses. **If you do not wish your response to be made public, then please make that clear in your submission. Otherwise, we will assume that by responding to our consultation you have given consent to us publishing your name and content of your submission.**

As noted, a key evidence source is visiting businesses and workers across the UK, which provides an opportunity to listen directly to those affected by the minimum wage. The locations and dates for this year's visits are below. Please email us at lpc@lowpay.gov.uk if you would like to meet our Commissioners during any of these visits.

Yours sincerely

A handwritten signature in black ink that reads "Simon Blake". The signature is written in a cursive, slightly slanted style.

Simon Blake
Secretary to the Low Pay Commission

Appendix One: The Focus of this Consultation and Visits Programme

Age group	Current/ forthcoming minimum wage			Focus of this consultation and remit
	October 2015	April 2016	October 2016	April 2017
25+	£6.70 (21+ adult rate)	£7.20 (introduction of the National Living Wage)	£7.20	<p>LPC to recommend the “the pace of the increase” of the NLW. “The ambition is ... to reach 60% of median earnings by 2020, subject to sustained economic growth”.</p> <p>Projected ‘on course’ rate (based on data available in March 2016 so likely to change, and subject to LPC deliberations): c. £7.60</p> <p>LPC to recommend rates that “help as many low-paid workers as possible without damaging their employment prospects”</p>
21-24		£6.70 (adult rate now applies to 21-24 year olds only)	£6.95 ^a	
18-20		£5.30	£5.55 ^a	
16-17		£3.87	£4.00 ^a	
Apprentices ^b		£3.30	£3.40 ^a	

^aForthcoming rates, based on recommendations set out in our Spring 2016 Report. Because of alignment of the cycles of the traditional minimum wage rates and the National Living Wage, these will last 6 months only.

^bThe Apprentice Rate is applicable to all apprentices in Year One of their apprenticeship, and for 16-18 year olds in any year of their apprenticeship. Otherwise normal NMW rates apply.

LPC Visits (Autumn Report) ^a	
Date	Location
19-20 April	Sunderland & Newcastle
11-12 May	Hereford & Worcestershire (and East Wales)
8-10 June	Northern Ireland
5-7 July	Dundee and Angus
(Ongoing)	(London and South East)

^aPlease email us at lpc@lowpay.gov.uk if you would like to meet our Commissioners during any of these visits.

Appendix Two: The LPC's Approach to the National Living Wage (NLW)

- We summarise here the LPC's proposed approach to making recommendations on the National Living Wage. Full detail is available in Chapter 3 of our Spring Report: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/507455/10493-TSO-Low_Pay-ACCESSIBLE_05.pdf
- The introduction of the NLW means an adjustment in the LPC's wage-setting function. We are asked to continue to recommend rates for those aged under 25 and apprentices that will not damage employment. However, for workers aged 25 and over we will advise on the path to 60 per cent of median earnings, a target that is formally subject to 'sustained economic growth' and that was established with tolerance of some job losses (when setting the target the Government was aware of OBR estimates of reduced employment and hours worked).
- We intend to monitor the NLW with a view to advising the Government on the path **in light of the extent to which any employment effects differ from the starting assumptions**. Our key goal, as defined by Government, is the 60 per cent relative earnings objective. A relative target is better designed than a cash target to ensure the wage floor is ambitious without posing unanticipated risks – since it links the precise figure to the position of average earnings, which will in turn reflect wider economic performance.
- In cash terms, the target at the time of writing (April, based on March data) equates to a NLW of £9.02 in 2020, down from initial estimates of £9.35 in July 2015 because earnings growth forecasts have fallen, and set to change again when new pay data becomes available and pay forecasts are updated (for example, the OBR updates its forecasts in November). The precise figure is very sensitive to the changing outlook: about two-thirds of the cash increase in the NLW 2016-2020 is accounted for by forecast average earnings growth. **For the purposes of the remit we will recommend each year's NLW rate, the indicative 'on course' rate for the following year, and provide an update on the implied 2020 level – but also show uncertainties around the level in light of economic trends.**
- The corollary of a flexible goal is that the path of the NLW to 2020 cannot follow fixed cash or percentage increments. **We propose to focus on the bite path – calculating the current bite using the most recent Annual Survey of Hours and Earnings (ASHE), working out the 'on course' level by dividing the gap between the current bite level and 60 per cent by the number of years of rate decisions remaining to 2020, and using near-term forecasts to calculate the implied cash level.¹ We will then draw on economic, labour market, pay and stakeholder evidence, and research to decide whether to depart from this level by varying the profile.** Following the bite means both the level and distribution of increases will reflect that of forecast average pay - linking changes in the rate more closely to economic circumstances than alternatives like a pre-determined cash or percentage path.

Indicative straight line bite path for the NLW (as of March 2016)						
	Bite	Changing bite path			Cash (latest)	Percentage (latest)
	Mar-16	(NLW announced Jul-2015)	Nov-15	Latest (Mar-16)		
2016	Start (c.55 per cent)	7.20	7.20	7.20	0.70	10.8
2017	One quarter of way	7.68	7.64	7.60	0.40	5.6
2018	One half of way	8.19	8.12	8.05	0.45	5.9
2019	Three quarters of way	8.74	8.61	8.55	0.50	6.2
2020	60.0	9.35	9.16	9.02	0.47	5.5

Source: LPC estimates based on a combination of (a) ASHE, 2010 methodology, standard weights, excluding Year One apprentices, UK and (b) OBR hourly earnings index. The numbers in 2016 are known. The other numbers are set to change subject to new data and LPC deliberations. Note: the small variations year-to-year in the cash and percentage increases reflect that the forecast earnings path is not smooth.

¹ A technical constraint is the availability of data. We are required to give recommendations to Government in October, so the latest published OBR forecasts will be from March. We propose supplementing the OBR's latest forecast with more timely data from other bodies such as the HM Treasury Panel of Independent Forecasts (which are updated monthly).

- In the consultation for our Spring Report, stakeholders were divided on whether the NLW should be back-loaded or front-loaded, or follow a straight line. Our intention is that we will endeavour each year to consider the best possible trajectory, with economic shocks or other strong evidence likely to influence the path. **In the absence of strong evidence, the default is likely to be a straight line trajectory to 60 per cent.** This reflects the nature of the evidence on pay and its effects: measurement time lags mean we will probably be making our recommendations ahead of a clear understanding of the consequences of NLW increases. It also reflects the nature of a target: smaller increases in one year result in higher increases in other years. The distance to be travelled means that meaningfully to reduce increases early (late) in the period or towards 2020 implies very large increases late in the period (or early on).

QUESTIONS FOR LOW PAY COMMISSION CONSULTATION 2016

Economic Outlook

1. What are your views on the outlook for the UK economy, including employment and unemployment levels, for (a) the period up to April 2018 (b) the period up to April 2019?
2. What has been your experience of wage growth and inflation in the last year and what do you forecast for the next couple of years?
3. What do you assess as the current state of business conditions in the UK? To what extent are the economic and business conditions in place to allow a faster increase in the minimum wages taking into account the implications on employment? How, if at all, do these vary by sector, type and size of business and nation or region?

Impact of the NMW and NLW

4. What has been the impact of the NLW (from April 2016)? We are interested in any views or data on the initial effects on employment, hours, earnings, pay structures (including premium pay) and benefits, outsourcing, differentials, progression, job moves, training, contract type, business models, prices or profits.
5. Has the impact varied, and if so how (for example, by sector, type and size of business, nation and region, or groups of workers – including women, ethnic minorities, migrant workers, disabled people, older workers, and those who have few or no qualifications)?
6. What are your views on the likely impact of NLW reaching 60 per cent of average earnings by 2020, or just over £9 on current earnings forecasts? To what extent does it differ from the impact in 2016, and how do you anticipate it will be accommodated?
7. What has been the impact of the National Minimum Wage (NMW), such as on employment, hours, pay structures, contract type, and profits, in particular over the last twelve months? Has this impact varied, and if so how (for example, by sector, type and size of business, nation and region, or groups of workers – including women, ethnic minorities, migrant workers, disabled people, older workers, and those who have few or no qualifications)?
8. To what extent are firms making use of the 21-24 Year Old Rate (£6.70 currently)?
9. What do you estimate will be the effect of the increases in October in the rates affecting workers aged under 25 and apprentices (3.7 per cent increase to the 21-24 Year Old Rate, the 4.7 per cent increase to the 18-20 Year Old Rate, the 3.4 per cent increase to the 16-17 Year Old Rate, and the 3 per cent increase to the Apprentice Rate in October 2016)?

Setting the NLW and the other rates

10. Do you have any comments on our proposed approach to the NLW?
11. Do you agree that we should focus on the bite path? Do you agree that, in the absence of economic shocks or other strong evidence, our default should be a straight-line profile?
12. Do you agree with the technical basis (using ASHE and the latest OBR forecast supplemented by other data like the HM Treasury Panel of Independent Forecasts)?
13. The rates for workers aged under 25 and apprentices are set to increase in October 2016 and then again in April 2017 - after six months rather than the usual twelve. How should the LPC take this into account?
14. What bearing should the NLW have, given that it is likely to increase significantly in April 2017? (In our Spring 2016 Report we concluded that genuine differences in labour market performance meant pay for younger workers, including 21-24 year olds, could not currently be set at the same level as that for workers aged 25 and over without risk to employment. We thought that, in the absence of changes in relative performance, the rates for younger workers may increase less rapidly than the NLW to 2020. Equally there were countervailing concerns that we said would also play an important role in our recommendations: that, if too large a gap opened up between the pay floor for different ages, there would be disincentives to hire or retain employees near the boundary and substitution by younger workers would be encouraged. We committed to balance these considerations in future recommendations.)
15. In our most recent recommendations, set out in our Spring 2016 report, we sought to improve clarity in relation to the minimum wage structure, which is now more complicated than in the past, by rounding rates to the nearest 5 pence. Should we continue to take this approach to the NLW and the other rates?

April 2017 Rates of the NLW and Other Minimum Wage Rates

16. At what level should the NLW be set in April 2017?
17. The projected 'on course' rate for the NLW for April 2017 is around £7.60 or a 5.6 per cent increase over the introductory rate. The exact figure will change between now and the autumn as new pay data and forecasts are published and is subject to LPC deliberations - but nonetheless provides a rough guide. What do you estimate would be the effect of an increase of this approximate level?
18. The LPC has been asked to provide indicative 'second year' rates for 2018 for the NLW. At what level should the NLW be set in April 2018 (the 'on course' rate is currently projected to be £8.05)?
19. At what level should the 21-24 Year Old Rate be set in April 2017?
20. At what level should each of the other rates of the minimum wage be set in April 2017 - that is, for 16-17 year olds, for 18-20 year olds, apprentices, and the accommodation offset?

21-24 Year Olds

21. What has been the impact of the minimum wage on workers aged 21-24 and what effect do you think it has on their employment prospects?

Young People and Apprentices

22. What has been the impact of the minimum wage on young people and what effect do you think it has on their employment prospects?
23. What has been the impact of the Apprentice Rate (on pay; provision and take-up of places; and training volume and quality)?
24. What do you think might help employers to comply with paying the right apprentice pay rate?

Compliance & Enforcement

25. What issues are there with compliance with the minimum wage? Do particular groups experience problems with NMW compliance (for example apprentices, those working in the social care sector, migrant workers or interns/others undertaking work experience)? What is the extent and trend?
26. What impact, if any, is the National Living Wage having on compliance and enforcement?
27. What comments do you have regarding the enforcement work of HMRC, and/or the quality and accessibility of official guidance on the NMW? What more could be done to improve compliance? Do workers and employers have enough information on the NMW and what could be done to improve it?
28. What are your views on current arrangements for the accommodation offset? How far is it protecting low-paid workers, or otherwise? What difference, if any, has the increase in the value of the offset since 2013 made to the provision of accommodation?

About You

- If an employer, how many minimum wage workers do you employ and in which sector?
- What is the age profile of your NMW workforce (what proportions are aged 20 and under, 21-24, and 25 and over)? Do you use the youth rates and or the adult (21-24 year old rate).
- If a worker, in which occupation/sector do you work?

Low Pay Commission Remit 2016 (Autumn)

The Government is building on its strong economic performance that has seen 2 million more people in work in the last five years. A remaining, key economic challenge the Government wants to address is to move away from a low wage, high tax, high welfare society and encourage a model of higher pay and higher productivity – supporting people who work hard and want to get on in life to fulfil their aspirations.

On the 1 April 2016 the Government's new National Living Wage will come in to effect for workers aged 25 and over. The Government has set the initial rate at £7.20 – 50p higher than the current National Minimum Wage rate for those workers. The Government's objective is to have a National Living Wage of over £9 by 2020.

The Government asks the LPC to monitor and evaluate the NLW and recommend the level of the National Living Wage to apply from April 2017. We estimate that the level of the National Living Wage in April 2016 will be 55% of median earnings. The ambition is that it should continue to increase to reach 60% of median earnings by 2020, subject to sustained economic growth. In making recommendations in relation to the National Living Wage the LPC is asked to consider the pace of the increase, taking into account the state of the economy, employment and unemployment levels, and relevant policy changes. In addition to providing a recommendation for the NLW rate that will apply from April 2017, the Government also asks the LPC to provide an indicative rate for April 2018.

The Government will align the NMW and NLW cycles so that both rates are amended in April each year. This will take effect from April 2017. The Government would like the LPC to monitor, evaluate and review the levels of each of the different NMW rates (16-17, 18-20, 21-24 and apprentice rates) and make recommendations on the increase it believes should apply from April 2017. Our aim is to have NMW rates that help as many low-paid workers as possible without damaging their employment prospects. The LPC is therefore asked to consider the state of the economy and labour market as well as any relevant policy changes while making these recommendations.

Timing

The LPC is asked to provide a report to the Prime Minister and the Secretary of State for Business, Innovation and Skills on the NMW and NLW rates as early as possible in October 2016.