Low Pay Commission 2019 Report

Summary of findings

January 2020

Introduction and contents

The Low Pay Commission

The Low Pay Commission (LPC) is an independent public body that advises the Government each year on the National Minimum Wage (NMW) and National Living Wage (NLW).

The LPC is a social partnership body, made up of nine Commissioners; three from employer backgrounds, three from employee representative backgrounds, and three independents, including the Chair. Every year since its first report in 1998, Commissioners have unanimously agreed the LPC's recommendations to the Government.

This report summarises the findings of our 2019 Report and explains the rationale for our April 2020 rate recommendations, which include the largest ever cash increase in the minimum wage. These recommendations were accepted in full by the Government.

The report also summarises our key findings on the effects of the NLW, the youth labour market and presents future rates. The NMW and NLW rates effective from April 2020 are shown opposite.

[You can read our full 2019 report here.]

NLW and NMW rates, effective from April 2020

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Our remit in 2019

The National Living Wage

The NLW, the statutory minimum wage for workers aged 25 and over, was introduced at £7.20 per hour in April 2016. Our remit is to advise on the path of the NLW, with the ambition that it will reach a target of 60 per cent of median earnings by 2020.

Increases towards this target are subject to the condition of sustained economic growth, but there is a tolerance for some job loss. In 2015, the Office for Budget Responsibility (OBR) estimated that the NLW's introduction would mean between 20,000 and 110,000 fewer jobs by 2020 than in its absence, though this was set against predicted employment gains across the economy of 1.1 million jobs between 2015 and 2021.

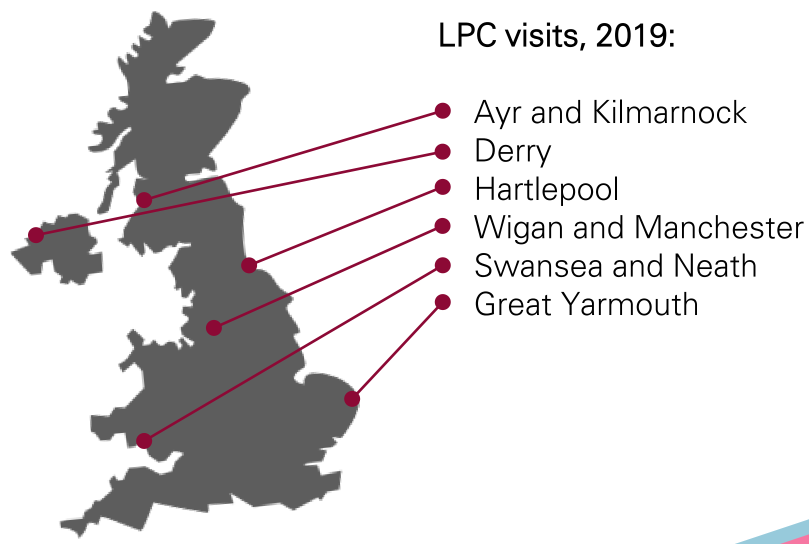
Other National Minimum Wage rates

Our remit with regard to the other rates, for workers aged under 25 and apprentices, remains the same as before the NLW was introduced: we are tasked with helping as many low-paid workers as possible without damaging their employment prospects.

Our evidence base

We make recommendations based on a variety of evidence sources. This year our evidence-gathering consisted of:

- A written consultation with responses from around 60 organisations
- Two and a half days of oral evidence sessions, meeting representatives from around 35 organisations representing workers and employers
- Six regional visits around the UK (see map below)
- Commissioning a range of independent research projects
- Comprehensive analysis of a range of economic and labour market data
- Regular meetings with interested stakeholders



Past and future minimum wage rates

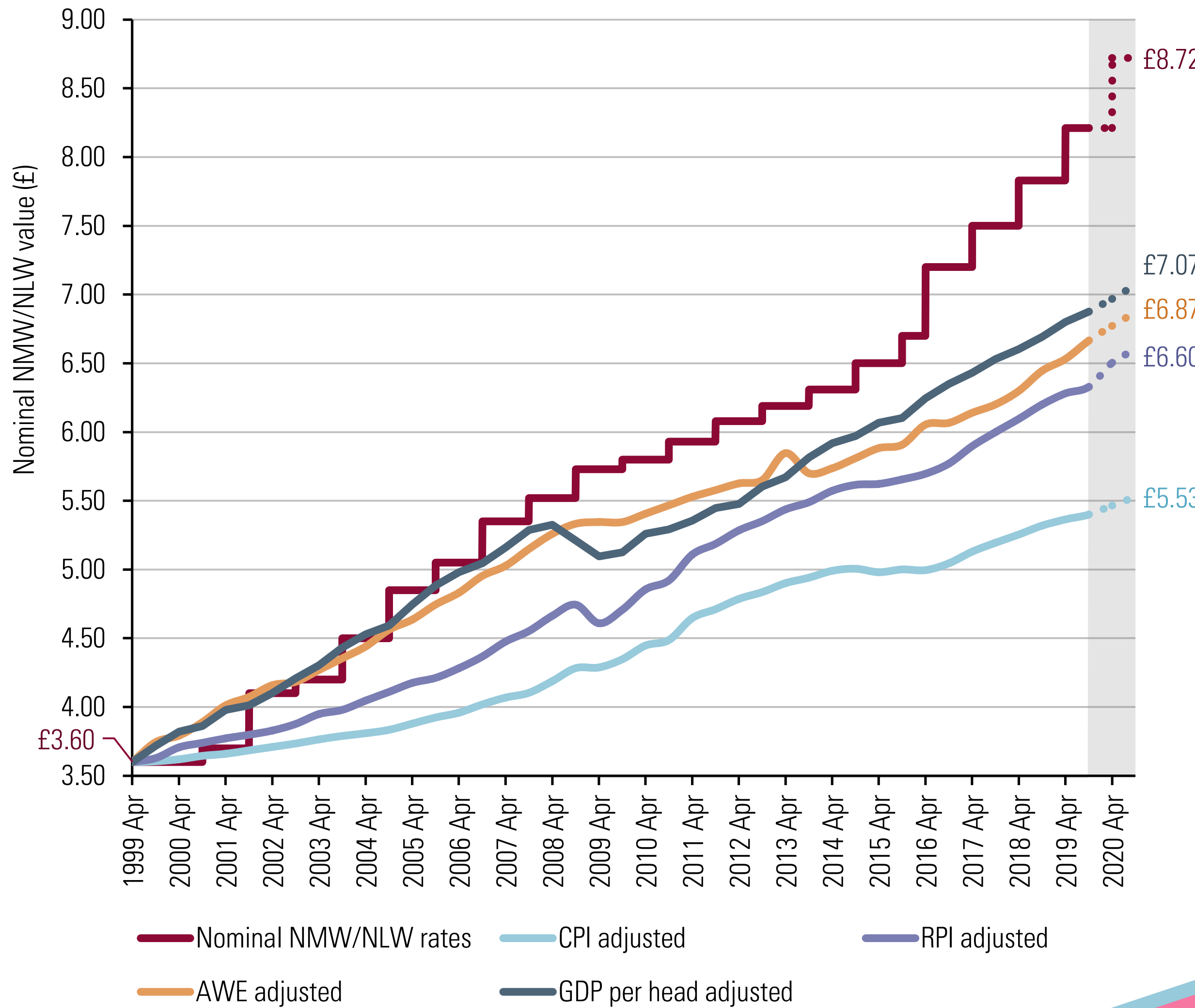
The NMW was first introduced in April 1999 at a rate of £3.60 per hour. In April 2019, the highest rate of the NMW, the NLW, rose to £8.21 per hour.

The chart opposite shows how the NMW/NLW has grown compared with Consumer Price Inflation, Retail Price Inflation and average weekly earnings, since its introduction. It has grown significantly faster than any of these measures. It has also risen faster than GDP per head.

This has ensured real-terms pay rises for the lowest-paid workers, especially over the last two years, when inflation has fallen back.

We forecast that the April 2020 increase to £8.72 per hour will mean the main rate will be 27 per cent higher than if it had grown in line with average earnings since 1999.

NMW/NLW in comparison to other measures, 1999-2020



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Economic context

GDP
1.6%
Year to Q2 2019

Productivity
0.5%
Year to Q2 2019

Employment
75.9%
Q2 2019 – 0.3pp on Q2 2018

Unemployment
4.0%
Jun-Aug 2019 – 0.1 pp on Jun-Aug 2018

Vacancies
813,000
Jul-Sep 2019 – 34,000 on Jul-Sep 2018

Real pay
1.9%
Real total weekly pay Jun-Aug 2019 on a year ago

Our remit for the NLW is to recommend a path to 60 per cent of median earnings ‘subject to sustained economic growth’. While the strict test we have selected for this is GDP growth exceeding 1 per cent, in practice our judgements are based on a range of factors rather than a ‘checklist’ of indicators.

The economic forecasts we relied on in setting the April 2019 rates have generally proved accurate. GDP growth has remained slow but has been above the threshold of 1 per cent.

Earnings growth has picked up – as was expected at the start of the year – but wages have risen even faster than forecast, coupled with inflation falling back. This means there has been real pay growth of 1.9 per cent over the last year, though real wages in August 2019 were still below their peak level prior to the financial crisis.

Despite the improvement in earnings, productivity growth remained weak by historical and international standards.

The labour market is strong, and generated much more growth in employment than forecast. Nevertheless, there were some signs of softening, with job vacancies starting to fall.

Given the outcomes had been in line with the forecasts, and the ‘sustained economic growth’ specified in our remit being present, we judged that the economy presented no reason to depart from the path of the NLW. However, this bar was more narrowly met than in previous years.

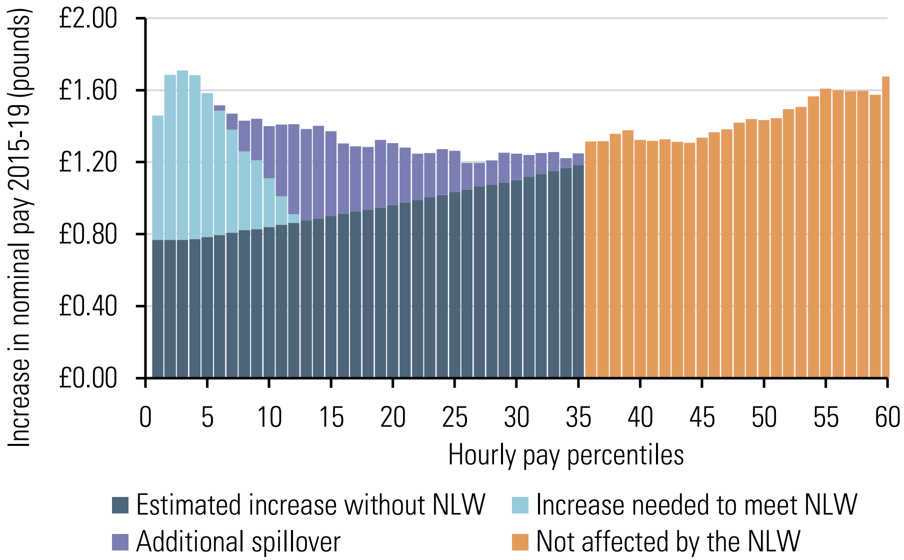
Pay and spillovers

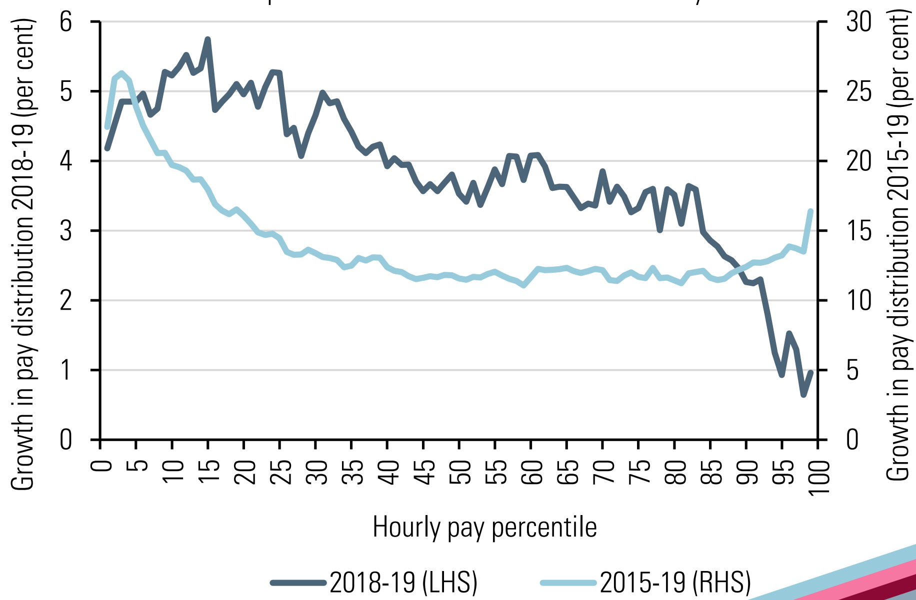
Since its introduction in 1999, and especially since the creation of the NLW in 2016, the minimum wage has driven strong pay growth for workers at the bottom end of the pay distribution.

The NLW has grown at around twice the rate of average earnings since 2016. This means that NLW workers are paid over 80 pence an hour more than if their wages had risen in line with those of other workers.

And it is not only workers on the minimum wage who have benefited. Workers across the bottom third of the hourly pay distribution have consistently seen larger increases than the median. We call these 'spillover' effects, and they are caused by employers seeking to keep pay above the NLW or maintain pay differentials between different job grades. The result is that the 15th percentile of hourly earnings has grown by almost 50 pence more than if it had followed average earnings, despite not being directly affected by the NLW.

In 2019, the fastest wage growth was for those paid 80 pence above the minimum. This comes alongside higher median wage growth over the last 18 months, and is consistent with evidence from employers, who tell us they have raised pay to address recruitment and retention problems. Others told us they had tried to restore pay differentials after experiencing issues with staff motivation and progression.





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Weekly pay and earnings

While the level of hourly pay is important for individuals, weekly pay matters more for their living standards. Were employers to respond to higher minimum wages by cutting hours, then workers may be no better off in terms of income.

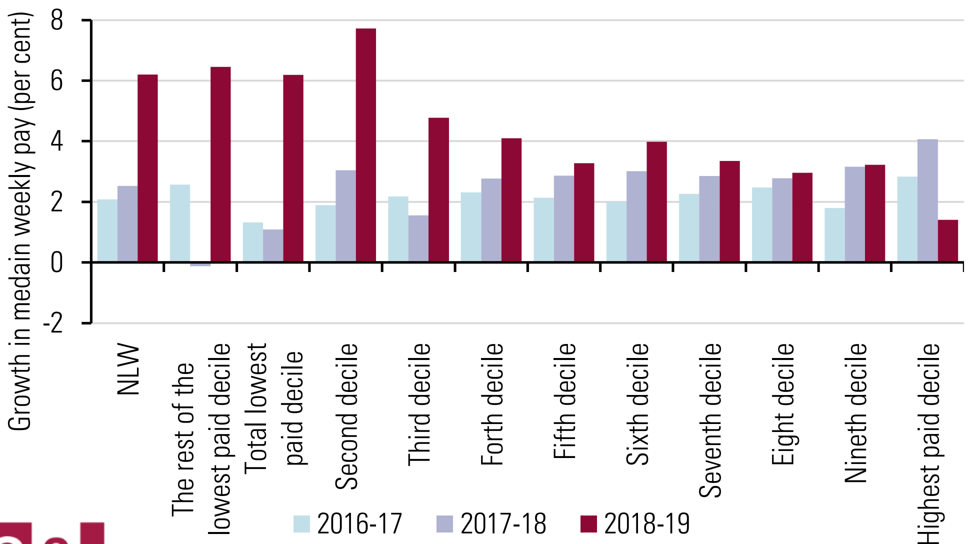
The average NLW worker has seen weekly pay growth of over 6 per cent in the last year. This increase is larger than the rise in the NLW, which suggests that the typical NLW worker is working an increasing number of hours.

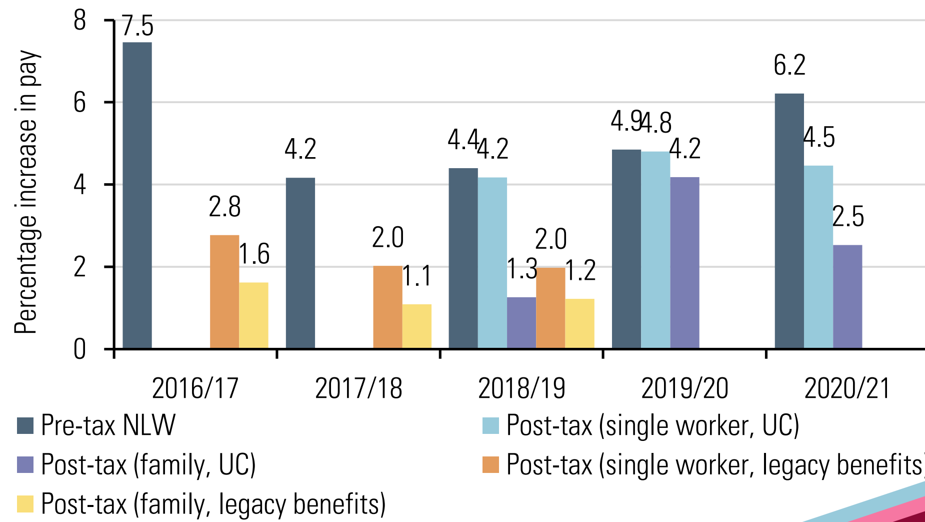
This follows two years where weekly pay increased at a slower rate than the NLW, suggesting that while NLW workers were still experiencing reasonably strong growth in weekly pay, they were working fewer hours overall.

The total income received by the household from changes in the NLW depends on the tax and benefit changes that come with changing incomes.

After-tax earnings vary according to household circumstances, with Universal Credit (UC) boosting the earnings of low-income households, but the amount of benefits paid falls as income increases, reducing the return to higher earnings, while Income Tax and National Insurance contributions also reduce the take-home element of any increase in the NLW or NMW.

This year NLW workers will receive a smaller proportion of these pay increases than in recent years after tax and benefits. Changes to the tax and benefit system would be necessary for households to keep more of these gains.





Family = two parent household with two children where one parent is working 30hrs a week at NLW.

NLW coverage

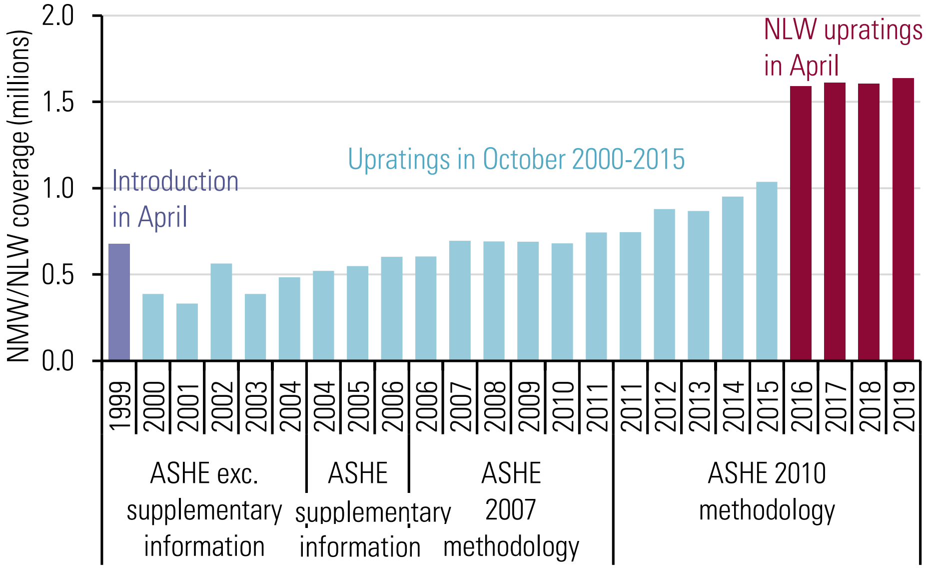
The coverage of the NLW is the number of people paid less than 5 pence above the rate. This figure has been steady at around **1.6 million** since 2016, up from around 1 million previously (as shown in the chart below). We had expected it to rise further, but the spillover effects described on the previous page mean that it has not.

In 2018, those paid just above the NLW received at least the same cash increase as those paid at the rate, meaning they stayed ahead of the NLW and did not add to coverage figures.

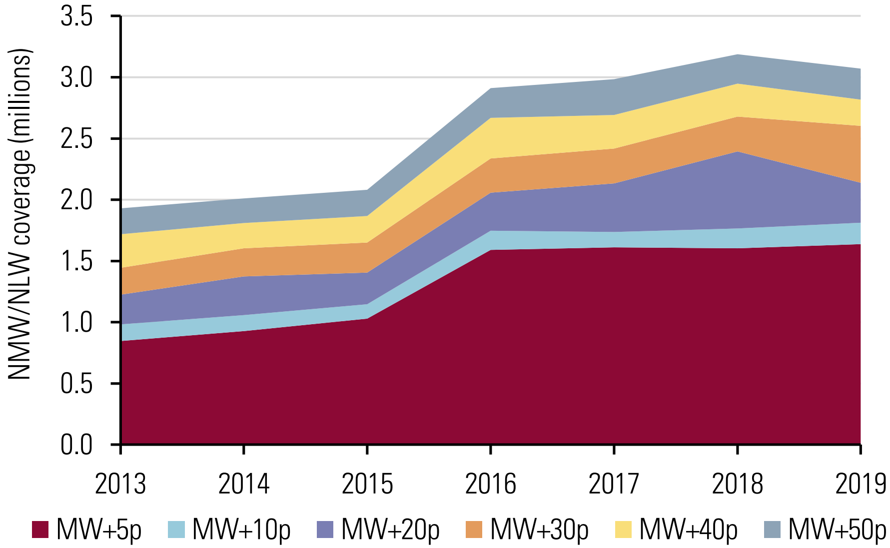
As well as the NLW's headline coverage remaining the same, this year 120,000 fewer workers than in 2018 were paid within 50 pence of the minimum wage. This reflects the stronger hourly pay growth we saw across the bottom third of earners.

This has partially reversed the trend of increasing concentration of workers near the minimum wage, which was particularly apparent from 2016-2018.

Coverage of the NMW/NLW for workers aged 25 and over, UK, 1999-2019



Wages within different earning bands of the NMW/NLW, for workers aged 25 and over, UK, 2013-2019



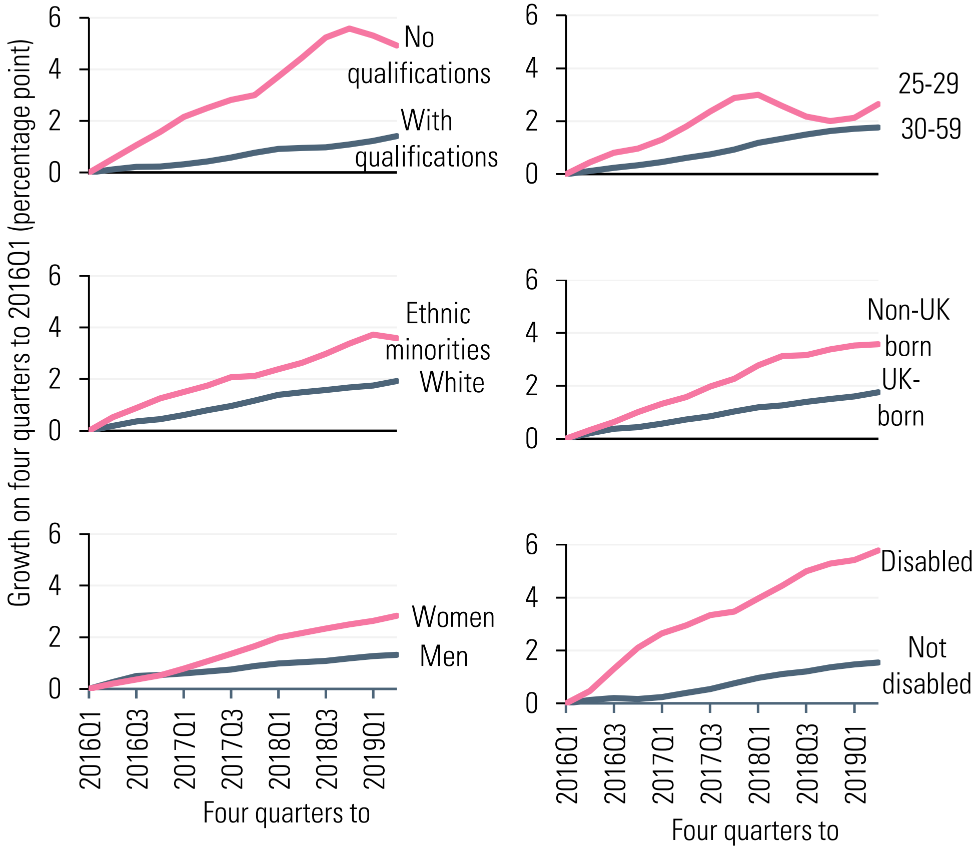
NLW employment effects

We pay close attention to the evidence on the NLW's impact on jobs. In 2015, when the rate was announced, the Office for Budget Responsibility forecast it could lead to 20,000-110,000 fewer jobs than without the NLW by 2020. This was in the context of a forecast increase in employment of around 1.4 million between 2014 and 2020 – which has turned out to be an underestimate, with 2.1 million jobs created since.

Our research on employment effects suggests the initial introduction of the NLW had an effect on the employment retention of female part-time workers. However, the evidence indicates subsequent upratings have had no such effect.

The labour market for NLW workers is generally positive. There has been stronger employment growth for groups of workers who are more likely to be paid the NLW. But we have also seen slower growth in employment in low-paying industries and occupations than in the economy overall. This could be an early warning sign about the NLW's impact or simply a consequence of a tighter labour market.

Although some employers tell us they have reduced their demand for workers due to the NLW, we have more often heard that slowing recruitment is a consequence of the tight labour market.



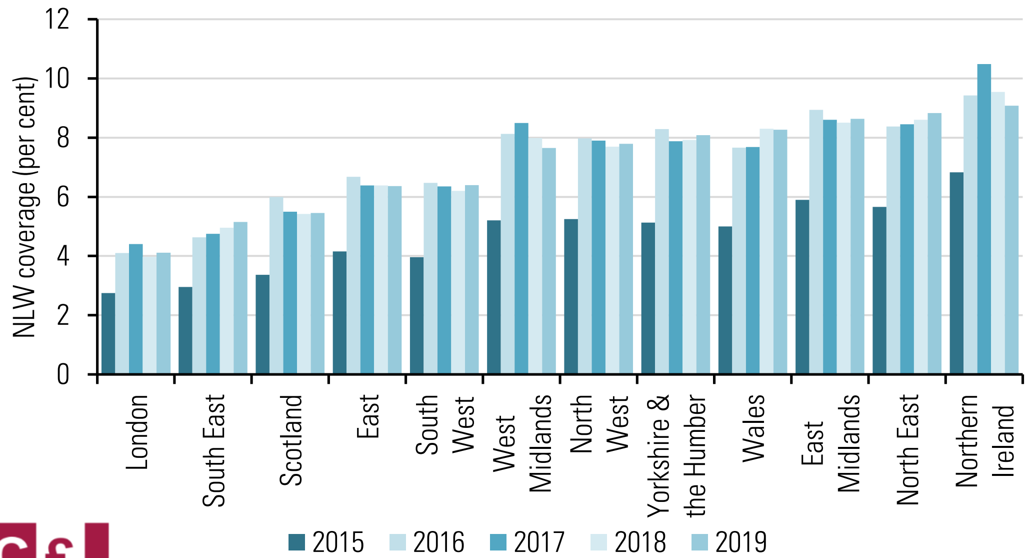
Regional and national differences

The map opposite shows how the percentage of eligible workers paid the NLW varies between UK regions and nations. Coverage is lowest in London (4.1 per cent) and the South East (5.1per cent). It is also below the UK-wide coverage of 6.6 per cent in the South West, East of England and Scotland. Coverage is highest in Northern Ireland, with 9.1 per cent of eligible workers paid the NLW.

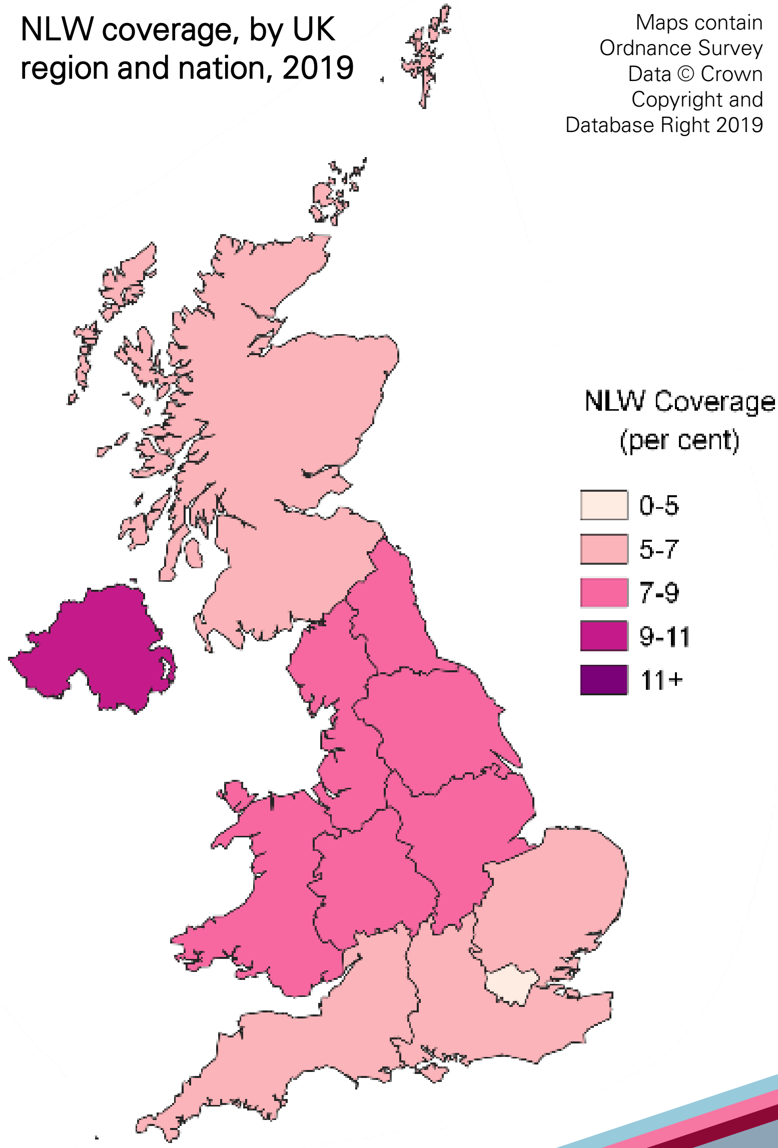
Coverage has been relatively stable in most regions since 2016 (see chart below), but has risen consistently in the South East and fallen somewhat in Northern Ireland and the West Midlands.

We have not identified any clear relationship between regional NLW coverage and employment.

NLW coverage by region/nation, 2015-2019



NLW coverage, by UK region and nation, 2019



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Local coverage

Differences in NLW coverage within regions are larger than the differences between them. In some places almost a fifth of workers are paid the NLW, but as with national coverage, these figures have generally not increased since 2016.

We pay particularly close attention to the areas with the highest coverage. When we are looking at employment by groups of areas with different coverage rates, we see that since 2016 employment has risen faster on average for the local authorities with the highest coverage.

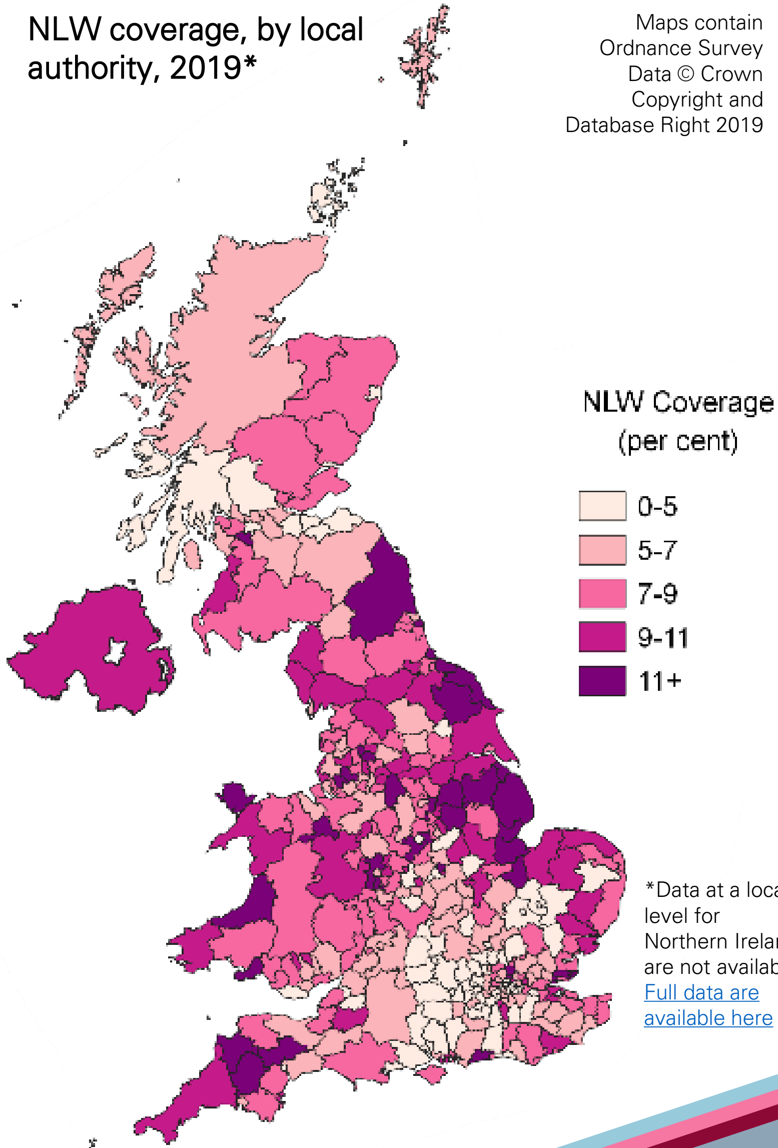
Local authorities with highest NLW coverage

Local Authority	Coverage (%)
Bolsover	18.1
East Lindsey	17.3
Redcar and Cleveland	15.8
Boston	15.8
Newark and Sherwood	15.4
Scarborough	15.0
Fenland	14.5
West Lindsey	14.4
West Devon	14.2
Wrexham	13.5

Local authorities with lowest NLW coverage

Local Authority	Coverage (%)
City of London	1.2
Welwyn Hatfield	1.5
South Cambridgeshire	1.6
Tower Hamlets	1.8
Islington	1.9
Cambridge	2.0
Oxford	2.1
Camden	2.1
Westminster	2.2
Guildford	2.3

NLW coverage, by local authority, 2019*



*Data at a local level for Northern Ireland are not available. Full data are available here

Employer responses to the NLW

Although there is little evidence that the NLW has had a significant effect on employment, employers have taken a range of actions to manage increased wage bills. It is important to note that other costs and factors also contribute to these business decisions.

Profits: In employer surveys, absorbing some or all of the cost of the NLW through a reduction in profits was often the most common response. It is difficult to discern any changes in official data, and unions pointed to strong profitability performance of UK companies. Nevertheless, employers told us they were worried about the sustainability of this approach. Sectors where employers reported more pressure on profits included hair and beauty, wholesale and distribution and convenience retail.

Prices: Seeking to pass on NLW increases through higher prices appeared to have become a slightly more common option for those employers affected. It was one of the top responses in surveys, alongside changes to profits. We heard about price rises in some sectors where businesses had previously been reluctant to do so due to competition. But businesses in other sectors remain 'price-takers' who do not have this option, whether because of market structures or reliance on government funding. Adult social care and childcare are in this group, with stakeholders telling us the sectors' funding crises had not improved. Inflation data, both overall and in low-paying sectors, does not reveal significant effects from the NLW.

Investment: Large employers told us they were looking to invest in automation and training as a result of the NLW. It was not clear what this would mean for employment levels, and unions stressed the need for workers to be consulted over changes. The evidence we received suggested that smaller businesses were much more likely to have taken the opposite approach and delayed or scaled down investment plans to make savings. However, investment is an area where other influences, notably Brexit, are particularly important.

Productivity: Clearly, some firms are investing to seek to raise productivity. However, these effects are not apparent in aggregate data, and there is an inconsistent picture across low-paying sectors. Nevertheless, employers we met remained convinced that productivity improvements will be key to the sustainability of NLW increases. Of more concern was the focus on work intensification that we heard about and saw in employer surveys. Employers reported expecting more flexibility and effort from staff, adding tasks to job roles and raising performance standards. Workers told us of the increased pressure they have come under from such changes.

Youth pay

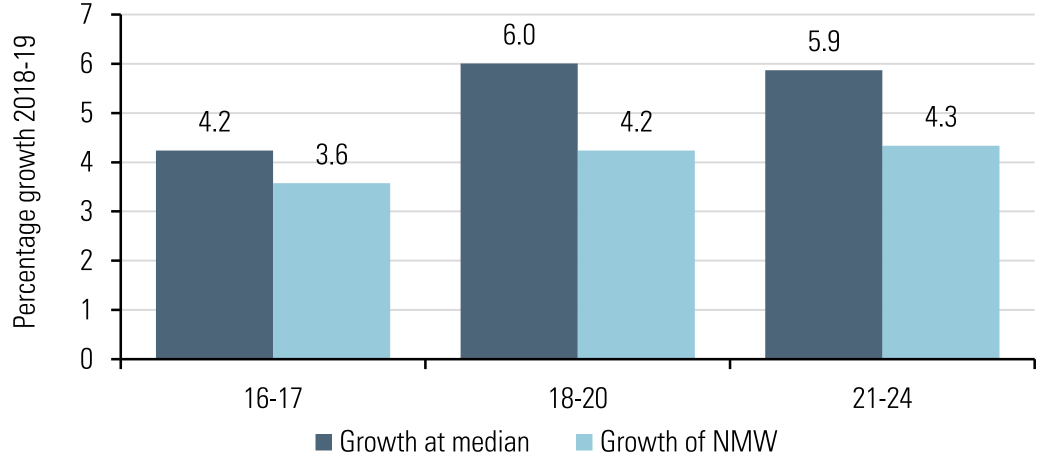
We look closely at the pay and employment of young people when setting the NMW youth rates.

The most recent data show that in the year to April 2019 young people experienced their strongest pay growth for several years. 21-24 year olds experienced 5.9 per cent pay growth at the median, well above the growth they saw last year (3 per cent). 18-20 year olds also saw very strong pay growth of 6 per cent at the median, while 16-17 year olds had 4.2 per cent pay growth.

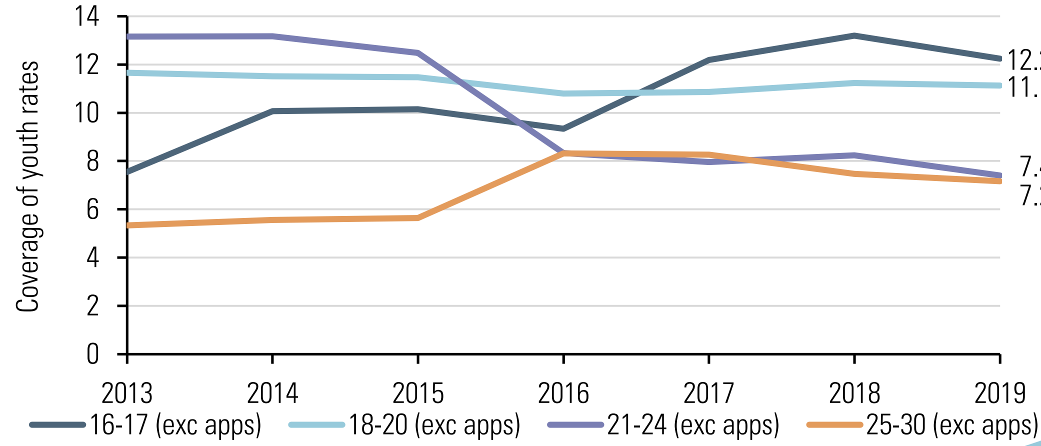
Pay growth across the whole earnings distribution has been stronger than anticipated and was higher than the April 2019 increases to the youth rates. As a result, the 'bite' of the rates – their ratio to median earnings – has reduced for the three age groups, including in low-paying sectors.

Coverage and underpayment of the youth rates have both declined in the last year. However, coverage can understate use of the rates – employers often only use a subset of the youth rates or pay in between the youth rates, effectively relying on the lower rate. There is a higher effective usage of the rates in smaller firms and in the hospitality sector.

Pay growth at the median and across the distribution, 2018-2019



Percentage paid at or below their age-related minimum wage rate, by age, UK, 2013-2019



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Youth employment

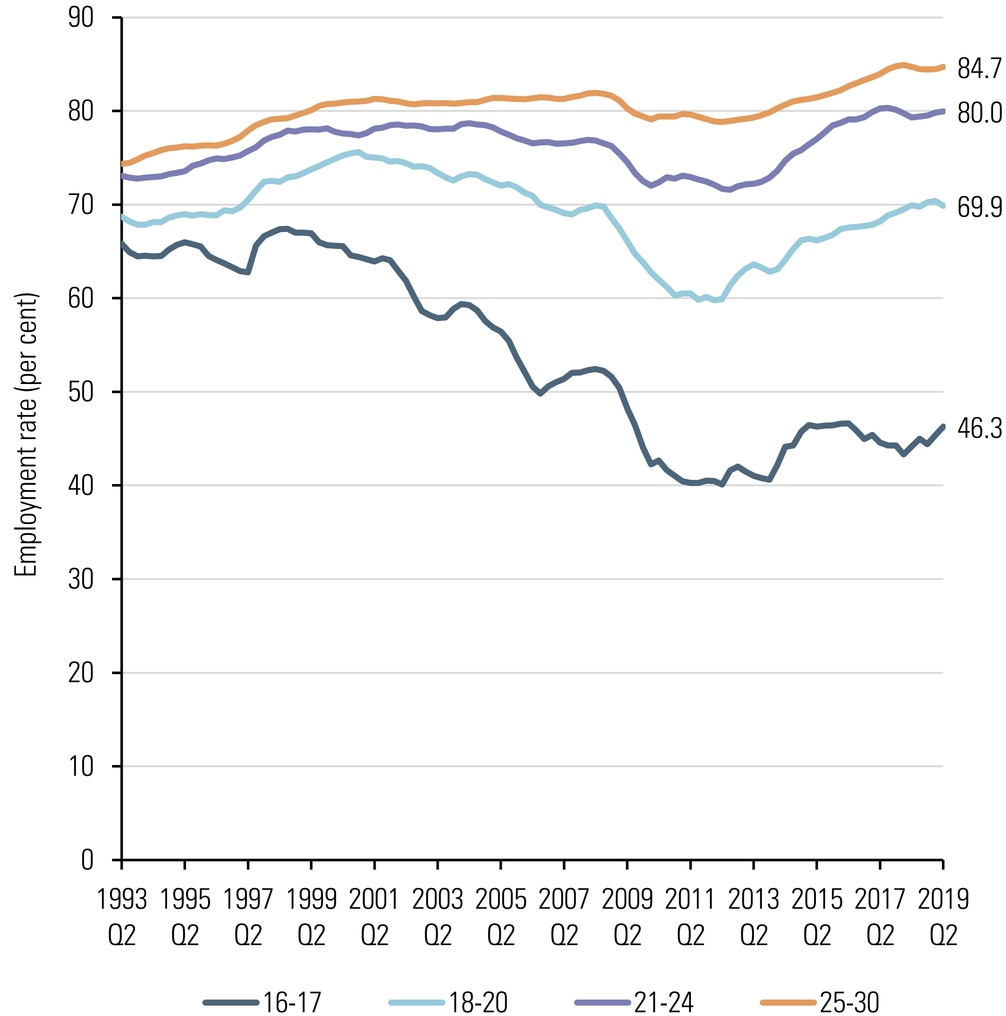
The labour market position of young people has continued to improve in recent years, with falling unemployment and rising employment rates since 2011. However, there are signs that this progress is beginning to slow, with a marginal increase in unemployment among 18-20 year olds not in full-time education in the last year.

There is evidence of a shift, albeit slight, of young workers away from low-paying occupations into non low-paying occupations. This could suggest that young people have a relatively strong position in a tight labour and are able to choose to work in jobs with higher levels of pay. Underemployment is stable and there is no strong evidence that employers are substituting older workers for younger workers.

The overall picture is one of stable employment coupled with strong growth in young people’s pay. However, there is well-established evidence that young people are more vulnerable to economic downturns and it is important to balance these positive indicators with their weaker economic position.

This has informed our recommendations for further increases to the youth rates. The largest increase is for 21-24 year olds, in keeping with the Government’s acceptance of our recommendation to reduce the age of eligibility for the NLW to 21.

Employment rates for young people not in FTE, by age, UK, 1993-2019



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Apprentices

This year we had access to the 2018 Apprentice Pay Survey, the first new pay survey for apprentices since 2016. The Apprentice Pay Survey contains detailed information about the coverage and use of the Apprentice Rate.

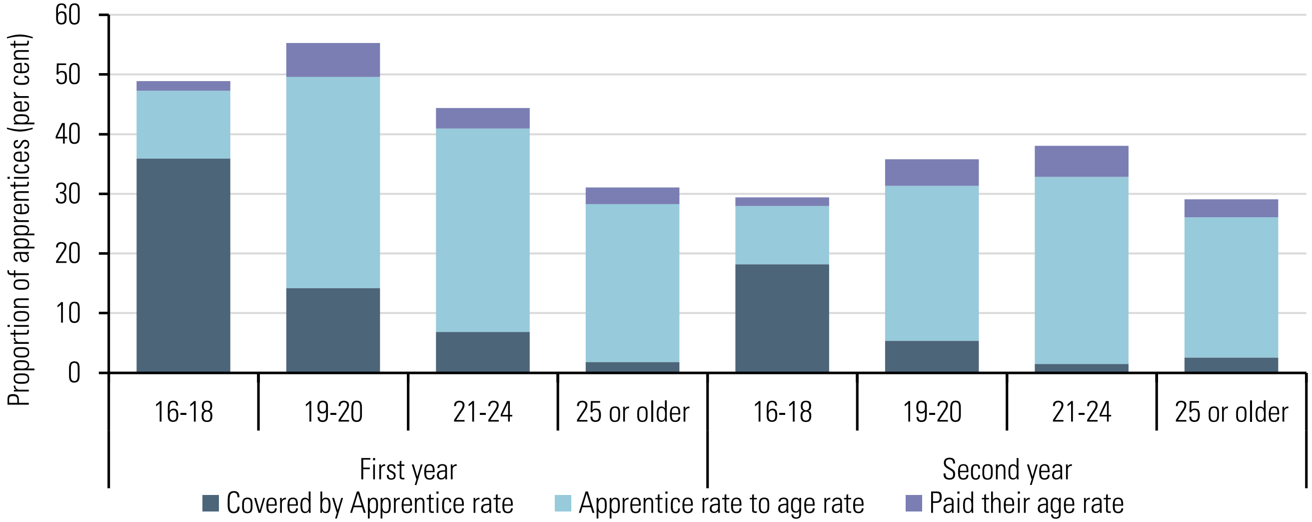
The rate is most commonly paid to younger apprentices, and much less so for those aged over 21. But employers may still make use of the rate, by paying apprentices between the Apprentice Rate and the relevant NMW age rate.

The most striking feature of apprentice pay is still the high level of underpayment, with more than 18 per cent of those surveyed not receiving the minimum wage. Apprentices who spend more time in training outside the workplace are more likely to be underpaid.

Overall, the data show strong pay growth for apprentices relative to other workers. Apprentice pay varies significantly by age, level of study and sector, with hairdressing and childcare apprentices again the lowest paid.

The numbers of apprenticeship starts have stabilised since their sharp dip when the Apprenticeship Levy was first introduced. Overall, there are around 20 per cent fewer apprentices in the system, with the lowest levels of study particularly affected.

But the evidence does not suggest any link between this shift and the minimum wage, with the ongoing impact of policy changes a much greater driver of employers' decisions.



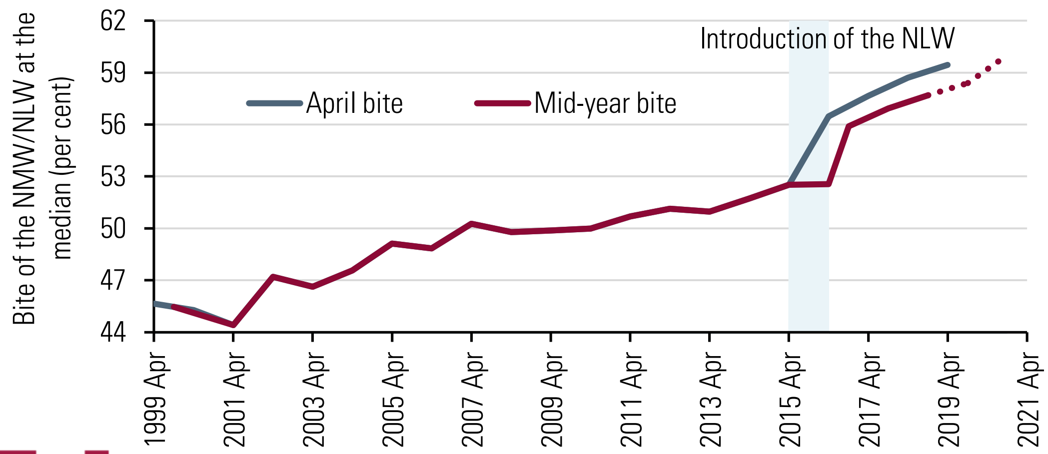
NLW and NMW rate recommendations

We submitted our rate recommendations to the Government in October 2019. The recommendations were unanimously agreed by the Commission, and were accepted in full by the Government. The rates to apply from 1 April 2020 were announced on 31 December 2019 (see table for details). This will see the NLW reach its target of 60 per cent of median earnings.

We published our 2019 Report on 8 January 2020.

The recommendation we made for the 21-24 Year Old Rate will be the final time we recommend a figure for that age group. As part of the phased extension of the NLW to 21-24 year olds, we will next year recommend a rate for 21 and 22 year olds and an NLW from age 23. This follows the Government's acceptance of our review of the youth rates, summarised on the next page of this report.

Past and projected bite of the NMW/NLW, 1999-2020



Current and future NLW and NMW rates

Rate	Current rate		Rate from April 2020
National Living Wage	£8.21	→ 6.2%	£8.72
21-24 Year Old Rate	£7.70	→ 6.5%	£8.20
18-20 Year Old Rate	£6.15	→ 4.9%	£6.45
16-17 Year Old Rate	£4.35	→ 4.6%	£4.55
Apprentice Rate	£3.90	→ 6.4%	£4.15
Accommodation Offset	£7.55	→ 8.6%	£8.20

Impact of the Uprating

We anticipate that our recommended rates will increase pay for around 2.8 million jobs, or around one in ten jobs. This is the number of jobs whose pay would have to grow faster than it otherwise would to stay above the pay floor.

These estimates are not a prediction for the numbers of workers who will be paid the various rates next year. We know that employers often choose to increase pay for some jobs to a larger extent than directly required to comply with a higher wage floor.

As with coverage, the number of workers who will benefit from the increases in the minimum wage vary across the UK.

Fourteen per cent of workers in Northern Ireland are likely to benefit from the increase in the minimum wages, versus a little over five per cent in London.

Minimum wage band	April 2019 Coverage		Number affected by uprating	
	(thousands)	(per cent)	(thousands)	(per cent)
National Living Wage	1,639	6.6	2,376	9.5
21-24 Year Old Rate	154	7.8	220	11.1
18-20 Year Old Rate	115	11.9	130	13.5
16-17 Year Old Rate	36	12.2	38	13.1
Apprentice Rate	32	16.6	37	19.5

Region/Nation	Number affected by NLW increase		Total affected by all minimum wage increases	
	(thousands)	(per cent)	(thousands)	(per cent)
North East	117	12.8	141	13.6
North West	299	11.2	356	11.7
Yorkshire and the Humber	240	12.1	287	12.6
East Midlands	212	12.5	250	12.8
West Midlands	229	11.4	272	11.8
South West	207	9.8	243	10.0
East	213	9.6	250	9.7
London	202	5.3	221	5.2
South East	263	7.6	303	7.8
Wales	129	12.1	149	12.3
Scotland	164	7.7	198	8.2
Northern Ireland	101	12.7	131	14.1
Total	2,376	9.5	2,801	9.9

The future of the minimum wage

In November 2019 we published reports on the future of the NLW beyond 2020 and our review of the youth rates of the NMW.

The National Living Wage Beyond 2020

This report responded to the Government's announcements of its intention to set a new remit for the LPC after 2020, with the ambition of raising the minimum wage to 'end low pay'.

We share this ambition, but recommend that the LPC retain the flexibility to recommend varying the path towards an end-date of any target in response to economic conditions. The LPC's social partnership model and expertise will remain vital in building consensus around ambitious increases.

The report also sets out the limitations of the minimum wage when it comes to ending low pay and alleviating poverty. The NLW cannot achieve these goals alone, and we strongly recommend that it is seen as one element of a broader approach to these vital issues.

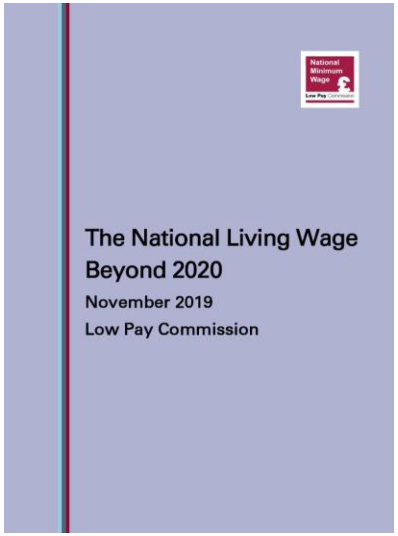
A Review of the Youth Rates of the National Minimum Wage

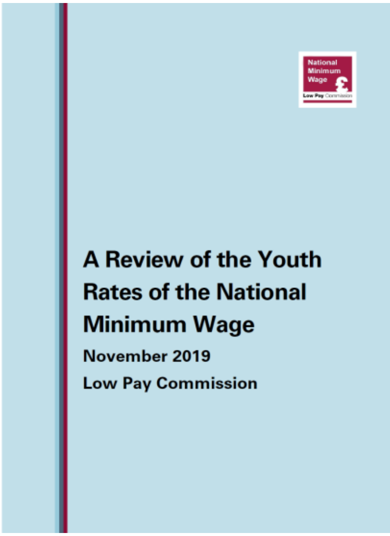
This report concluded a long-term review of the structure of the NMW youth rates. We recommended lowering the age of eligibility for the NLW to 21 using a phased approach, moving first to 23 from April 2021 and monitoring the impact of this change before completing the move to 21 at a later date.

Our report finds there is little basis for treating 23 and 24 year olds differently to older workers in the minimum wage structure, although the labour market position of 21 and 22 year olds is different, with lower pay and employment rates. This led us to recommend a phased approach, allowing employers more time to adapt and protecting employment for these groups.

The recommendations were accepted by the Government in September, when the Chancellor set out his ambition to reduce the NLW's age of eligibility to 21 by 2024.

Read the reports here





Forthcoming LPC publications

Future LPC publications and consultations

- We will publish a further report on minimum wage compliance and enforcement.
- We will launch our 2020 consultation on future NLW and NMW rates in the spring.
- We will issue an invitation to tender in January 2020 for new research to inform our deliberations.
- Throughout 2019, we will undertake visits to gather evidence on the effects of the NLW and NMW across the UK. We will publish visit locations and dates in January 2020.
- In the spring we will conclude our review of apprentice minimum wage rates.

Contact the LPC

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Data sources

Slide 4: Chart 1 – see Figure 4.2, page 55 of main report
Slide 6: Chart 1 – see Figure 4.7, page 60 of main report
Slide 6: Chart 2 – see Figure 4.3, page 55 of main report
Slide 7: Chart 1 – see Figure 4.4, page 56 of main report
Slide 7: Chart 2 – see Figure 9.2, page 170 of main report
Slide 8: Chart 1 – see Figure 3.2, page 40 of main report
Slide 8: Chart 2 – see Figure 4.6, page 59 of main report
Slide 9: Chart 1 – see Figure 4.11, page 70 of main report
Slide 10: Chart 1 and map – see Figure 3.6, page 43 of main report
Slide 11: map and tables – see coverage by Local Authority on LPC website [link].
Slide 13: Chart 1 – see Figures 5.3, 5.4 and 5.5, pages 87-88 of main report
Slide 13: Chart 2 – see Figure 5.11, page 93 of main report
Slide 14: Chart 1 – see Figure 5.14, page 96 of main report
Slide 15: Chart 1 – see Figure 6.10, page 114 of main report
Slide 16 Chart 1 – see Figure 4.1, page 54 of main report.

All data for the report is available on our website.

Any enquiries regarding this publication should be sent to us at: lpc@lowpay.gov.uk