

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.

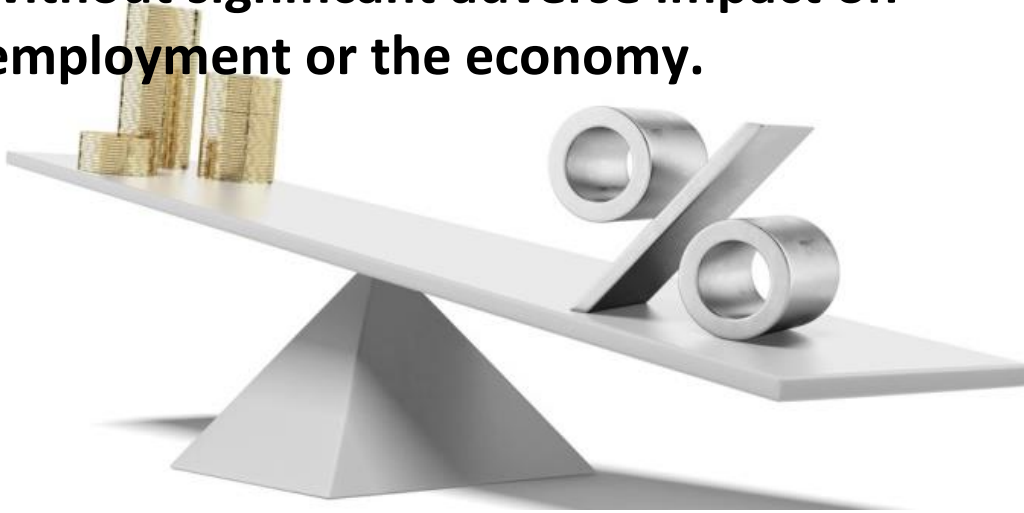
It is set annually on the basis of recommendations from the Low Pay Commission: an independent body of employers, unions and experts.

In February 2015 we recommended a rate of £6.70 to take effect from October, which has been accepted by Government. This is the biggest 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.

Group	Current Rate (to <u>October</u> 2015)	Proposed % increase	Recommended Rate from October 2015,
Adults	£6.50	3	£6.70 – Accepted
18-20s	£5.13	3.3	£5.30 – Accepted
16-17 year olds	£3.79	2.2	£3.87 – Accepted
Apprentices*	£2.73	2.6	£2.80 – Rejected New Government rate £3.30 per hour

- Applicable in Year One of the apprenticeship only for those aged 19 and over, but in all years for those aged 16-18.

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 union 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

Timeline	Annual Report
	Government gives remit and the LPC start research.
	Visits programme. LPC speaks to firms and individuals. Gathers economic evidence.
	Formal evidence taken. Day long information session.
	Commissioners meet to agree rate recommendations. LPC give recommendations to government.
	Government accepts or rejects recommendations and amends regulations.

2015 process

Consultation: 163 written responses and 547 online responses.

15 organisations present 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.

Do you know?

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

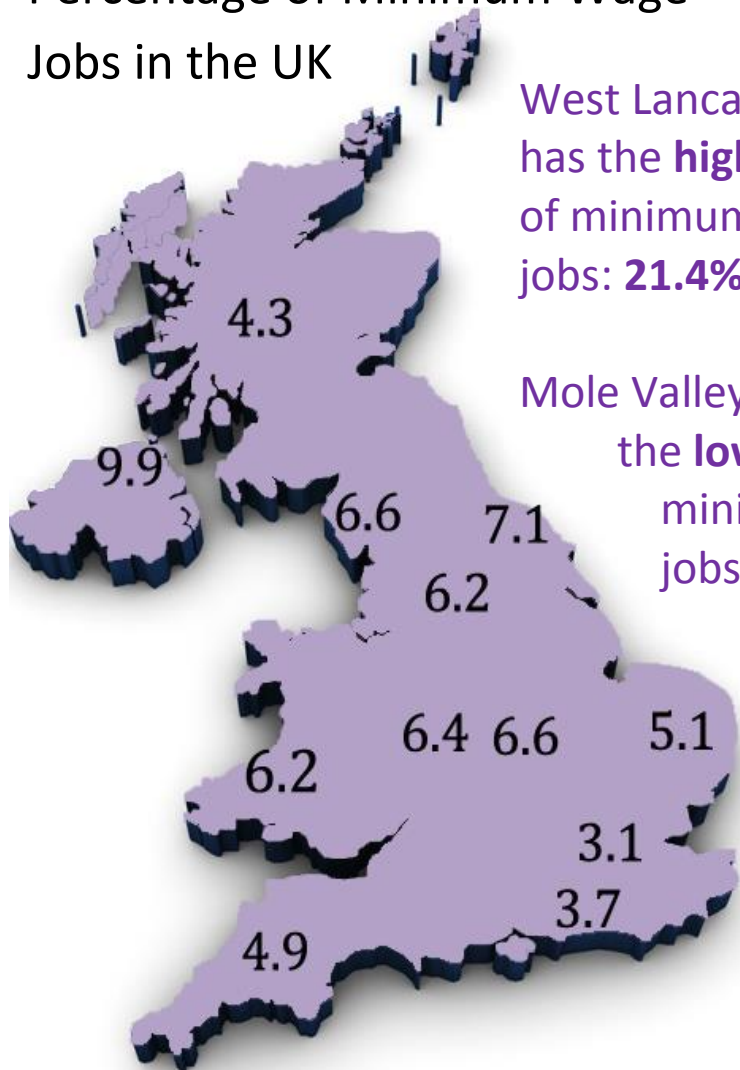
This is made up of: 1.2 million jobs held by those aged 21 and over; 40,000 jobs held by 16-17 year olds; and 139,000 held by 18-20 year olds.

Do you know?

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%).

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.



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

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

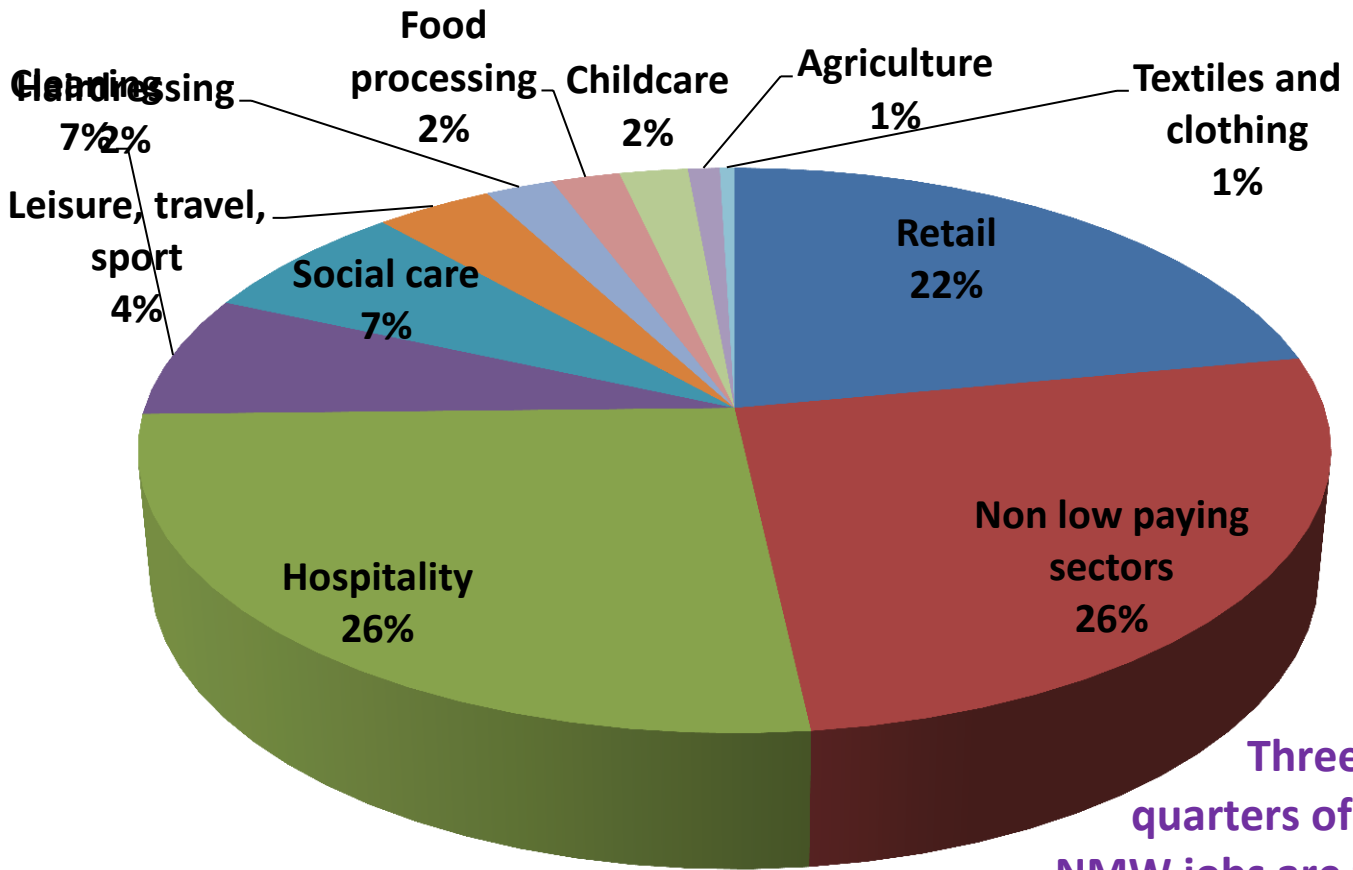
13% of NMW jobs are held by under-21s

3% of NMW jobs are held by those aged 65+

Coverage of NMW jobs

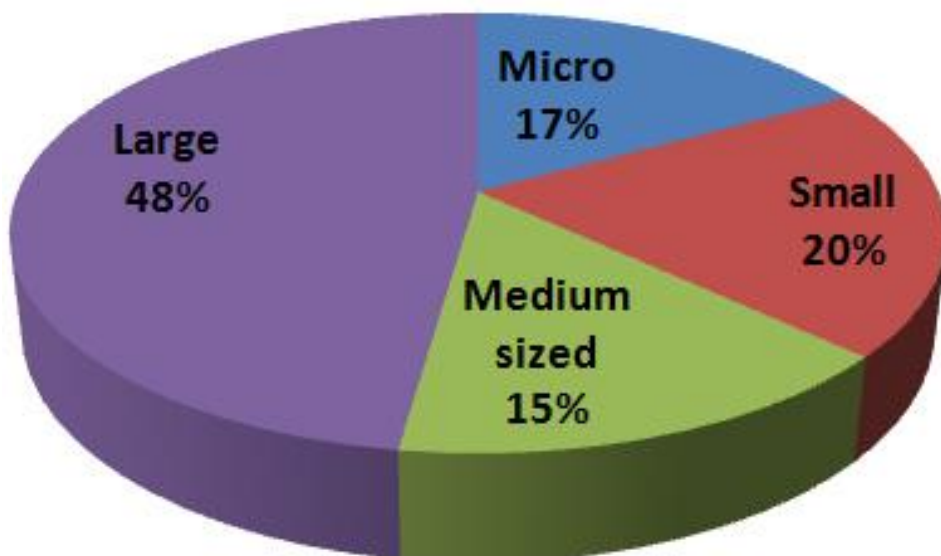
Since 2008 the number of jobs among workers aged 21 and over covered by the minimum wage has increased by a third from around 900,000 to 1.2 million. The 2014 increase and recommended 2015 increase raise coverage further to 1.4m.

Proportion of NMW jobs per sector (%)



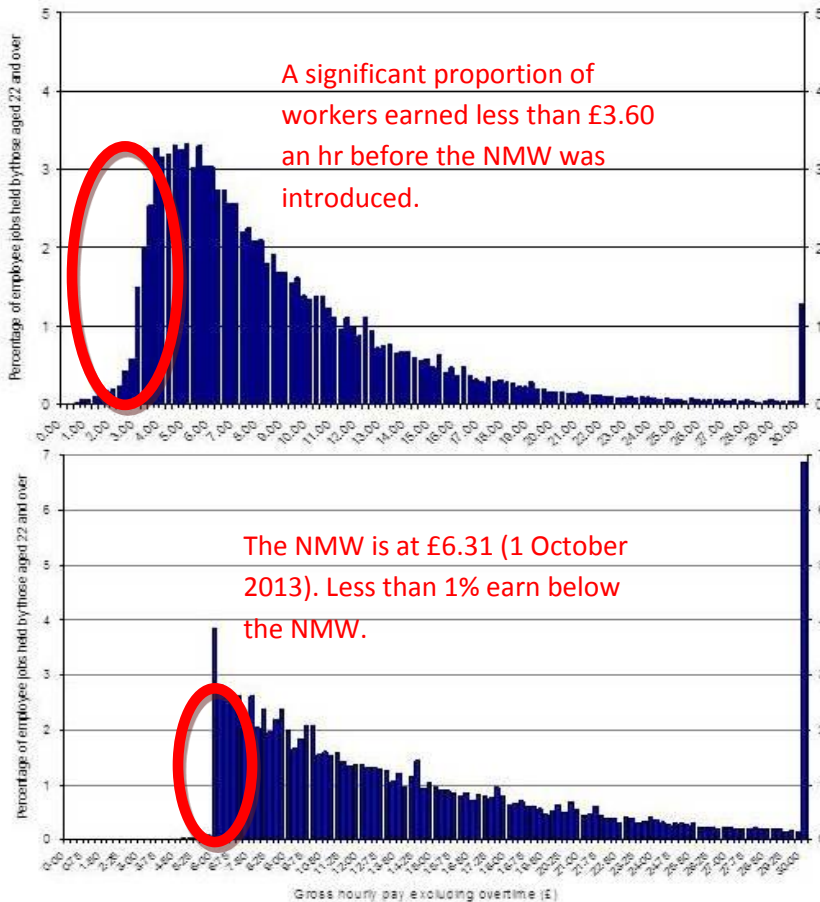
Three quarters of NMW jobs are found in low paying-sectors, a quarter in the rest of the economy.

NMW jobs per firm size (%)



The highest proportions of NMW jobs are found in micro firms and other small firms, and their share is bigger than their share of all jobs

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



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

- 2013 – distinct cut off to the left hand side of the earnings distribution

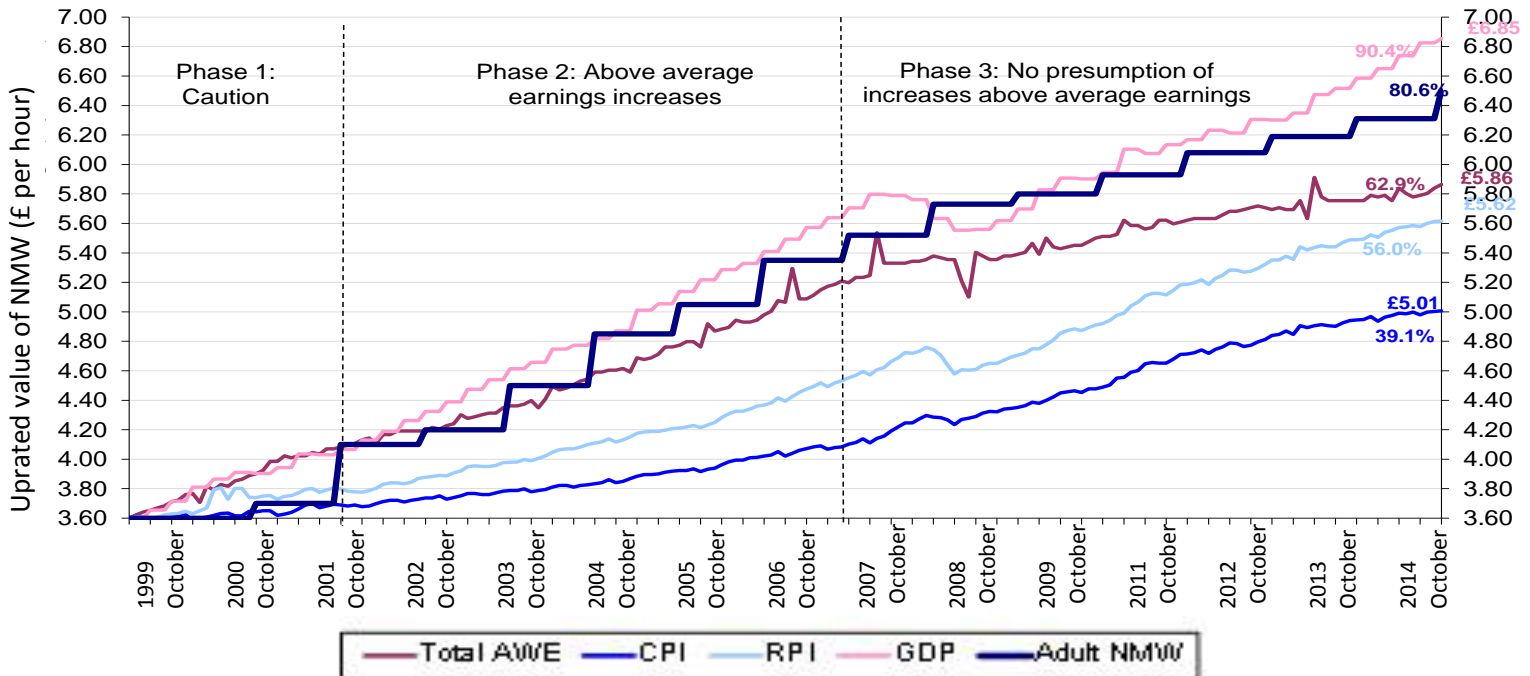
Source: Annual Survey of Hours and Earnings, UK, 1997 and 2013.

...without damaging jobs or the economy

We have commissioned 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 reductions in hours worked and increases in productivity. Profits may have been squeezed, particularly 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: like all other workers in the aftermath of the recession, wages have lagged behind prices.

But the real value of the NMW is now beginning to recover. The 2014 and 2015 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 bigger 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 75% between 1998 and 2013**

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.

The LPC's approach

2014-2015
Restoring the
real value of the
NMW

"Provided the economy continues to improve, we expect to recommend progressive real increases in the value of the minimum wage"
LPC Report 2014

2007-2013
Caution again in
uncertain times

"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.

2001-2006
Above average
earnings growth
increases

"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

**The start
1999-2000**
Initial caution

"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)

NMW: Why the current wage levels?

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.

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 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 group of workers



Bite by industry





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

<https://www.gov.uk/pay-and-work-rights-helpline>



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.
Accepted by Government

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

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

We recommended an increase in the Apprentice Rate of 2.6 per cent, or 20 pence, to £2.80 an hour.
**Rejected by Government.
New Rate increase of 20% to £3.30 per hour.**

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

Minimum wage rates :

Year	21 and over	18 to 20	16-17 Apprentice*
2014	£6.50	£5.13	£3.79
2013	£6.31	£5.03	£3.72
2012	£6.19	£4.98	£3.68
2011	£6.08	£4.98	£3.68
2010	£5.93	£4.92	£3.64

Since the introduction of the NMW, increases in the NMW has 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.



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