**Consultation Letter & Attachments**

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**From: The Secretary**

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**CONSULTATION ON THE NATIONAL MINIMUM WAGE**

The Government is making major changes to the National Minimum Wage and has asked the Low Pay Commission (LPC) to report to it twice in relation to the new arrangements. Firstly it has asked the LPC to report on the future level of the existing National Minimum Wage (NMW) rates, by as early as possible in February 2016. Secondly it has asked the LPC to report on the future level of the new National Living Wage (NLW), which is introduced in April 2016 and applies to workers aged 25 and over. On this, the LPC has been asked to make recommendations by October 2016 for the rate in April 2017.

I am writing to invite you to submit evidence to our consultation, which runs until 25 September 2015. We seek views on the existing rates and initial evidence on the potential impact of the National Living Wage.  (We will consult further next spring on the future rate of the National Living Wage).

**Background**

There are currently four National Minimum Wage rates, which change annually for all workers on an October cycle: the adult rate (for those aged 21 and over), the 16-17 Year Old Rate, the Youth Development Rate (for those aged 18-20) and the Apprentice Rate. The main, adult rate, will be £6.70 from October 2015.

The Government is introducing the National Living Wage: a mandatory new rate for all workers aged 25 and above comprised of the adult rate and an initial 50 pence Living Wage Premium. The National Living Wage will apply from April 2016, at a rate of £7.20 an hour. Once introduced this will become the rate for workers aged 25 and over. Only 21-24 year olds will be paid at the adult rate of the National Minimum Wage.

The Government has set out an ambition that the National Living Wage should continue to increase each April to reach 60 per cent of median earnings by 2020, with an objective to have a National Living Wage of over £9 an hour by 2020.

Against this backdrop, the LPC’s Remit from the Government (the full text is attached at the end of the document) asks the Commission to:

* Monitor, evaluate and review the levels of the adult, youth and apprentice rates and, in February 2016, make recommendations on the increase it believes should apply from October 2016.
* By October 2016, provide a recommendation on the level of the National Living Wage which it believes should apply from April 2017.
* For both the existing rates and the new rate provide indicative recommendations for the following year, not just rates for one year.

Alongside this, the Government is undertaking a review into the NMW cycle, with the intention of aligning the timetable for all NMW changes. (Subject to the review, the earliest alignment could happen is April 2017).

In making recommendations in relation to the NLW, the Commission is required to reflect the growth in median earnings. We are also asked to take into account the state of the economy, employment and unemployment levels, and relevant policy changes.

This consultation’s main focus is reaching recommendations for the future level of the existing rates, not on the future level of the National Living Wage.  Nonetheless, we are interested in initial views on the National Living Wage and its likely impact.[[1]](#footnote-1)

We would welcome any evidence you may wish to submit on these matters.  In order to assist with this, we have attached a number of questions. You can respond to our consultation questions either via email (to lpc@lowpay.gov.uk), or send it by post (to the address at the top of this letter). A questionnaire will also be available to complete online in August.

**The deadline for responses to the consultation is 25 September 2015.**

Our policy is to make responses to our consultation available publicly and list names unless respondents request otherwise.  We may also quote from responses in our reports.  **If you do not wish all or part of your response (including your identity) 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**.

An important part of our consultation process is the programme of visits our Commissioners make around the UK.  This provides an opportunity to listen directly to the views of those affected by the NMW.  The locations and dates for this year’s visits are on our website [www.gov.uk/government/organisations/low-pay-commission](http://www.gov.uk/government/organisations/low-pay-commission). Please use the website contact details if you would like to meet our Commissioners during any of these visits.

Yours sincerely



Simon Blake

Secretary to the Low Pay Commission

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| **Structure of minimum wage (main focus of this consultation in bold)** |
| Current system | Future system |
| 16-17 Year Old Rate | **16-17 Year Old Rate** |
| 18-20 Year Old Rate | **18-20 Year Old Rate** |
| Adult rate (21+) | **Adult rate (from April 2016, in effect received only by 21-24 year olds)** | National Living Wage (from April 2016, received by 25 year olds and over) |
|  | Premium (25+) |
| Apprentice Rate\* | **Exact arrangement to be confirmed** |
| All rates change in October | The minimum wage for workers aged 25 and over will change in April from 2016; for other workers it remains in October pending government review |

\*applicable to all apprentices in year 1 of their apprenticeship, and for 16-18 in any year of their apprenticeship. Otherwise normal NMW rates apply.

**QUESTIONS FOR LOW PAY COMMISSION CONSULTATION**

Economic Outlook

* What are your views on the outlook for the UK economy, including employment and unemployment levels, for: a) the period through to September 2017; b) the period from September 2017 to September 2018?
* 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?
* 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 (including youth and apprentice rates) 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 NMW

* 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 are unqualified)?
* What do you estimate will be the effect of the 3.0 per cent increase to the adult rate of the NMW, the 3.3 per cent increase to the Youth Development Rate, the 2.2 per cent increase to the 16-17 Year Old Rate, and the 20.9 per cent increase to the Apprentice Rate in October 2015?

Future Rates

* At what level should the NMW be set in October 2016? (only 21-24 year olds will receive this rate; it will not change the NLW for the period October 2016-April 2017)
* At what level should each of the other rates of the minimum wage be set in October 2016 - that is, for 16-17 year olds, the Youth Development Rate (18-20 year olds), apprentices, and the accommodation offset?
* At what level should each of the rates of the minimum wage be set in 2017? (Note: the exact applicable period depends on the outcome of the government’s review of the NMW and NLW wage cycles. The next rate recommendations could be in October 2017, or in April, if the cycles are aligned). How valuable will you find indicative future rates of the NMW?
* If specifying percentage increases, it is helpful if you can make clear what assumptions you are making about inflation and wage growth.

National Living Wage (NLW)

* What are your views on the likely impact of the introductory level of £7.20 an hour for workers aged 25 and over (from April 2016), such as on employment, hours, earnings, pay structures, differentials, progression, contract type, or profits?
* Do you think the impact of the introductory rate of the NLW will vary, 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 are unqualified)?
* To what extent is the impact of a higher wage floor for workers aged 25 and over affected by other changes to business costs (National Insurance cuts; corporation tax; and so on)?
* What are your views on the differential between the National Living Wage and the other National Minimum Wage rates?  How should the NLW affect the other rates, if at all?
* What are your views on the proposed timing of the National Living Wage cycle (rate review each April) and the existing National Minimum Wage cycle (current rate review each October)? What are your views on aligning them both in April?
* What are your views on the likely impact of NLW reaching 60% of average earnings by 2020, or more than £9 on current earnings forecasts? Do you have any comments on the best trajectory?
* At what level should the National Living Wage (for those aged 25 and over) be set in April 2017? (We will seek further views on this question in the spring of 2016.)
* Do you have any other comments on the NLW?

21-24 Year Olds

* 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

* What has been the impact of the minimum wage on young people and what effect do you think it has on their employment prospects?
* What has been the impact of the Apprentice Rate (on pay; provision and take-up of places; and training volume and quality)?
* What do you think might help employers to comply with paying the right apprentice pay rate? We are particularly interested in the extent to which non-compliance arises from problems with the correct hourly rate as opposed to non-payment of hours.  How far does it arise from the hourly rate? How far does it arise from non-payment of hours (for example, time at college)? How far does it arise from employers starting people on the Apprentice Rate before they have formal apprentice status?

Compliance & Enforcement

* What issues are there with compliance with the NMW? 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?
* 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?
* What are your views on the implications of the possible move to a single enforcement agency for some employment issues, including the NMW?
* What impact, if any, do you envisage the National Living Wage will have on enforcement?
* 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?

Other

* Are there any other views or evidence you would like to give us about the operation and impact of the National Minimum Wage or the introduction of the National Living Wage?

About You

* If an employer, how many NMW workers do you employ and in which sector and what is your age profile of your NMW workforce (proportions aged 20 and under, ages 21-24, ages 25 and over)?
* If a worker, in which occupation/sector do you work?

It may be helpful when responding to these issues to consider that from 1 October 2015: the adult hourly rate of the National Minimum Wage will be £6.70; the hourly rate for the Youth Development Rate (covering 18-20 year olds) will be £5.30; the 16–17 Year Old hourly rate will be £3.87; the Apprentice Rate will be £3.30 per hour; and the daily limit of the accommodation offset will be £5.35 (£37.45 a week).

From April 2016 the National Living Wage will be introduced at £7.20 an hour (for those aged 25 and over).

**National Minimum Wage – Low Pay Commission Remit 2016**

Over the last 15 years the National Minimum Wage (NMW) has helped eliminate extreme low pay and preserve jobs in the face of recession. We appreciate the role that the Low Pay Commission (LPC) has played in these successes. Against the background of a continuing recovery, the Government would like the LPC to monitor, evaluate and review the levels of each of the different NMW rates (16-17, 18-20 age groups, adult and apprentice rates) and make recommendations on the increase it believes should apply from October 2016. Our aim is to have NMW rates that help as many low-paid workers as possible without damaging their employment prospects.

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.

As such, the Government wishes to see a higher wage for more experienced workers and so is introducing a premium for workers aged 25 and over. This will be over and above the NMW which will remain in place. The Government will set the first premium in April at 50p bringing the total National Living Wage to £7.20 in April 2016. The Government asks the LPC to recommend the level of the National Living Wage to apply from April 2017.

The Government estimates that the level of the combined NMW and the premium in April 2016 will be 55% of median earnings and has set out an ambition that this should continue to increase to reach 60% of median earnings by 2020, subject to sustained economic growth. The Government’s objective is to have a National Living Wage of over £9 by 2020.

In making recommendations in relation to the premium 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.

Depending on the outcome of the review into bringing forward the NMW cycle, alongside the NMW recommendations in February 2016 the LPC are asked to provide indicative NMW rates for 2017, in order to give more certainty to business. Alongside the premium recommendation in October 2016 the LPC are asked to provide an indicative premium rate for April 2018. Both of these being subject to confirmation in light of economic conditions.

**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 rates as early as possible in February 2016, and on the premium by October 2016.

1. Note: The NLW will remain £7.20 until April 2017. Officials have advised the LPC that the any increase in the adult rate in October 2016 will not affect it.

 [↑](#footnote-ref-1)