INCOMES DATA RESEARCH

The National Living Wage:
employers' responses to the 2017 increase

A report for the Low Pay Commission

by

Incomes Data Research

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Executive summary

This report is based on a survey of 120 mostly large and medium-sized employers, across all low-paying sectors. The survey examined their responses to the raising of the National Living Wage (and the National Minimum Wage) in April 2017. We also conducted more detailed case study interviews with 10 of the survey respondents, again across a range of low-paying sectors.

Impact of the NLW on pay

- The NLW is having a range of substantial impacts on pay structures, leading to the merging of lower grades; the removal of starter rates; and the spread of age-related pay. The wider retail sector is most affected, with the median rate for employers' main grades at or very close to the level of the NLW. In all the other low-paying sectors, median typical rates for main grades are significantly above the level of the statutory floor

Pay structures

- The higher NLW from April 2017 is affecting areas hitherto unaffected by its introduction in April 2016, prompting some employers to reduce the number of pay grades, partly in order to better manage the costs arising from implementation and partly in order to promote more flexible working across previous grade boundaries. In some cases, this has permitted better management of the impact on differentials between the lowest or main grades and those just above them (in most cases, supervisors), but in a large number of instances differentials have been reduced

- We put a range of options to respondents in respect of changes to pay and grading systems, and by far the greatest proportion (46%) said they have narrowed or even removed differentials. Over half of these said that the NLW was a major factor behind such moves, while most of the remainder cited the NLW as one contributing factor. The next most popular responses in this area were merging grades (16% of respondents) and removing starter rates (12%), again with most citing the NLW as a major factor

Starter rates

- Prior to the introduction of the NLW, many retailers operated starter rates for shopfloor staff during induction/probation periods, usually at or very close to the level of the NMW, with staff moving to a higher rate – above the level of the statutory floor – on passing through this initial post-hire period. However, since the introduction of the higher NLW, most retailers have abolished these starter rates, and now just have a single rate for the main shopfloor grade. Where adult rates are paid at age 18, this rate is at or just above the level of the NLW, while others have introduced age-related pay (see below)

Age-related pay

- While some employers removed or reduced the scope of age-related pay as part of their response to the introduction of the NLW, others have introduced or expanded age rates. Indeed the majority of respondents pay adult rates at age 25, clearly a response to the structure of the NMW/NLW. However it is important to note that all of the major supermarkets – who together employ a very large proportion of staff in retail – do **not** operate age-related pay in the way the NMW/NLW structure implies and have instead abolished so-called youth rates

Differentials

- The survey's findings on pay rates for supervisors indicate a squeezing of differentials between these rates and those for the staff they supervise. This is because the NLW, at which level many non-management staff are paid, has increased by more (30p or 4.2%) than the median rate for supervisors in successive IDR surveys. The latter has risen from £10.20 an hour to £10.33, a rise of just 13p or 1.3%

- When we asked employers about the impact of the recent NLW increase on these differentials, almost half reported that the differential between the main grade and supervisors had narrowed. Fewer organisations increased their supervisors' rates than increased rates for more junior staff, an indication that some organisations have allowed these differentials to be squeezed. Some firms, however, have maintained or increased these differentials, in recognition of the importance of their supervisory grades. The prospect of future rises in the NLW is also prompting employers, particularly retailers, to examine differentials further up pay structures, particularly for store managers

Company pay rates and the statutory floor

- Separate analysis of our panel data (a panel of pay rates for staff on the main grade at 31 major retail and catering/hospitality organisations) shows that there is now a much smaller gap between the median adult rate for the main grade at these organisations on the one hand, and the statutory minimum on the other, following the advent of the NLW, than there was before the NLW was introduced. In 2012 this differential was 4.5% but in 2016, after the NLW was introduced, it had narrowed to just 2.1%. There is some variation by sector, with the gap in food retail narrowing by less than in non-food retail

Offsetting/managing increases in the NLW

- We found little evidence of large-scale reductions in other elements of pay or benefits to fund compliance with the NLW. This is largely because workers in low-paying sectors have seen many parts of their reward packages eroded or eliminated over the past decade, particularly in respect of overtime pay and unsocial hours premiums. As a result there is often little additional scope to offset the cost of the NLW by further changing benefits and premiums. In any case, many benefits are relatively low-cost and reductions would only produce minimal savings, at the cost of other advantages to employers

- Having said that, some employers have made some off-setting changes, and among the wider survey sample, reductions in premiums for overtime or unsocial hours (weekends, bank holidays or nights) are the most common change to the reward package associated with managing the costs of the NMW/NLW, with 14 organisations (12% of the sample) in each case indicating that they have reduced overtime or unsocial hours premiums. Retailers feature prominently in both groups, with overtime also in focus at manufacturers and unsocial hours premiums a target for reductions at public/not-for-profit sector organisations. (Our research elsewhere indicates that when it comes to the amounts of premiums on offer for unsocial hours, the main reductions have been in those for weekends, and to a lesser extent bank holiday working. Night premiums have been largely unreduced, though the windows for payment of night premiums have sometimes been put back or narrowed.)

Concerns over future increases

- Around a third of respondents found introducing the NLW in 2016 ‘difficult’, just below half found it ‘easy’ and around a quarter said it was ‘neither easy nor difficult’. The proportions for the 2017 uplift were similar, albeit with a small decrease in the proportion regarding implementation as ‘easy’ and a rise in those regarding it as ‘neither easy nor difficult’. However, for further proposed increases the change is more marked, with just 24% contemplating implementation as ‘easy’ and 55% considering it will be ‘difficult’. On this, it may be worth recalling that in our 2016 survey we saw a similar change in the distribution of responses once future increases were considered. However given that the responses in respect of the latest uplift were similar to those for 2016, might we see a similar pattern next year, that is, most employers finding actual implementation either ‘easy’ or ‘neither easy nor difficult’ but continuing to show more concern about future increases?

Contract/hours changes

- We noted a nominal increase in the proportion of employers ‘offering’ zero-hours contracts (contracts with no guaranteed minimum hours), from 24% in 2016 to 38% this year. However analysis of a matched sample showed no change, so this rise may be due to sampling effects. Future surveys will need to assess the extent to which such contracts are being switched to ‘minimum’ or ‘variable hours’ contracts (those which do guarantee a minimum number of hours, but retain flexibility for the employer), something we have noticed in our wider research

- In respect of contracts/working time changes, the most ‘popular’ response was to offer fewer hours to individual staff. Employers responded to the options set in the following proportions: increased hours for staff on youth rates – 10%; extended use of variable hours – 14%; increased basic contractual hours – 15%; offered fewer hours to individual staff – 25%; and introduced variable hours – 9%

- For those offering fewer hours to individual staff, the NLW was either a major factor (33%) or one factor (30%) at those responding in this way. For the remainder, it had no influence. Similarly, the NLW appears to have played only a minor role for those increasing basic contractual hours or extending/introducing variable hours contracts. In other words, employers would be taking these steps anyway. The NLW looks to have had the greatest influence on those increasing the hours on offer to staff on lower youth rates, with 60% of these citing it as a ‘major factor’

Productivity, prices and profits

- Many employers have implemented productivity changes since the NLW was introduced and the most common approaches are to reorganize roles and responsibilities (50%), provide staff with extra training (45%) and upskill staff (44%). While the survey suggests that large proportions of employers are taking these steps, only around a quarter specifically link these changes to the NLW. However the case studies highlighted that there does appear to be a relationship between the NLW and the introduction of new technology, with the rising cost of labour, as embodied by the NLW, cited as a rationale for investment in labour-saving equipment

- Over half of respondents (55%) have increased the prices they charge customers over the past year, an increase on the 2016 survey, when 33% did so. Price increases were linked to the NLW by 67% of respondents, with sectors such as childcare and social care figuring prominently in this respect. Our case studies with retailers and other employers, by contrast, tended to highlight that the ability to raise prices varied widely by sector, and at the time of the research, some referred to their inability to raise prices as a brake on profits

- On profits, roughly equal proportions reported decline, growth and no change. Perhaps significantly, the majority that reported a decline in profits linked this to the NLW. All but one of the case study organisations reported either no increase in profits, or a reduction at least partly as a result of paybill growth arising from the 2017 uplift in the NLW. Other factors, such as higher input costs, also figured

Employment effects

- In many of the sectors covered by the research, more businesses were expanding or maintaining their workforces than reducing them. Headcount reductions were most common in retail employers on the one hand and public/not-for-profit employers on the other, with the NLW looming largest as a factor in the case of retail. Here, it was cited as a major factor by 36% of those reducing employee numbers, and by 37% as one factor in workforce cuts. Overall, 41% of all organisations who reduced their headcounts said that the NLW played a role, with half of these citing it as a major factor
- The research provides some examples of the NLW having an impact on age profiles, with a shift towards younger workers in some cases. But this was not widespread and was offset by changes in the opposite direction in a number of firms. Because of a certain amount of difficulty in persuading large employers to provide information on their workforce age profiles we feel that more research is needed in this area.

1. Introduction

This report has been prepared for the Low Pay Commission (LPC) by Incomes Data Research (IDR) and it presents the findings from our research into employers' responses to the April 2017 uprating of the National Living Wage (NLW), and impact of the NLW more broadly since its introduction in April 2016.

The findings are based on the results of a survey of employers, case study telephone interviews with employers, and time-series analysis of pay rates at a sample of major firms in retail and hospitality.

1.1. Methodology and data sources

IDR conducted a structured survey of employers in low-paying sectors in April and May 2017. The electronic survey was sent to potential participants in an email, posed a range of questions regarding the impact of the National Living Wage (NLW). These included whether there had been any changes in employment levels, employment contracts and jobs, whether companies had taken steps to improve productivity or other offsetting measures, and any impact on prices and profits.

The survey achieved 120 usable responses from employers across a range of low-paying sectors, as well as other lower-paying parts of the economy such as food manufacturing[1]. The largest number of respondents are childcare, housing or social care providers (26), closely following by public and not-for-profit sector employers. The survey covered mainly medium and larger employers, although a small number (14) employ less than 50 staff.

TABLE 1: PROPORTION OF SURVEY RESPONDENTS BY BUSINESS ACTIVITY

Business activity	Count	%
Business or financial services	8	7
Childcare & housing/social care	31	26
Hospitality	12	10
Manufacturing	18	15
Public sector/NFP	29	24
Retail	22	18

[1] See Appendix 1 for a breakdown of respondents by sector. 'Housing' refers to housing associations or other social housing providers.

A small sample of ten survey participants were targeted for follow-up case study interviews to explore their responses in more detail. These were selected on the basis of their responses to the survey and we aimed to include a range of employers in different sectors and of different sizes. This report is based on both the survey responses and case study interviews and also includes information gathered from other employers that IDR spoke to during the course of this research.

2. Pay

This section of the report looks at pay rates and pay movements over the last year. The analysis covers pay rates that are differentiated by age and grade. We also explore the relationship between the statutory minimum wages and company pay rates.

2.1. Lowest adult rates

Overall just under half (48%) of respondents set their minimum adult rate at the level of the NLW (£7.50); the remaining 52% pay above this level. The proportion is unchanged from last year's survey, although a closer look at company-level changes shows that six firms (11%) that used the NLW as their floor in 2016 now pay above this level, while five firms (9%) that set their minimum rate above the NLW in 2016 now take the NLW as their floor.

In respect of the proportion of staff affected, this ranged considerably from less than 1% to 100%. The median proportion of staff directly affected by the April 2017 uprate is 20% and the average slightly more at 28%. All the case study organisations had to increase their lowest pay rates to comply with the new NLW from 1 April 2017, and again the proportion of staff affected at each organisation varied. The care provider (case study A) reported that 10% of staff were affected, while at the other end of the scale the large retailer (case study F) reported that around 65% of sales staff are paid exactly the NLW.

While a large proportion of firms pay exactly the NLW as their lowest rate, many pay above this level. For example, the social care provider (case study A) pays 2p an hour above, while a major retailer pitches its minimum at £7.66 (but nevertheless has a small and diminishing group of employees on legacy contracts that are paid exactly the NLW). Overall, however, we have not detected any signs that large numbers of organisations are setting their minimum rate just a few pence above the statutory minimum as was common in the early days of the NMW (just five out of 59 respondents that pay above the NLW pay between £7.51 and £7.59 an hour).

The survey sought to explore how pay rates have changed since the uprating of the NLW from £7.20 an hour to £7.50 an hour (Table 2), an increase of 4.2%, on 1 April 2017. Analysis of the survey data shows that the median minimum rate for adult workers[2] rose from £7.25 an hour to £7.55 an hour, an increase of 4.1%, which is very close but not identical to the NLW increase.

[2] This is the absolute minimum rate paid to adult workers, regardless of grade.

TABLE 2: SUMMARY FIGURES ON LOWEST ADULT PAY RATES PRE AND POST 1 APRIL 2017

	Pre 1 April 2017 £ph	Post 1 April 2017 £ph
Lower quartile	7.20	7.50
Median	7.25	7.55
Average	7.57	7.81
Upper quartile	7.80	8.00
Sample	112	112

2.2. Pay rates for the main grade

We also asked employers to tell us about the rates for the main or most populous grades. In some cases this is the same as the lowest adult rate, whereas in others this rate is higher, depending on company pay structures.

Pay rates for staff on the main or most populous grade are typically higher than the NLW, and in some cases significantly more (as evidenced by the average and upper quartile figures in Table 3). Although the pay gap has narrowed from 28 pence before the April 2017 uprating to 15 pence afterwards.

TABLE 3: SUMMARY FIGURES ON LOWEST AND TYPICAL PAY RATES FOR THE MAIN GRADE PRE AND POST 1 APRIL 2017

	Lowest rate for main grade £ph		Typical rate for main grade £ph	
	Pre 1 April 2017	Post 1 April 2017	Pre 1 April 2017	Post 1 April 2017
Lower quartile	7.20	7.50	7.48	7.65
Median	7.69	7.90	8.06	8.26
Average	8.57	8.83	9.26	9.50
Upper quartile	8.56	8.89	9.41	9.56
Sample	95	97	95	96

The median lowest rate is £7.55, just 5 pence per hour (0.7%) above the NLW. However, the median lowest pay rate for staff on the main grade is £7.90, 40 pence per hour (5.3%) higher than the NLW, while the median typical rate for staff in the main grade is even higher at £8.26, 76 pence per hour (10.0%) above the NLW.

TABLE 4 : ADULT RATES, 2017

	Lowest rate £ph	Lowest rate for main grade £ph	Typical rate for main grade £ph
Lower quartile	7.50	7.50	7.65
Median	7.55	7.90	8.26
Average	7.81	8.83	9.50
Upper quartile	8.00	8.89	9.56
Sample	*112*	*97*	*96*

FIGURE 1 : MEDIAN ADULT PAY RATES BY GRADE, 2017

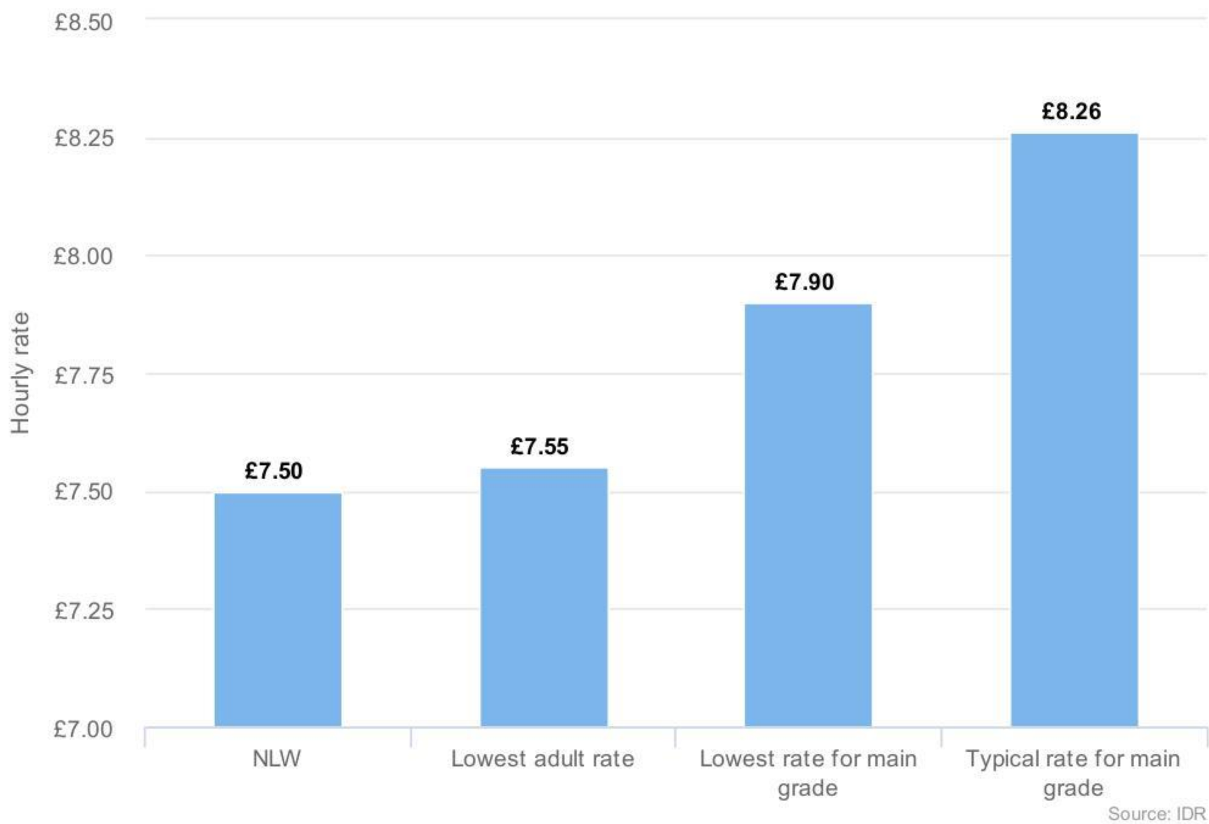
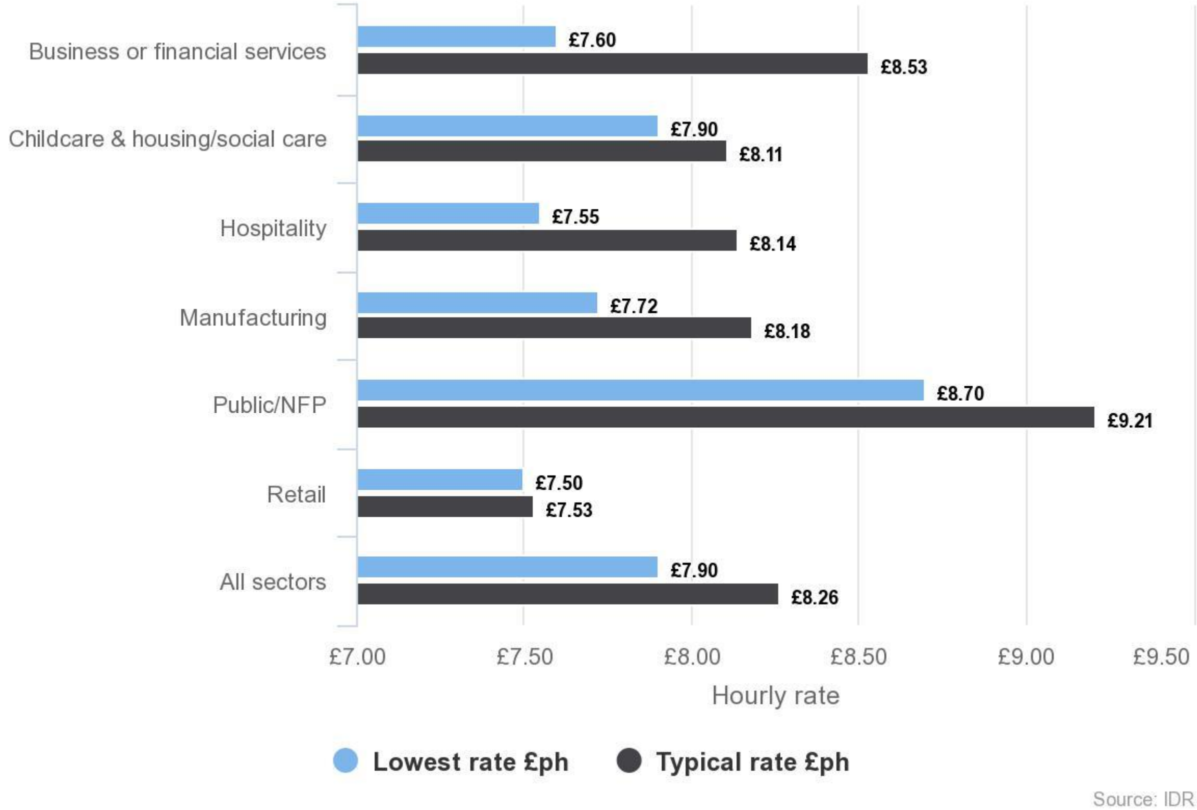


FIGURE 2: MEDIAN MINIMUM AND TYPICAL PAY RATES FOR THE MAIN GRADE BY SECTOR, 2017



2.3. Impact of the NLW increase

One clear finding from the case studies is that the higher NLW rate from April 2017 is affecting parts of businesses and job roles that it did not affect in April 2016. At one major retailer (case study F) the NLW has now caught up with pay rates for a minority of roles – around 150 entry-level finance and HR posts - in its administrative support centre. At the retail and wholesale distributor (case study B) the pay of some distribution operatives and a few head office administrative roles has been affected. The NLW also seems to be having implications for differentials further up the management scale (see below) at some organisations.

While there are diverse approaches to managing increases in the statutory minimum rates, a common one (which one employer termed a 'sticking plaster' approach) is to simply raise or remove the lowest pay rate, and attempt as far as possible to maintain differentials. For example, the hotel business removed the lowest of its four pay rates in April 2016 and plans to remove a further one in April 2018. A food production company interviewed by IDR has removed one of five pay rates for operatives in April 2017 and anticipates removing another rate each year up to 2020, ending up with just one rate for all operatives. Some, like the social care provider, have maintained their various pay ranges this year but anticipate that next year they will have to remove some bottom rates.

By contrast some large organisations, such as the large non-food retailer (case study F), have taken a more strategic approach, introducing simpler pay structures that enable them to better manage future differentials. In the case of the large retailer (F), this involved reducing the number of non-management grades from 22 to three, with significant differentials between them. A further retailer interviewed by IDR removed various pay rates, starter rates and age-related rates in 2016 and invested significantly in setting a minimum above the NLW. At the other end of the scale, the small nursery now employs all its staff (including the supervisor) on statutory minimum rates of pay. Clearly, ability to pay plays a crucial role in the difference between these two approaches.

Commonly, employees on the NLW rate have received a higher percentage increase in their latest pay review than others above it. For example, at the social care provider (case study A), pay increases effective on 1 April 2017 ranged from 0 to 5.5%, with those on the NLW receiving the highest increases (except for a pay boost for supervisors to maintain differentials). At the large retailer (case study F), hourly-paid staff received increases ranging from 1.3% to 4.2%, with the higher increases bringing pay rates into line with the NLW. This is not always the case however: at the food production company, a union-negotiated deal raised the established rate for higher-paid operatives by 55p an hour from 1 April 2017, compared to the 30p increase received by those on the NLW starting rate.

Some large organisations, such as the retailer in case study F, report positive impacts of removing multiple pay rates at the bottom end of the pay scale, and producing a simpler pay structure that works better for line managers. Others, however, report downsides, not least a reduced ability to differentiate on grounds of skills or performance amongst lower-paid staff (see case studies A and C). Case study A, which is in the social care sector, where concerns over recruitment and retention are acute, voices anxieties about competing with local hospitality or retail employers for staff, given that base pay rates are similar.

It is unclear to what extent geographical differentials have been squeezed. Some large organisations have increased all their non-management pay rates nationally by the same amount (see large retailer F) but a further large retail chain interviewed by IDR (not included in the case studies) paid higher increases in some areas that other, therefore reducing the gaps between the lowest three of its pay zones from April 2017 but keeping the differential between the third and fourth (top) pay zones intact.

Two employers implied that the costs of the NLW had made it harder to improve pay in 'hotspot' areas like London but they either could not provide evidence to substantiate this, or the evidence they supplied was contradictory. For example, one employer said that they would like to pay the higher 'London Living Wage' rate, but that the NLW had militated against this. It is not clear to us, without more detail being made available, how paying an even higher rate than the NLW would be possible when the NLW itself is regarded as costly, but this may be the case outside London.

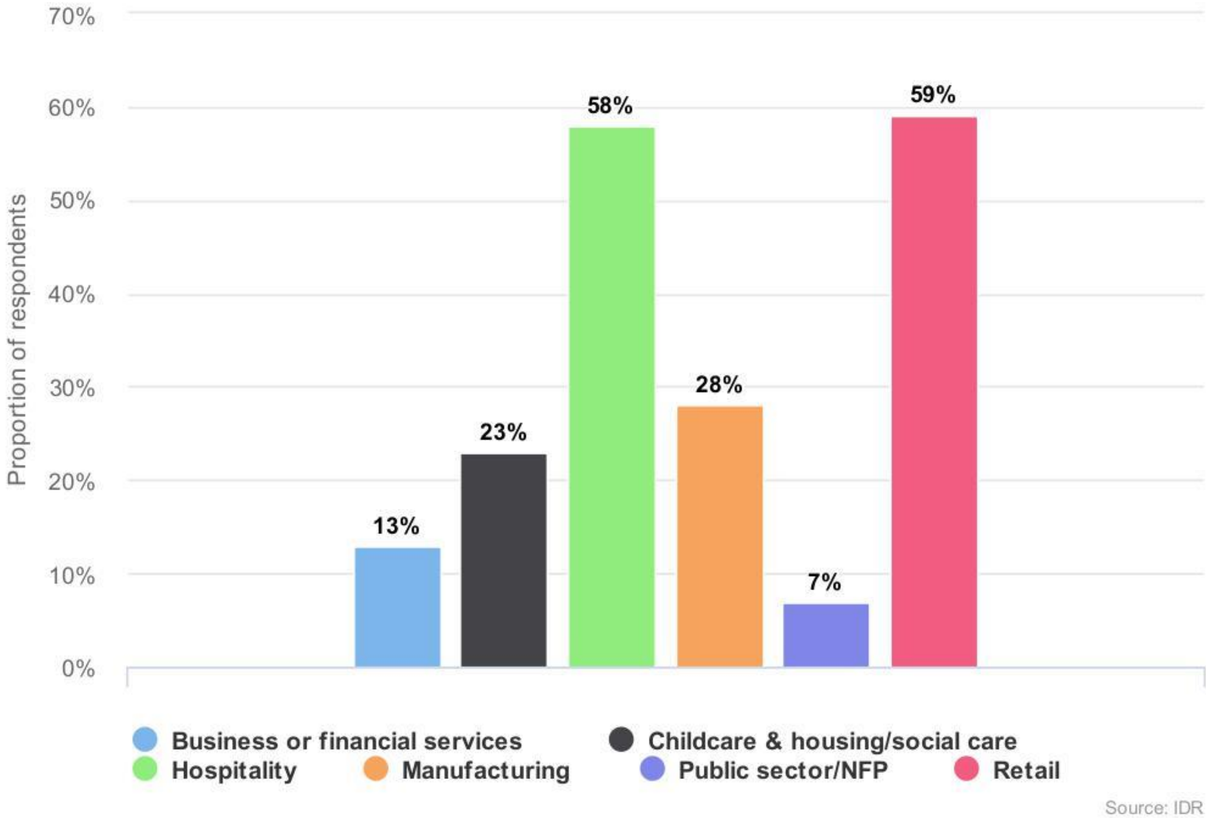
2.4. Age/youth rates

Overall 27% of respondents operate age-related pay, although there are significant differences by sector with firms in retail and hospitality much more likely to differentiate pay by age than those in other sectors (and even then, the major food retailers are less likely than other retailers to operate extensive age distinctions). Data on age profiles of workforces also tells us that the proportion of young workers is higher in hospitality and retail (Table 5). As such the potential exists for significant cost savings by paying lower rates to younger workers.

TABLE 5: AVERAGE PROPORTION OF YOUNG WORKERS BY SECTOR %

Sector	16 to 17 years	18 to 20 years	21 to 24 years
Business or financial services	0.2	3.2	11.7
Childcare & housing/social care	1.4	5.6	10.8
Hospitality	4.5	14.0	20.1
Manufacturing	0.4	2.0	5.2
Public/NFP	0.5	1.4	4.1
Retail	4.2	15.0	15.6

FIGURE 3: PROPORTION OF RESPONDENTS OPERATING AGE-RELATED PAY BY SECTOR



Approaches and views on age-related pay rates vary widely and even the small number of case studies provided important insights as to employers' rationales on the issue of differentiating pay on the grounds of an employee's age. We have set out some of the most significant views below:

- Some organisations feel that differentiating pay on grounds of age is wrong and demotivating, particularly where unions are recognised, and continue to pay the NLW to all staff despite pressures on paybills (see case studies D and E). As one organisation says: 'We do not pay the lower rates based on age: [our principle is one of] equal pay for equal work.'
- Some companies only pay a lower rate to 16 to 18-year-olds on grounds of experience and competency in the role but pay adult rates from the age of 19 (such as the social care case study A and retail case study C).[3]
- The nursery (case study G) has always used age-related pay rates and is actively recruiting workers under the age of 25 to minimise wage costs.

[3] The retailer's minimum rate is higher than the NLW.

- Some large organisations removed or reduced age-related pay rates as part of restructuring their pay systems in 2016 to deal with future NLW increases (such as retail case study F that moved from three age categories to two and only in the bottom pay grade)
- But others introduced or expanded age-related pay rates in response to the NLW in 2016. For example, retail case study B previously paid adult rates to all workers over 18 but from April 2016 started using all NMW and NLW age bands.

As mentioned, the survey shows that the NLW has had a significant impact on the age at which adult rates are paid at firms that differentiate pay by age, with many employers adopting an additional age category for young workers aged 21 to 24, in line with the new structure for the NMW/NLW. In fact the large majority of respondents appear to pay adult rates at age 25, with a smaller sub-group (five firms) paying the full adult rate at age 21. This latter group includes two major non-food retailers.

Our latest research on pay and conditions across the retail sector[4] provides examples of retailers implementing the 25 year old age threshold across the retail catering sector and also at retailers, including Arcadia, Argos and Halfords. As a result, the most common age at which adult rates apply is 25, although a significant number of retailers continue to pay adult rates from either 18 or 21.

Our report also shows that separate rates of pay for younger workers are common across retail and hospitality, although it is much more common in retail catering/hospitality than in food and nonfood retail. All but three of the 19 retail catering firms in our 2017 retail report operate youth rates (85%), compared to 13 out of 30 other retail firms (43%). Only one of the bigger food retailers operates age-related pay as most supermarkets have now abolished youth rates.

[4] Pay and conditions in retail 2017, IDR January 2017.

FIGURE 4: DISTRIBUTION OF AGE AT WHICH ADULT RATE IS PAID

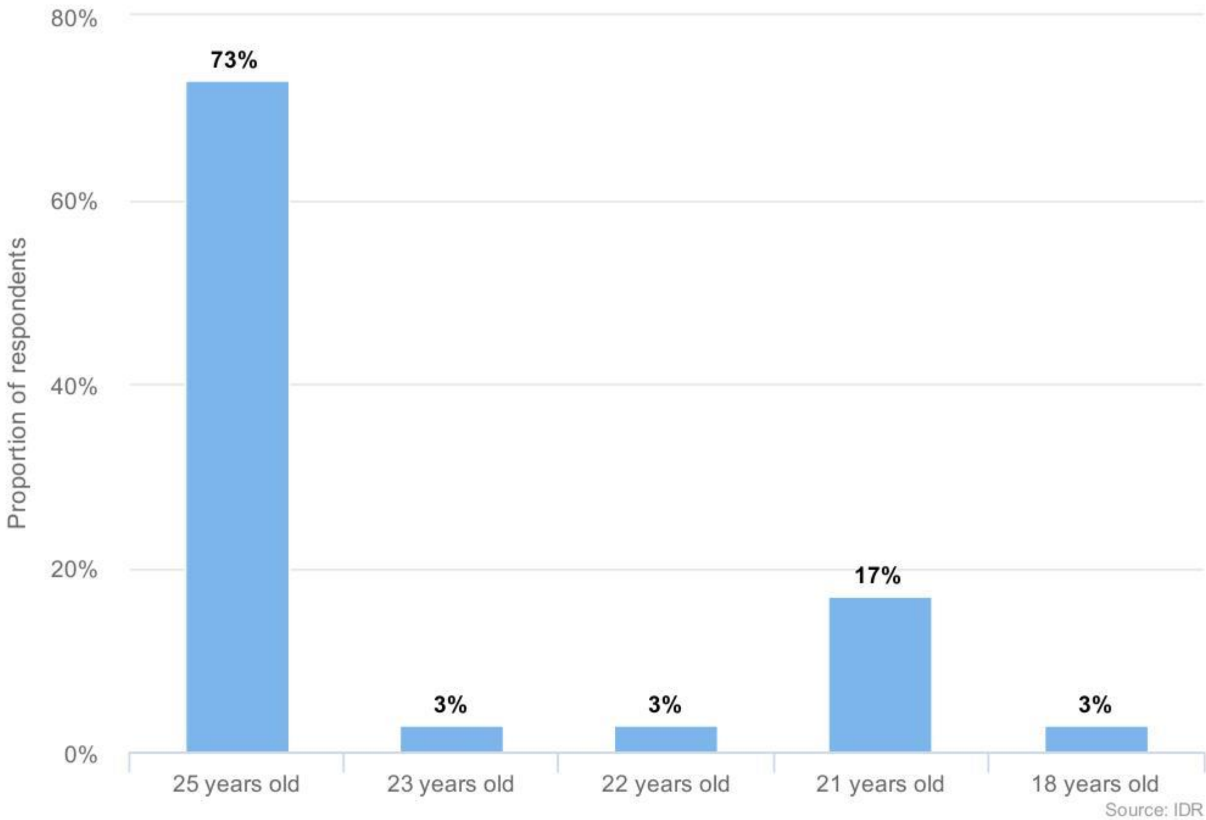


Table 6 provides summary figures on hourly pay rates for young workers at firms operating age-related pay structures. These figures are based on actual rates paid to workers within that age bracket. In some cases employers' age-based pay structures mirror the NMW/NLW but in many cases they do not. We can see that many employers pay under-21s more than the statutory minimum: +74pph (+18.3%) at the median for under 18s and +50pph (+8.9%) at the median for 18 to 20-year olds. This could be a side-effect of the higher NLW also lifting the rates for those aged below 25.

In contrast, a large proportion take the statutory floor as the rate for staff aged 21 to 24 (the new age category brought into effect by the NLW), evidenced by the fact that the lower quartile and median figures are equal to the NMW.

TABLE 6: SUMMARY FIGURES ON PAY RATES FOR YOUNG WORKERS BEFORE AND AFTER 1 APRIL 2017

	16 to 17, £ph		18 to 20, £ph		21 to 24, £ph	
	Pre 1 April 2017	Post 1 April 2017	Pre 1 April 2017	Post 1 April 2017	Pre 1 April 2017	Post 1 April 2017
Lower quartile	4.00	4.05	5.55	5.60	6.95	7.05
Median	4.75	4.79	6.00	6.10	6.95	7.05
Average	4.94	5.01	6.20	6.28	7.22	7.35
Upper quartile	5.55	5.60	6.85	6.85	7.23	7.53
Sample	*25*	*25*	*25*	*25*	*19*	*19*

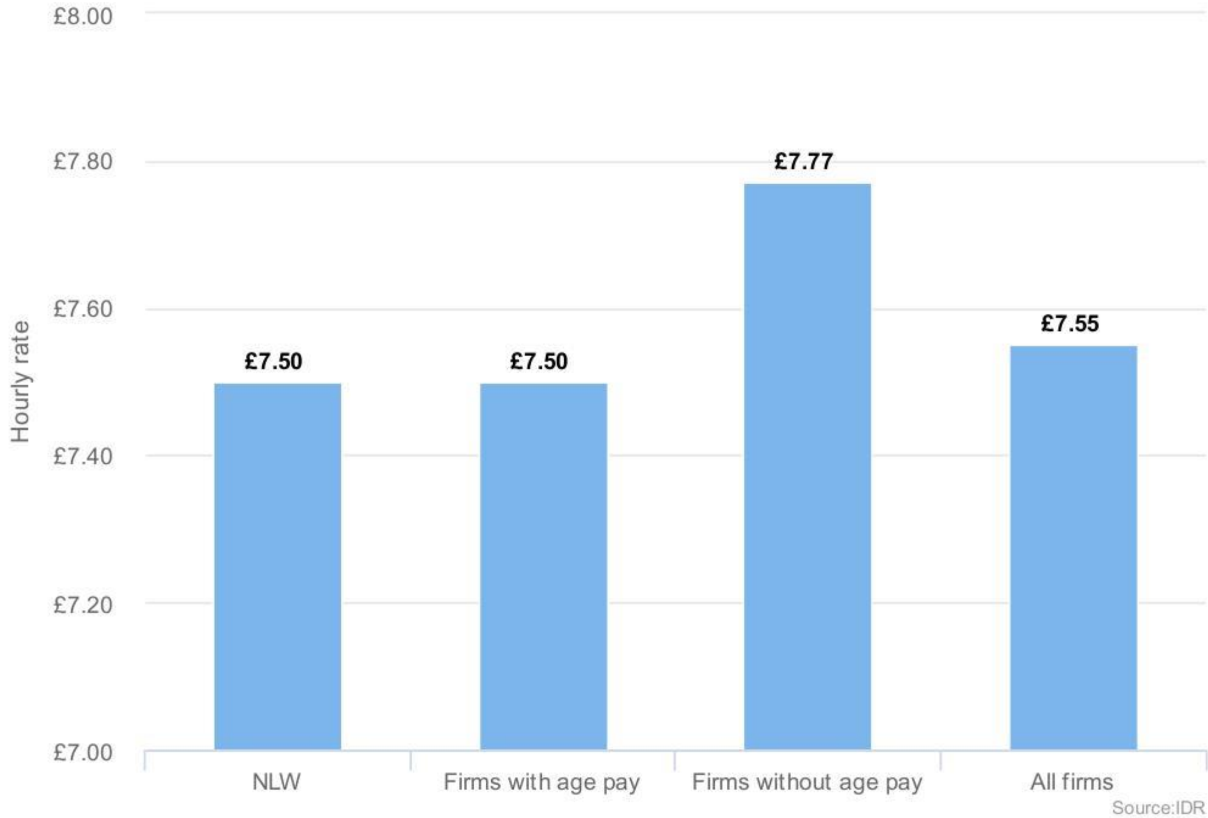
A comparison of pay rates for 'adult' workers at firms with and without age-based pay systems shows that so-called adult workers (aged 25 and over) tend to be better paid at firms where pay is not differentiated by age. As Table 7 shows, the median hourly pay rate for workers aged 25 and over in firms with age-related pay structures is £7.50, in line with the current NLW. However, in other firms without age differentiation the median hourly rate is £7.77. This could be related to the fact that non-differentiation by age is common at some of the biggest retailers, who have mostly tended to position their rates above the NLW and generally have a better ability to pay higher rates to all staff.

TABLE 7: SUMMARY FIGURES ON PAY RATES FOR OVER 25S AT FIRMS WITH AND WITHOUT AGE-RELATED PAY SYSTEMS

	Firms with age pay		Firms without age pay		All firms	
	Pre 1 April 2017	Post 1 April 2017	Pre 1 April 2017	Post 1 April 2017	Pre 1 April 2017	Post 1 April 2017
Lower quartile	7.20	7.50	7.20	7.50	7.20	7.50
Median	7.20	7.50	7.52	7.77	7.25	7.55
Average	7.41*	7.68*	7.63	7.86	7.57	7.81
Upper quartile	7.25	7.53	7.93	8.18	7.80	8.00
Sample	32	32	80	80	112	112

Note: the average is affected by two firms with significantly higher rates.

FIGURE 5: PAY RATES FOR OVER 25S AT FIRMS WITH AND WITHOUT AGE-RELATED PAY SYSTEMS



2.5. Supervisors' rates

Supervisors' pay rates vary considerably and are significantly lower in the 'traditional' low-paying sectors. Our analysis shows that the median rate for supervisors is £10.33 an hour (Table 8). Since the NLW has increased by more than the median rate for supervisors, this indicates a squeezing of differentials between these rates and those for the staff they supervise. This is because the NLW, at which level many non-management staff are paid, has risen by 30p, or 4.2%, while the median for supervisors has risen from £10.20 an hour to £10.33, a rise of just 13p or 1.3%. By sector, supervisors' rates are significantly higher at the manufacturers in our sample, and to a lesser extent among the public/not-for-profit respondents.

TABLE 8: SUMMARY FIGURES ON MINIMUM PAY RATES FOR SUPERVISORS PRE AND POST 1 APRIL 2017

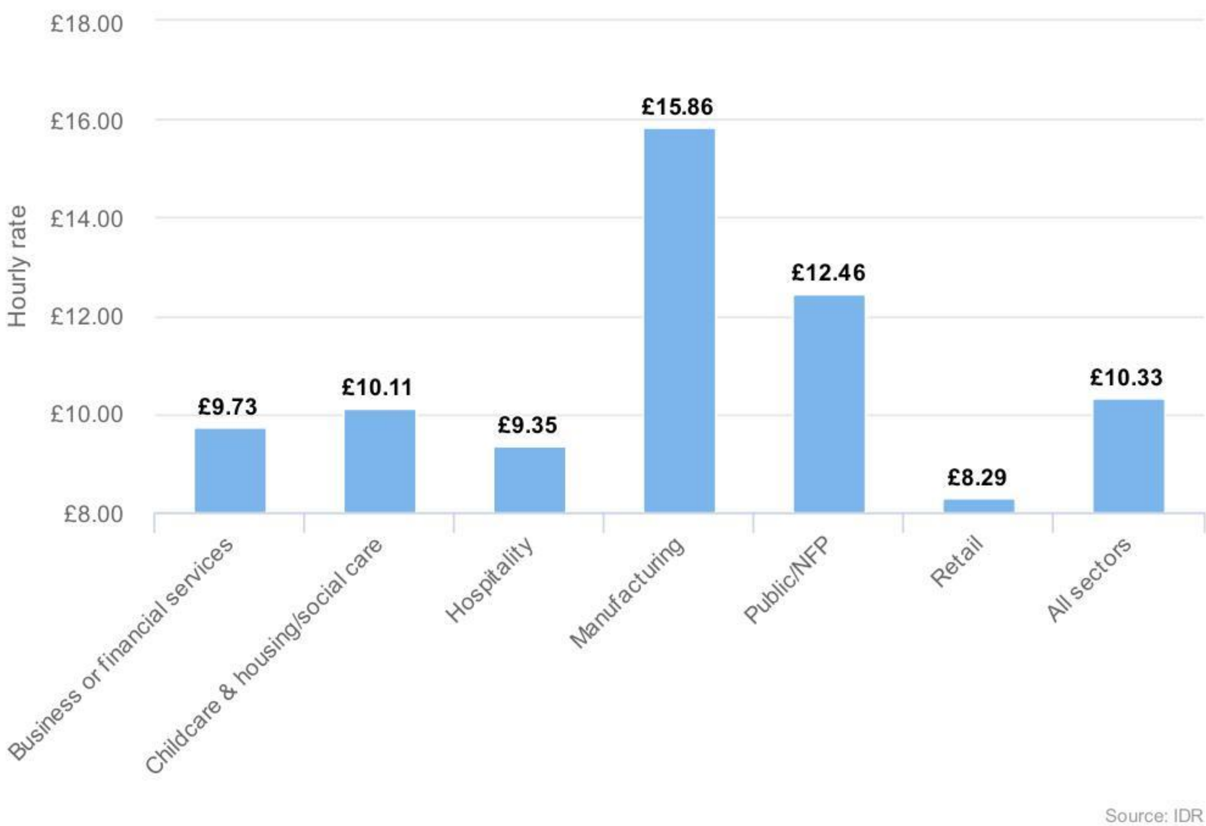
	Pre 1 April 2017 £ph	Post 1 April 2017 £ph
Minimum	7.20	7.50
Lower quartile	8.43	8.64
Median	10.20	10.33
Average	11.93	12.09
Upper quartile	15.16	15.60

Maximum	28.66	28.96
Sample	*94*	*95*

TABLE 9: DIFFERENTIAL BETWEEN COMPANY PANEL PAY RATES AND THE NMW/NLW, 2012-2016

Year (n.)	Differential over adult rate %	Differential over NLW %
2012	4.8	5.2
2013	4.9	6.5
2014	4.0	6.1
2015	4.1	8.2
2016	2.1	5.4

FIGURE 6: MEDIAN PAY RATES FOR SUPERVISORS BY SECTOR, 2017



The median pay rate for supervisors in this year's survey is £10.33, a differential of +£2.08ph (+30.8%) over the median lowest rate for staff on the main grade and +£2.43 (+25.2%) over the median typical rate for staff on the main grade.

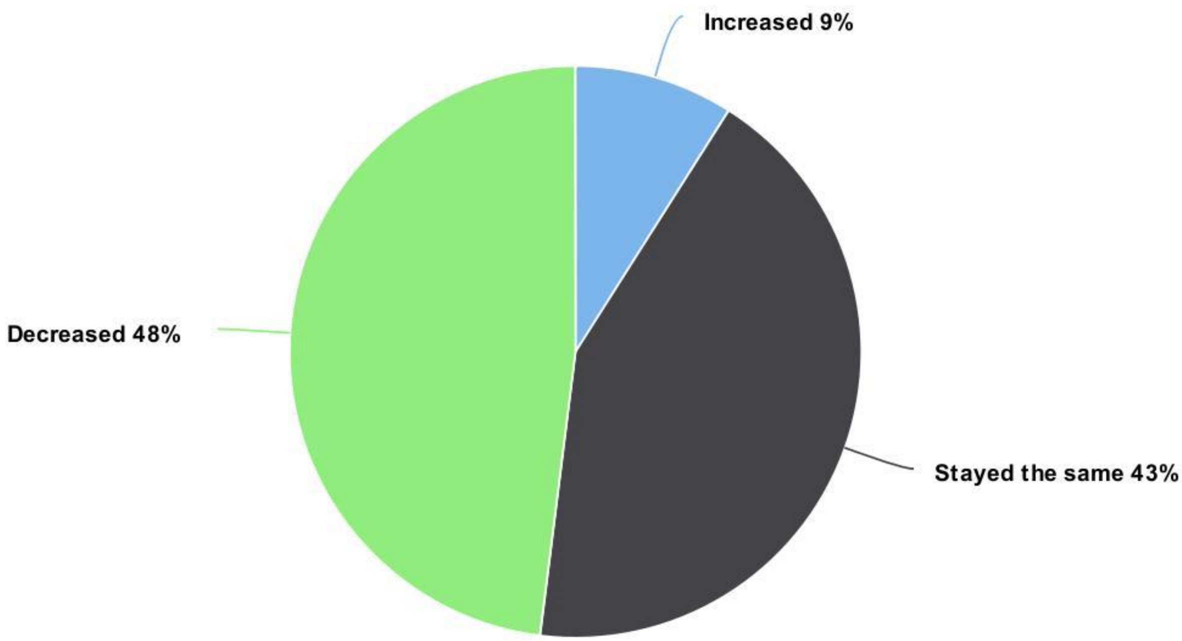
TABLE 10: SUMMARY FIGURES ON PAY RATES AND DIFFERENTIALS FOR STAFF ON THE MAIN GRADE AND SUPERVISORS, 2017

	Supervisor rate	Supervisors' differential over lowest rate for main grade		Supervisors' differential over typical rate for main grade	
	£ph	£ph	%	£ph	%
Minimum					
Lower quartile	8.64	1.14	15.2	0.99	12.9
Median	10.33	2.43	30.8	2.08	25.2
Average	12.09	3.26	36.9	2.62	27.7
Upper quartile	15.60	6.71	75.5	6.07	63.7
Maximum					
Sample	*95*	-	-	-	-

The survey asked firms what, if any, impact the NLW's increase on 1 April 2017 had on the differential between the main grade and supervisors and almost half report that the differential narrowed. A closer look at individual firms' responses to managing NMW/NLW increases shows that many have not applied a standard increase across all grades, instead choosing to uprate certain rates. Analysis of pay rates before and after 1 April 2017 shows that 82% of respondents increased the lowest pay rate for the main grade, 75% increased the typical rate for the main grade and 61% increased the supervisor rate.

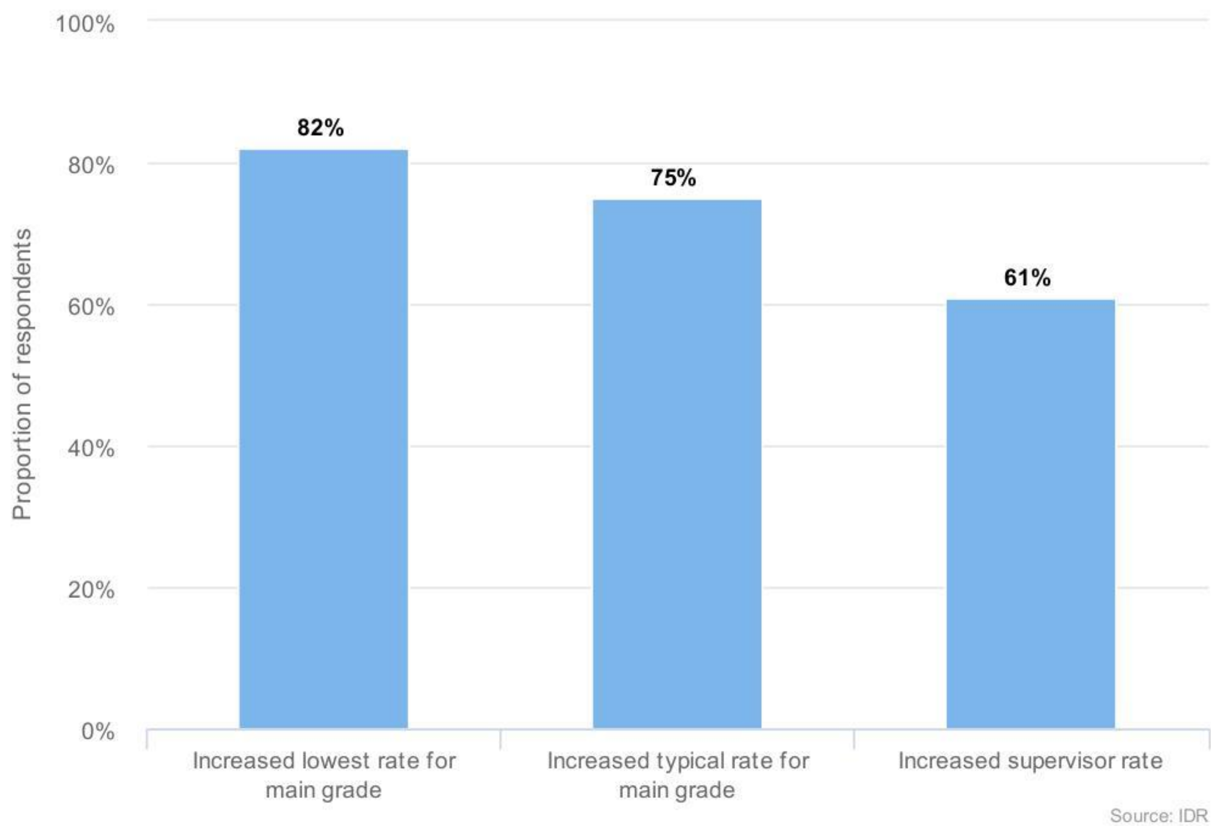
By sector, retailers were less likely than employers in other areas to increase the supervisor rate. This is an indication that at least some organisations have allowed differentials between supervisors and supervisees to be squeezed. We would imagine that there will be less scope for this as the NLW increases further, but it is possible that firms could respond in ways other than increasing/maintaining supervisory differentials.

FIGURE 7: CHANGE IN THE DIFFERENTIAL BETWEEN PAY FOR SUPERVISORS AND THE MAIN GRADE DUE TO THE NLW



Source: IDR

FIGURE 8: PROPORTION OF RESPONDENTS INCREASING PAY RATES IN 2017 BY GRADE



The case studies provide specific examples of how firms have put resources into restoring some of the differentials lost between team members and supervisors in 2016, or at least maintaining the gap. For example, at one large retailer (case study F) the differential between retail assistants and team leaders increased slightly in the review, however the difference between rates for team leaders and those on the first management pay band narrowed due to managers receiving only a 1.5%, while retail colleagues got 4%. The differential between assistants and supervisors also increased at the hotel chain (case study D) from April 2017, although a number of factors played a part in this. Similarly, at the social care provider (case study A), supervisors received a 4.5% increase in an effort to widen the differential with care assistants that had significantly narrowed the previous year. Other increases varied between zero and 5.5%.

All the case studies identified the differential between team members' and supervisors' pay as important, but this year many also mentioned their concern at the increasing knock-on effect further up junior management pay scales, varying from store managers to junior head-office roles. The knock-on impact on differentials with junior management ranks was of particular concern to the three retailers (one of whom increased pay band minima for the four manager bands above supervisors). The food manufacturer noted that differentials between supervisors and junior managers were a concern for the future, while the pub and restaurant business also increased pay for lower levels of management in 2016 and considers that it will have to do so again soon. Again, the main theme is the impact of the NLW being felt further up the pay scale.

2.6. Differentials with the NLW

Our analysis of pay rates for adult workers shows that the median rate is £7.55, a differential of 0.7% over the NLW. The average and upper quartile rates are noticeably higher at £7.81 and £8.00, respectively 4.2% and 6.7% higher than the NLW.

TABLE 11: 2017 PAY RATES AND DIFFERENTIAL OVER THE NLW

	25+ rate £ph	Differential over NLW £	Differential over NLW %
Lower quartile	7.50	0.00	-
Median	7.55	0.05	0.7
Average	7.81	0.31	4.2
Upper quartile	8.00	0.50	6.7
Sample	*112*		

IDR has constructed a panel of pay rates for staff on the main grade at 31 major retail and hospitality firms[5] between 2012 and 2016 to explore the changing relationship between the statutory minimum adult rate and company minimum rates (Tables 12 and 13). Our analysis here shows that the larger increases in the adult statutory minimum rate in recent years have tended to reduce these differentials, with much smaller gaps between company pay rates and the statutory floor than previously.

The median differential between the company rates in our panel and the adult NMW in 2012 was 4.5% (30 pence) and by 2016 this had narrowed to 2.1% (15 pence). The average differential is larger and its movements (in both directions) have been greater but it also points towards the NLW having a narrowing effect. As the figures below show, the average differential widened in 2013, then narrowed in 2014 before widening again in 2015. But at the point at which the NLW came into effect, in 2016, it narrowed noticeably from 8.2% to 5.4%.

[5] Aracdia, Argos, Asda, B&Q, Bettys & Taylors, Booker, Boots The Chemist, C&J Clark, Costa Coffee, Debenhams, Early Learning Centre, Greggs, House of Fraser, John Lewis, Lands' End, McDonald's Restaurants, Makro, Merlin Entertainments, Morrisons Supermarkets, Mothercare, Poundland, Pret A Manger, Retail Co-operative Societies, Royal Botantic Gardens Kew, Sainsbury's Supermarkets, Schuh, Screwfix, Southern Co-operative, Tesco Stores, Waitrose, World Duty Free.

TABLE 12: SUMMARY FIGURES FOR COMPANY PANEL PAY RATES, 2012-2016

Year (n.)	Median hourly rate £	Average hourly rate £	NMW/NLW £
2012 (25)	6.49	6.51	6.19
2013 (28)	6.62	6.72	6.31
2014 (30)	6.76	6.90	6.50
2015 (29)	6.98	7.25	6.70
2016 (23)	7.35	7.59	7.20

TABLE 13: DIFFERENTIAL BETWEEN COMPANY PANEL PAY RATES AND THE NMW/NLW, 2012-2016

Year (n.)	Median differential %	Average differential %	NMW/NLW increase %
2012 (24)	4.8	5.2	1.8
2013 (28)	4.9	6.5	1.9
2014 (30)	4.0	6.1	3.0
2015 (22)	4.1	8.2	3.1
2016 (23)	2.1	5.4	7.5

FIGURE 9: DIFFERENTIAL OF MAIN GRADE OVER THE NMW/NLW, 2012-2016

A closer look at how company pay rates have changed over the years shows that employers' approaches have varied across the years, with higher increases in the legal floor tending to result in a narrowing of the gap between this and company's domestic pay levels. For example, in 2013 the NMW for adults rose by 1.9% – in the final year of a period of subdued increases – and movements in company rates resulted in a **widening** of the differential over the NMW at 16 out of the 23 firms in the panel that year. The following year, 2014, resulted in a much larger increase in the NLW, of 3%, and by contrast with 2013, changes in company pay rates in that year resulted in a **narrowing** of the differential at 22 of the 28 firms in the panel in 2014. Since then, the gap between the statutory floor for adult workers and pay rates at the companies in our panel has tended to narrow.

TABLE 14: CHANGES IN COMPANY DIFFERENTIALS OVER THE NMW/NLW, 2012-2016

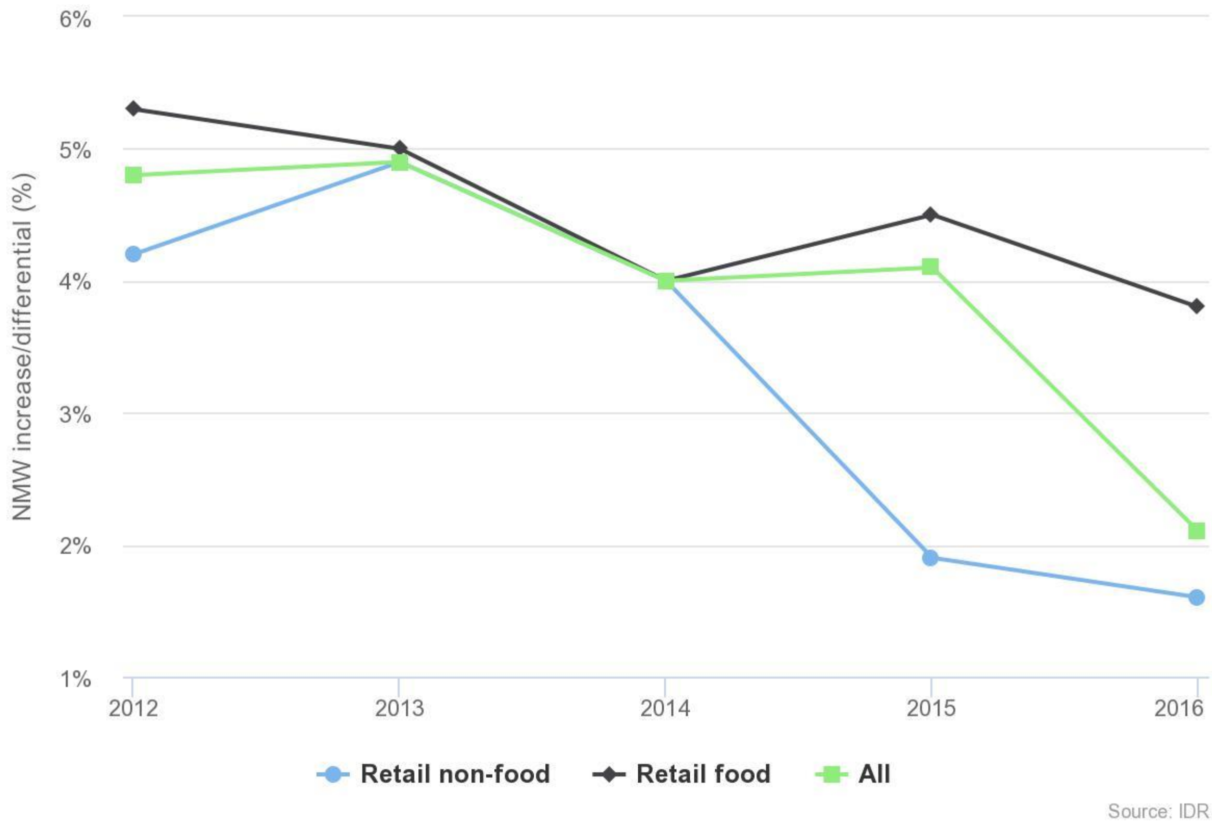
Year (n.)	Widened (n.)	Narrowed (n.)	Unchanged (n.)	NMW/NLW increase %
2013 (23)	16	5	2	1.9
2014 (28)	5	22	1	3.0
2015 (21)	3	15	3	3.1
2016 (19)	4	14	1	7.5

Further analysis by sector shows that the NLW has had more of an impact on narrowing differentials at non-food retailers than at food retailers. As the table shows, the median differential between company pay rates and the NMW was around 4% between 2012 and 2013 at non-food retailers. It narrowed to 1.9% in 2015 and to 1.6% in 2016 following the introduction of the NLW. The narrowing in food retail has been less significant, albeit the figures still show a narrowing of differentials.

TABLE 15: DIFFERENTIAL BETWEEN COMPANY PAY RATES AND THE NMW/NLW BY SECTOR, 2012-2016

Year (n.)	Median differential %		NMW/NLW increase %
	Retail non-food	Retail food	
2012 (24)	4.2	5.3	1.8
2013 (28)	4.9	5.0	1.9
2014 (30)	4.0	4.0	3.0
2015 (22)	1.9	4.5	3.1
2016 (23)	1.6	3.8	7.5

FIGURE 10: DIFFERENTIAL BETWEEN MEDIAN MAIN GRADE RATE AND THE NMW/NLW BY SECTOR, 2012-2016



3. Offsetting and managing increases

This section explores the extent to which employers have sought to manage the cost of implementing the NLW and subsequent increases to it by changing elements of their reward packages, including overtime and unsocial hours premiums, location pay and benefits such as holiday entitlement, company sick pay, meals or healthcare. It also examines employers' concerns about future increases in the NLW.

3.1. Employee benefits

Workers in low-paying sectors have seen many elements of their reward package eroded or eliminated over the past decade, especially where overtime and unsocial hours premiums are concerned. As a result companies have little additional scope to offset the cost of the higher NLW and further increases in it by changing the premiums and benefits on offer to their lowest-paid staff, with relatively few having done so since 1 April 2016. Any such changes tend to have occurred most commonly in retail, where most scope exists for reductions. But some other employers have made changes in these areas as well.

This picture is also reflected among our case study organisations, where we found no evidence of large-scale cutting of other elements of pay or benefits this year to fund NLW compliance. Among the interviews, three themes appear:

- some employers (especially in retail) have made significant changes to unsocial hours pay or other working time pay premiums in the past, leaving them with little scope for any further changes.
- others have little or no benefits to cut, such as the small nursery that just offers a 10% reduction on childcare fees and some voluntary benefits.
- by contrast some consider that pay premiums or their specific employee benefits are essential in recruiting and retaining staff so to remove them or reduce their value would have a significantly negative effect on their business (and would not save much money). For example, the luxury hotel business has a wide range of benefits that it sees as essential in recruiting staff such as childcare assistance, a crèche on one site, up to 38 days' annual leave, occupational sick pay, season ticket loans, healthcare plan and an Employee Assistance Plan (EAP).

FIGURE 11: EMPLOYER REPORTED CHANGES TO PAY ELEMENTS FOR LOWEST-PAID STAFF

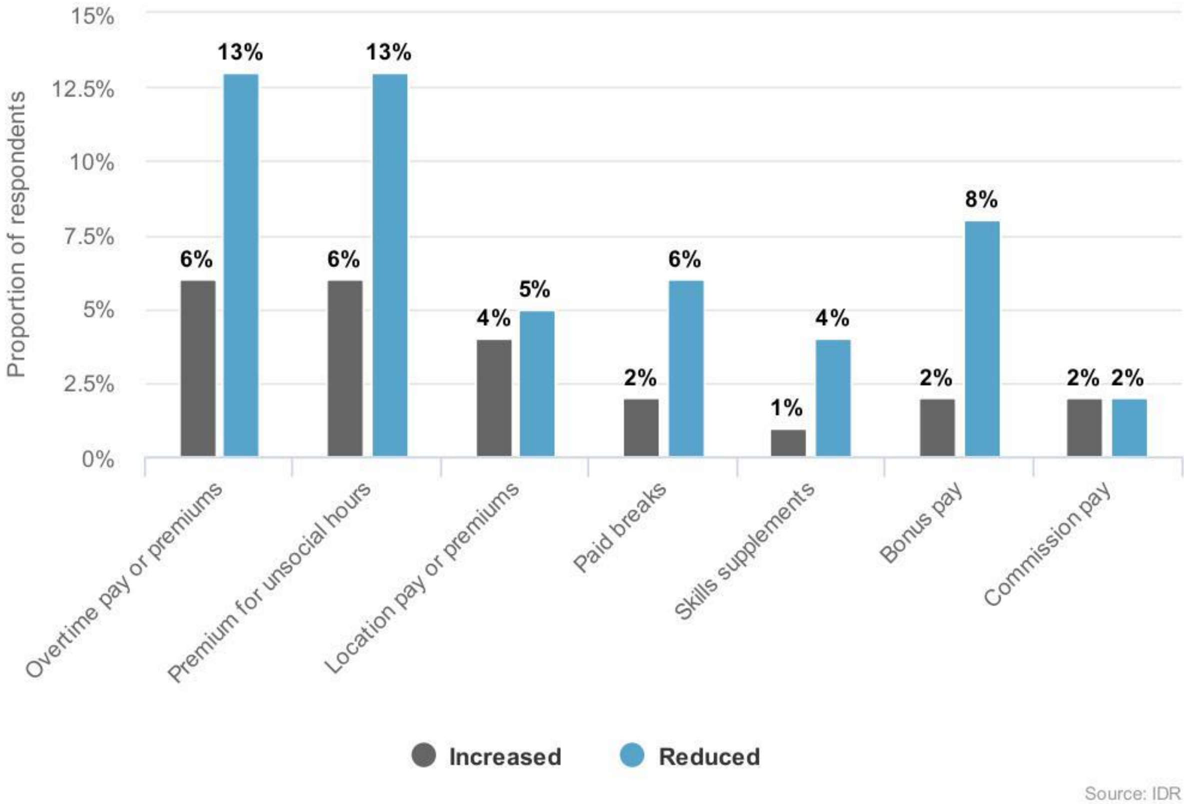
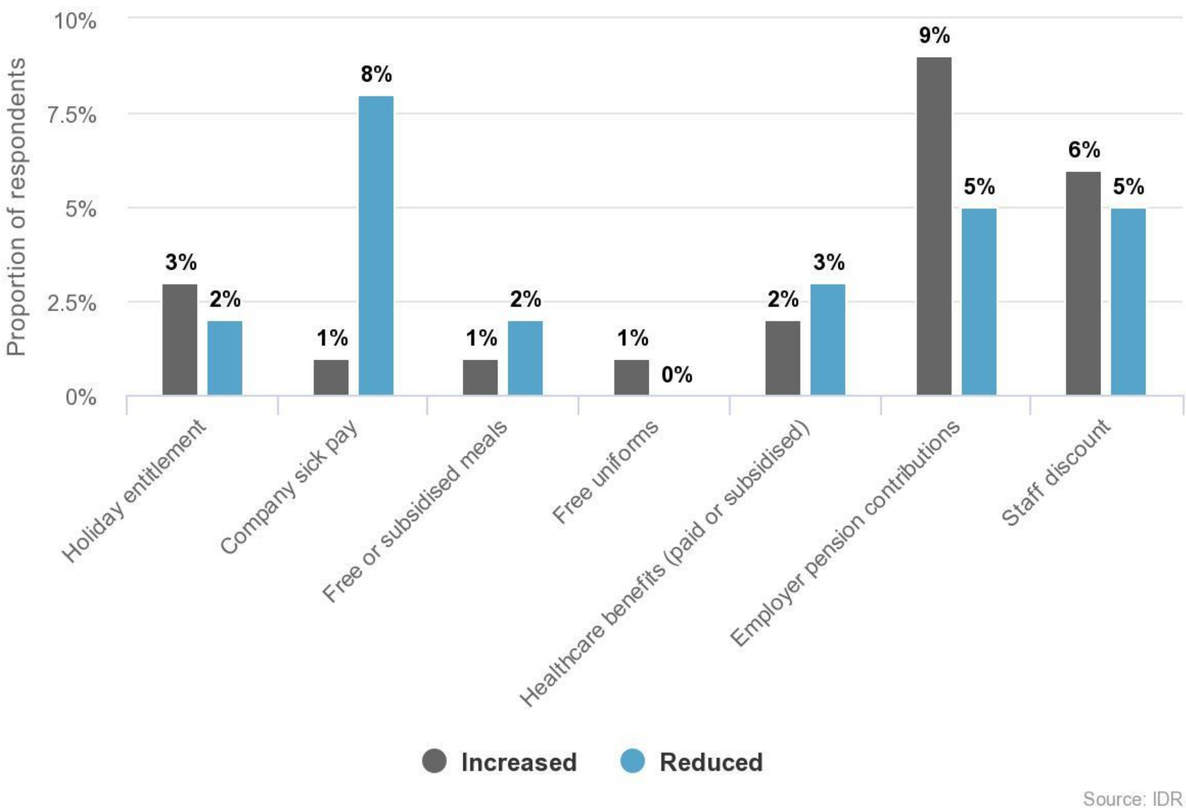


FIGURE 12: EMPLOYER REPORTED CHANGES TO EMPLOYEE BENEFITS FOR LOWEST-PAID STAFF



Some employers are reducing benefits a little (for example, changes to sick pay at the retail and wholesale distributor or lower pension contributions at the social care provider), partly prompted by a rise in wage costs associated with the NLW. But others are making improvements to peripheral benefits to compensate for their reduced ability to differentiate on pay (the pubs and restaurants business we interviewed said that the staff discount on food and drink during shifts was increased from 15% to 50%).

Among the wider survey sample, reductions in premia for overtime or unsocial hours working (ie nights, weekends or bank holidays) are the most common change to the reward package. Even so, only 14 respondents (12% of the total sample) report that they have reduced overtime premia and the same proportion have reduced premia for unsocial hours working. Retailers feature particularly prominently in this regard: just over a third (36%) of respondents that had reduced overtime premia were retailers; for unsocial hours premia this proportion rises further, to 43% (note that just 18% of the overall sample came from the retail sector).

The NLW does appear to have influenced the reduction of these premia, especially in the case of overtime: of the 14 respondents that had reduced overtime premia, almost four-fifths (79%) cited it as either a major factor (64% of respondents reducing overtime) or one factor (14%) in this change. Just under two-thirds (64%) of organisations that had reduced premia for unsocial hours working, meanwhile, attributed this (either wholly or in part) to the NLW (50% citing it as a major factor in the reduction and 14% as one factor).

The reduction of overtime premium payments as a consequence of the NLW was most common in retail, but also in manufacturing. Three of the five retailers that had reduced overtime premia cited the NLW as a major factor, while all three manufacturers had done so (to a lesser or greater extent) in response to the NLW. Reduced overtime payments were most common in larger organisations (43% of those that had done so employed between 1,000 and 9,999 staff, with a further 29% employing 10,000 or more), reflecting the characteristics of the sectors where such changes were predominant. Seven of the ten larger employers (1,000 staff or more) cited the NLW as a major factor in their reduction of overtime premia.

Reductions in premia for unsocial hours were also seen in the public and not-for-profit sector (29% of respondents that had reduced unsocial hours premiums came from this sector) although in this case, only one (25%) attributed it to the NLW (major factor).

Employers with more than 1,000 staff were much more likely to reduce unsocial hours premiums than smaller organisations: those employing between 1,000 and 9,999 staff and those with 10,000 or more employees each accounted for 43% of the respondents that had reduced such premiums (ie 86% overall), whereas they account for just 53% of the total sample. Among these larger firms, just under three-fifths (approximately 58%) said that the NLW was either a major (42%) or one (17%) factor in the reduction.

After overtime and unsocial hours premia, the most common changes to the reward package related to reductions in bonus pay and company sick pay. However, these again represented a relatively small proportion (7% or 8 respondents in each case) of the overall sample, although the NLW appears to have had a strong influence on such changes that have been made.

For example, five of the eight respondents (63%) that had reduced bonus payments had done so because of the NLW, with three of these five respondents citing it as a major factor. Retailers accounted for half (four) of those reducing bonus payments, although only two did so because of the NLW (both citing it as a major factor). Similarly, two respondents from the childcare and housing/social care sector said they had reduced bonuses because of the NLW (this was the major factor in one case).

The influence of the NLW on reductions in company sick pay was greater still: half of the eight respondents that had made such changes cited the NLW as a major factor and a further two respondents cited it as one factor.

Employers in the childcare and housing/social care sector and retailers together accounted for all but one of the eight respondents that had reduced company sick pay (four and three respondents respectively). Only one of these childcare and housing/social care respondents did not attribute the change to the NLW (for one such organisation, it was the major factor), while all three retailers cited the NLW as a major factor. With one exception, all the respondents that had reduced company sick pay employed fewer than 1,000 people.

Six organisations (5%) have reduced paid breaks, with the NLW having had an influence in all cases (for two-thirds, it was a major factor). These respondents are evenly distributed among the childcare and social care/housing, retail and manufacturing sectors and half are small companies employing fewer than 250 people. The NLW has also been a factor for all four organisations – representing a range of sectors and company sizes – that have reduced skills supplements (a major factor in two cases).

Just two of the five respondents that had reduced their staff discount schemes attributed this (in both cases as a major factor) to the NLW; similarly, the NLW was cited as a major or one factor (one and two respondents respectively) among the five organisations that had reduced employer pension contributions. All the respondents reporting a reduction in discount schemes and employer pension contributions come from the retail and childcare and housing/social care sectors.

Five respondents have also reduced location pay – except for one public/not-for-profit respondent, all were retailers, half of which cite the NLW as a major factor in the reduction. Only three organisations have reduced, free, or subsidised meals but for two such respondents, the NLW was a factor. There were limited reductions in commission pay, holiday entitlement and healthcare benefits and the NLW had influenced these reductions at only one organisation in each case.

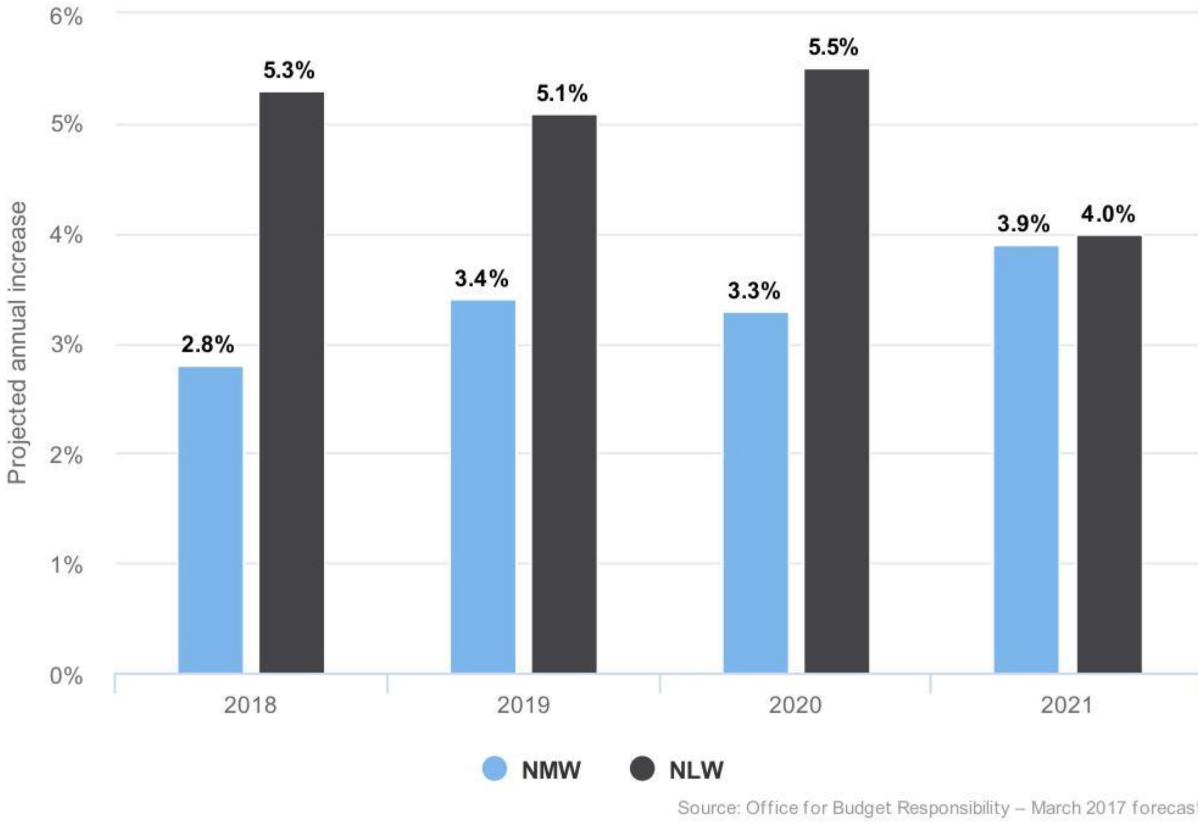
3.2. Costs and concerns with future increases

Only a relatively small proportion (11%) of respondents, predominantly in retail and childcare and housing/social care, were able to express the effect of the April 2017 NLW increase in terms of a directly-attributable percentage increase in their total paybill. These responses ranged from 0.2% (at a local authority) to 12.0% (a retailer with between 250 and 999 staff), with a median increase across all 13 organisations of 5.0%.

Many more respondents (just under half, or 47%) instead expressed the increase in monetary terms, with which it is difficult to conduct comparisons since the sample covers such a range of organisation sizes and workforce profiles. These responses ranged from zero (12 respondents, more than half of which came from the public/not-for-profit sector) to £16,000,000 (a large retailer that had undertaken a major restructuring of its pay and grading system). Some other respondents found it difficult to put a value on the paybill effect of the NLW as they had differentiated pay rises or implemented other cost efficiencies to offset the impact.

According to the latest forecasts from the Office for Budget Responsibility, the NLW is set to increase to £8.75 by April 2020 and by a further 4% (to £9.10) the following year.

FIGURE 13: PROJECTED ANNUAL INCREASES IN THE NMW AND NLW

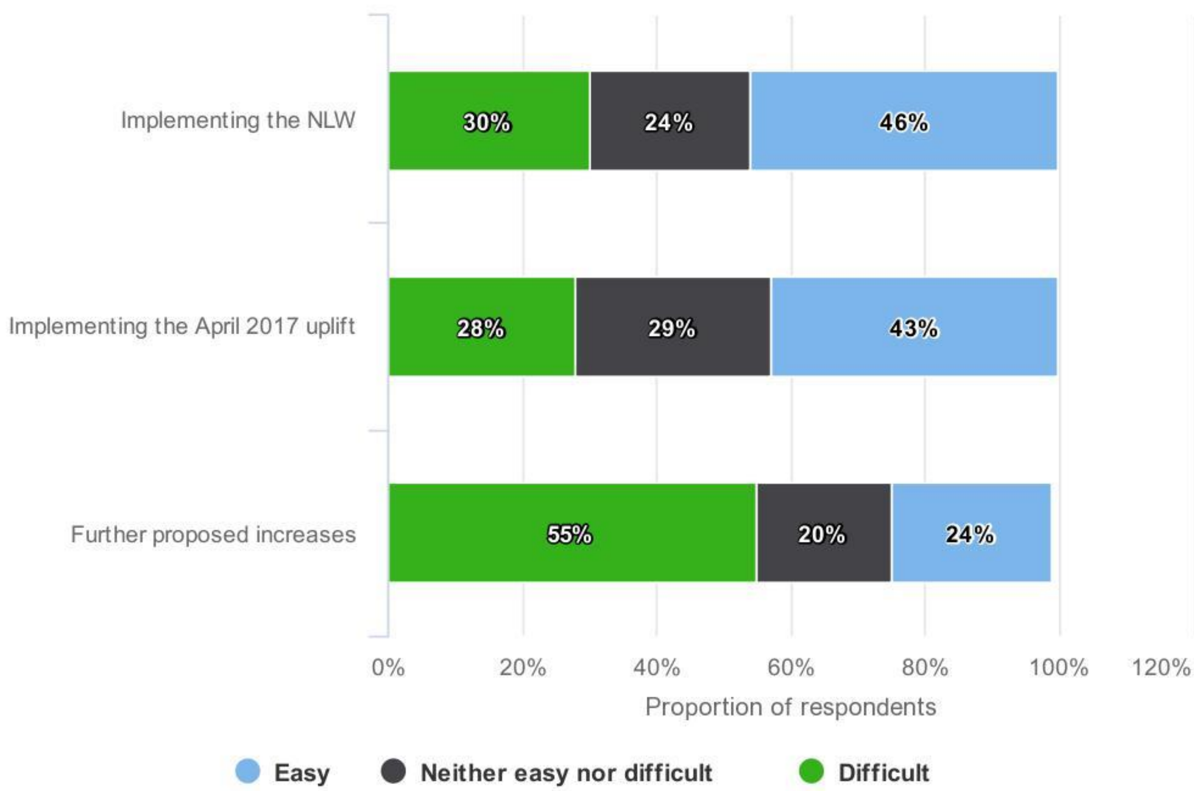


In 2016, just under half of respondents (46%) said it had been either 'very' or 'fairly' easy (28% and 18% respectively) for their organisation to implement the NLW, while almost a quarter said it had been neither easy nor difficult. Three-tenths of organisations, meanwhile, said they had experienced difficulties. Of the 19% of respondents that had found it 'difficult', a quarter each came from the retail and childcare and housing/social care sectors, while the public and not-for-profit sector accounted for a further fifth. Eleven respondents (11%) found the initial implementation of the NLW 'very difficult': just over half of these (55%) were from the childcare and housing/social care sector and a further 36% were retailers.

This year, slightly fewer respondents (43%) found the April 2017 increase in the NLW either 'very' or 'fairly' easy to implement (24% and 19% respectively) but slightly more (29%) said it had been neither easy nor difficult. Compared with 2016, a similar proportion of organisations (28% of respondents) had experienced difficulties, with 16% describing the increase as 'difficult' to implement and 12% as 'very difficult'. Respondents finding it 'difficult' came predominantly from the childcare and housing/social care, public/not-for-profit and hospitality sectors (29%, 24% and 18% respectively of those responding 'difficult') while all but one of the 12 organisations that had found the 2017 increase 'very difficult' to implement were in the childcare and housing/social care or retail sectors (50% and 42% respectively of those stating 'very difficult'.)

However, looking ahead the picture becomes rather more pessimistic, with well over half of respondents (55%) viewing future increases as either 'difficult' or 'very difficult' (31% and 24% respectively) compared with the roughly three-tenths of such responses for 2016 and 2017. Employers in the hospitality (78% of these respondents), retail (61%) and childcare and housing/social care sectors (59%) feature particularly prominently in this regard but large proportions of respondents in every sector appear to anticipate greater difficulty in managing subsequent increases: 57% of business or financial services, 50% of manufacturers and 42% of respondents in the public and not-for-profit sector say future increases are likely to be 'difficult' or 'very difficult'.

FIGURE 14: EMPLOYER VIEWS ON IMPLEMENTING AND MANAGING INCREASES IN THE NLW



Source: IDR

In common with the broader survey sample, many of the organisations with which we conducted case studies found it difficult to identify the direct costs of NLW compliance (particularly as these are often built into the overall paybill cost of the annual pay review) but annual increases to paybills of around 3% to 5% were the norm, with the social care provider estimating a higher figure. The majority anticipate much greater difficulty in absorbing the costs of NLW upratings over the coming three years than has been the case this year, with the exception of the two major retailers.

It should be noted that among some employers there are perceptions that future increases are going to be much higher than those based on current official predictions. For example, the social care provider had modelled future increases on the assumption of a 50p increase in each year from 2018 to 2010. This is likely to be because they are basing their plans on the original government target of £9 an hour by 2020.

Table 16: Employer perceptions of ease of managing increases: survey feedback

Sector	Comments
Retail	*"Challenging to give one population increases of 4-5% each year when the rest of the business has to manage with a 2% pay review budget. As a result, differentials are being squeezed and this will only get worse over the next few years."*
Manufacturing	*"Our wage levels were above the NLW in 2016 and 2017. But we will require 4-5% increases in the future and this is a higher than expected level of increase. This will need to be sold to the parent company (outside UK) and may require other staff to receive smaller increases."*
Business/financial services	*"Whilst some clients understand the changes in NLW, many of those who order our services cannot understand why 30 pence rise in pay translates into at least 50 pence rise in our costs (NI, Holiday, Pension etc)."*
Retail	*Concerns regarding "the speed of increase/the level of increase/the numbers involved/maintaining internal differentials"*
Public sector/not-for-profit	*"The number of staff who are affected by the NLW will rise if the rate increases significantly faster than our other scales. As the differentials become more squeezed there will be pressure to address the rates of staff earning higher rates."*
Childcare and housing/social care	*"As the NLW increases it squeezes the very tight margins in our sector with little chance of increasing income from our contracts for statutory services."*
Childcare and housing/social care	*"Our contracts with statutory authorities rely on them approving increases to our charges which they rarely do so we face rising costs with no equivalent rise in income"*
Manufacturing	*"We are a loss-making company and this has increased losses even further"*
Hospitality	*"So far, we have been able to absorb the increases. However, we know we will need to make significant changes to accommodate ongoing above inflation increases. These cannot be passed to customers/users, so we need to be more efficient and change our service model. We will continue to increase our use of technology."*
Retail	*"I have run out of acceptable options as you can only squeeze efficiency so far. Headcount and age profile and then it's price rises and the risk is that*

	becoming uncompetitive eventually results in closure. Never thought that NLW compliance would be the breaking factor. If it's not viable then I also have no business asset to sell. Yet again the politicians fail to understand small business. We comply and pay the price – lower, no finance to re-invest – and constantly being pressured by big corporates and legal red tape. Profit and inflation seem to be dirty words yet if the money isn't being generated I can't pay a NLW regardless of what level is set. I'm expected to look after my 27 staff and re-invest and repay business loans etc, in an environment with 0-1-2% inflation (previous years minus inflation) and costs rising continuously. The maths don't work."
Public sector/not-for-profit	*"Our lowest paid staff currently receive a higher rate than the NLW. There might be increased difficulty with increases in 2019 - 2020."*
Childcare and housing/social care	*"In social care, our customers (social services and NHS) are not increasing what they pay us, we are therefore being slowly pushed towards administration."*
Hospitality	*"Historic and current increases have been absorbed within our budgets, but any further increases will be harder to absorb as they will begin to eat into our profit margins."*
	Comments cont'd
Public sector/not-for-profit	*"Our four lowest grades will be affected, so we have issues of hierarchy and job ranking linked to pay differentials, as well as cost. Also, the cost of services provided by contractors will increase, and that will be a far bigger cost than the cost on our employed workforce."*
Childcare and housing/social care	*"The NLW impacts the vast majority of our staff either directly or through maintaining differentials. Our main source of fees is from Local Authority placements in our care homes. The large NLW increases are very difficult to implement without a commensurate rise in the Local authority fee rate for care home placements."*
Retail	*"We are a new small business that only opened in February 2016 so we are trying to build sales but have had to reduce the number of hours we use in order to comply with the NLW rates as they are just crippling us."*
Childcare and housing/social care	*"The differentials are reducing to attract people with skills for complex needs against the funding available. This is impacting our operating model and the potential to attract and retain staff is becoming increasingly difficult. The latest round of increase in April 17 saw us move ahead of NLW to try and meet our recruitment needs. This is increasingly difficult to sustain with future increases putting strain on funding."*
Childcare and housing/social care	*"As NLW rises it will sweep up more staff, flattening the pay differential to managers and supervisors. Hence, we will have to adjust their pay too which will be very expensive. This will be worst in our retail [charity shop] jobs. It will certainly lead to some shops closing as they become unprofitable."*
Public sector and not-for-profit	*"Various pay rates are getting closer and closer together. It will become difficult to justify variances in pay against our job evaluation system."*

4. Organisational and job changes

Survey respondents were asked what types of contracts staff worked on (fixed or variable and the nature of these) and the extent to which they had changed contracts or working hours (and whether the NLW was a factor in this). The survey also looked at changes to pay and grading structures in light of the NLW.

4.1. Hours and contract types

In summary, the NLW is having a definite impact on working hours, albeit in a minority of firms. This is happening in a number of different ways, with the NLW pushing an overarching review of working time in some organisations.

The proportion of employers offering zero-hours contracts appears to have increased since last year when 24% of respondents offered zero-hours contracts with no guaranteed hours. Now, some 38% appear to employ staff on such contracts. However, among organisations in our matched sample, use of zero-hours contracts has stayed broadly the same, suggesting that this year’s higher figure could be due to sampling effects rather than an increase in the use of zero-hours contracts.

FIGURE 15: PROPORTION OF RESPONDENTS OFFERING DIFFERENT TYPES OF HOURS CONTRACT

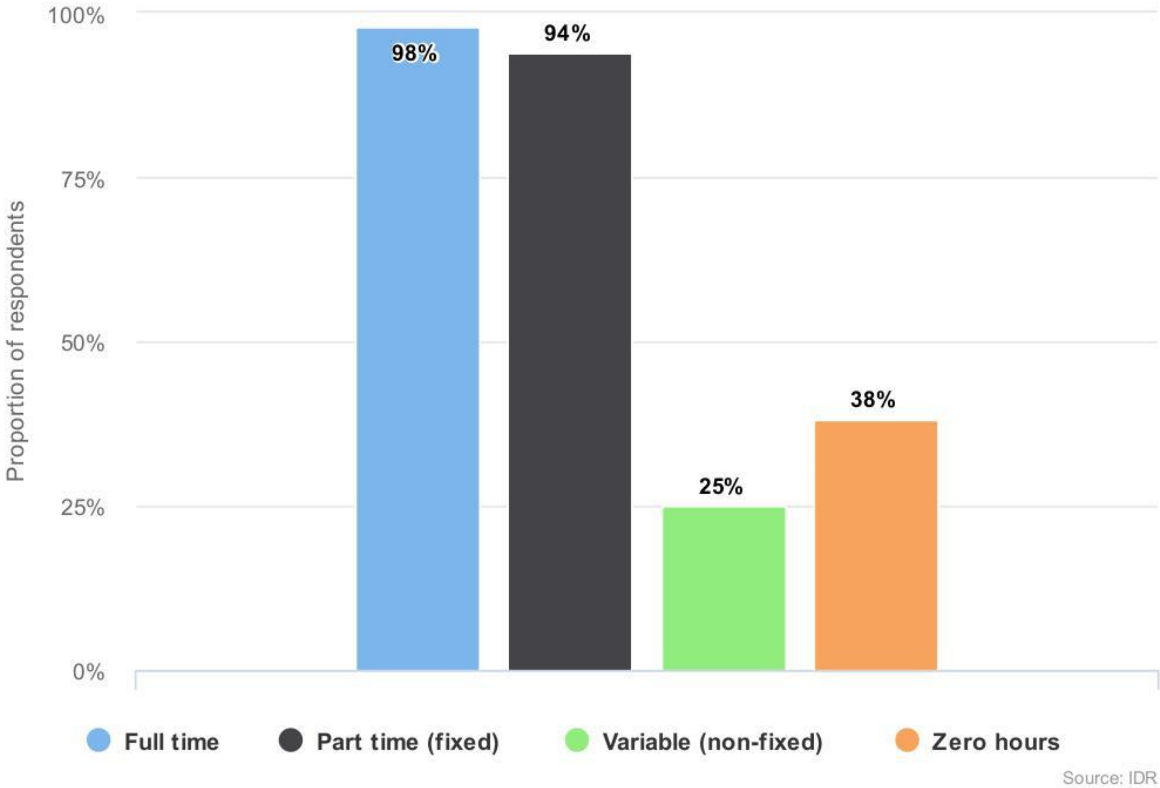


FIGURE 16: PROPORTION OF RESPONDENTS REPORTING CHANGES TO WORKING HOURS AND CONTRACTS

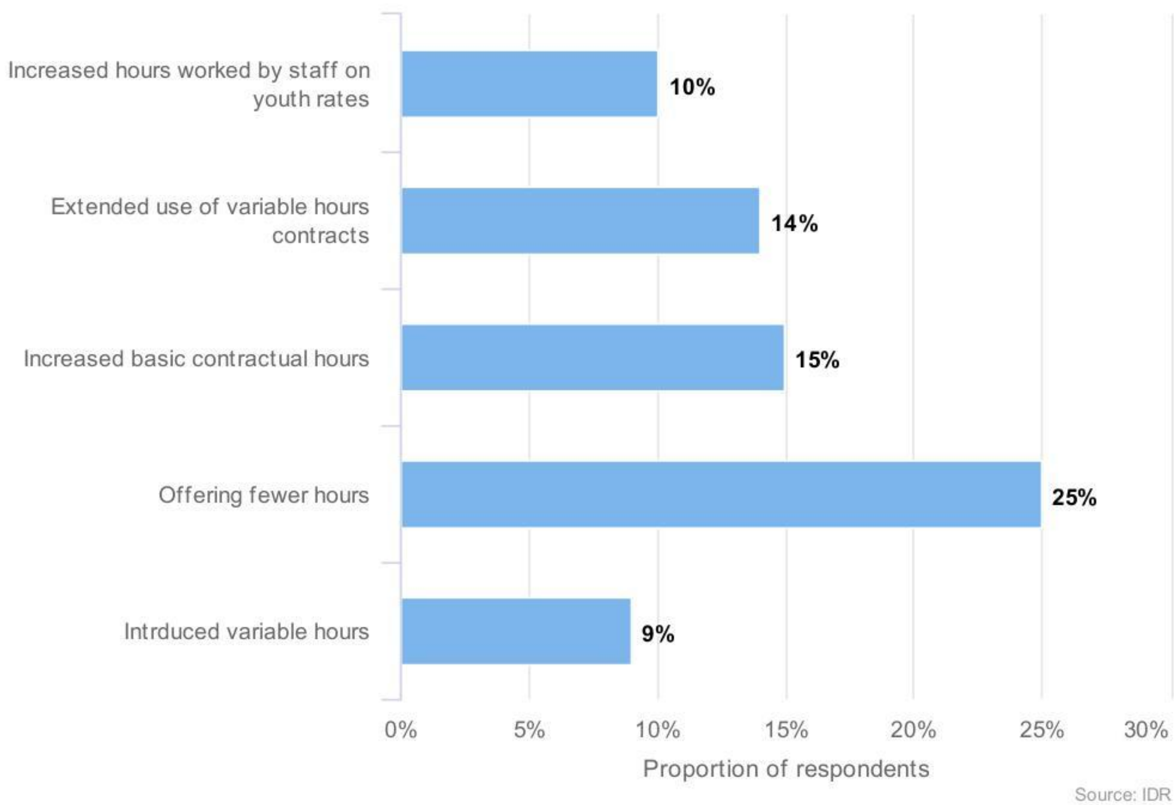
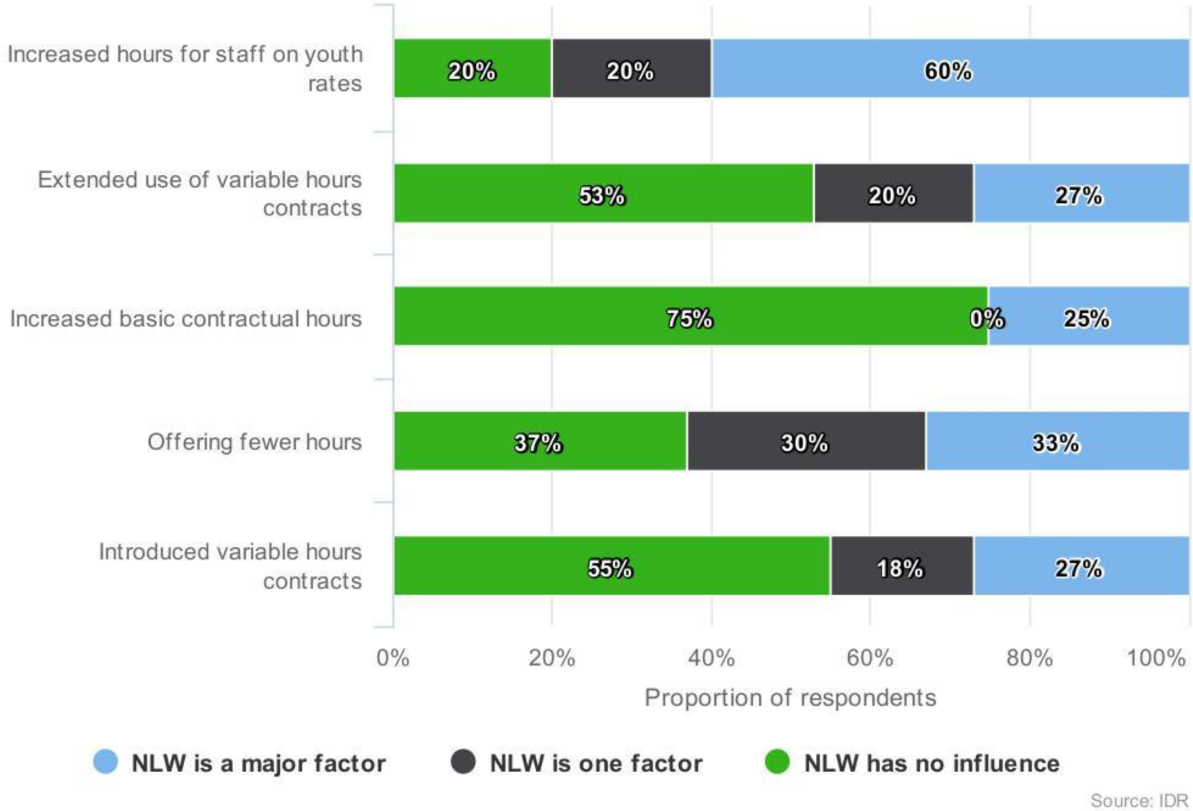


FIGURE 17: EMPLOYER RESPONSES ON INFLUENCE OF NLW ON CHANGES TO WORKING HOURS AND CONTRACTS



The first chart on the proceeding page shows the extent to which respondents have changed hours and contracts since April 2016. The majority of these respondents indicated how the NLW had influenced these changes and these responses are represented in the second chart.

A quarter of respondents said that they had taken steps to offer staff fewer hours since the introduction of the NLW. All but one of these told us whether the NLW had had an influence on this development and in almost two-thirds (65%) of cases, the NLW was felt to be a factor (nine respondents cited it as a major factor and eight as one factor). Retailers accounted for just under half of those that cited the NLW as a factor in offering staff fewer hours, with most retailers regarding it as a major factor. The eight respondents that named it as one factor among several were predominantly to be found in the hospitality and childcare and housing/social care sectors and were largely smaller firms.

Just under half (47%) of organisations now offering fewer hours as a result of the NLW are small employers with fewer than 50 staff. Just over a third (35%), meanwhile, are at the other end of the scale, with between 1,000 and 9,999 employees.

Around a tenth of organisations (9%) have introduced variable-hours contracts since the NLW came into effect in April 2016.[6] For just over half of these, this development was unconnected to the NLW. Of the five respondents that attributed the introduction of variable-hours contracts to the NLW, three were retailers, who cited it as a major factor, and two respondents, from the childcare and housing and social care sector, said it was one factor. All but one of these five respondents were small organisations employing fewer than 50 people.

A slightly higher proportion (14%) said they had extended their existing use of variable hours contracts. Just under half of these (seven respondents) attributed this to the NLW to some extent (four, largely retailers, said it was a major factor while three respondents from the childcare and housing/social care sector cited it as one factor). Small employers were most likely to attribute extended use of variable hours contracts to the NLW: five of these seven respondents employ fewer than 50 staff.

The vast majority (85%) of respondents said they had not started to offer staff more hours since the introduction of the NLW. However, looking at the 80 respondents that provided further detail on the influence of the NLW in this area, only 10% cited it as a factor (5% as a major and 5% as one factor). In other words, while organisations are not offering staff more hours, for most this has nothing to do with the NLW as such. For the minority that did feel the NLW was an influence on their ability to offer staff more hours, all but one came from the retail or childcare and housing/social care sectors and three-quarters employed fewer than 1,000 staff (many were small employers with fewer than 50 staff).

The survey also sought to explore whether respondents had taken steps to manage paybill costs by increasing the number of hours worked by staff on youth rates. Just under three-quarters of respondents said this option was not applicable. The remainder of the sample breaks down into 10% of respondents that said that they had increased the number of hours worked by staff on youth rates, while 16% had not.

[6] 'Variable hours' contracts can to some extent be contrasted with 'zero hours' contracts. In the case of the latter, there are no guaranteed hours. With the former, however, a minimum number of hours is normally guaranteed but in practice, the actual hours worked usually vary from this guaranteed minimum.

Although the proportion of respondents that has increased the number of hours worked by staff on youth rates is relatively small, it is this area where the impact of the NLW has been the greatest as far as hours and contracts are concerned (all but one such respondent was able to express the extent of the influence of the NLW on this development). The majority (80%, all from the retail or childcare and housing/social care sectors) cited it as a factor (60% said it was a major factor and a further 20% said it was one factor). With one exception, all the respondents that attributed the increase in the number of hours worked by staff on youth rates to the NLW were small employers with fewer than 50 staff.

Among the organisations we interviewed, most reported no changes in the types of contracts used or the staff numbers engaged on them. However, several of the organisations featured already had relatively large numbers of staff on flexible contract types, such as minimum hours, contracts prior to April 2016. Examples include the social care provider (case study A) and a pub chain (not included in the case studies). Others have ways in which they can 'flex' staff hours and numbers up and down – for instance a food manufacturing company that IDR interviewed about the NLW (not included in the case studies) employs a large number of seasonal staff for its busiest period each year and for the remainder of the year offers its part-time workers overtime hours to meet variations in production demand.

The retail and wholesale distributor (case study B) says that it has increased the use of variable hours contracts in response to the NLW. Meanwhile some (particularly larger) firms have small numbers of staff on zero-hours contracts for legacy reasons, or in particular areas, but do not wish to see their use increase.

On working hours, some organisations are looking more closely at their staffing requirements in light of higher paybill costs and whether they can make efficiencies around the hours needed to deliver their services. For example, a pub chain IDR interviewed (not included in the case studies) is looking at how staff can be rostered more efficiently using new technology (see below) and this has already led to some decreases in hours worked by front-of-house staff. It anticipates that this will lead to more predictable, rather than less predictable, staff shifts.

The small nursery (case study G) is encouraging employees to go home early during quieter periods on a voluntary basis, in order to reduce pay costs. The retail and wholesale distributor is explicitly offering lower minimum hours (10 rather than 16, the former standard minimum) to reduce staffing costs, but other businesses cite recruitment and retention and minimum staffing requirements as a reason why hours have not been reduced in any way.

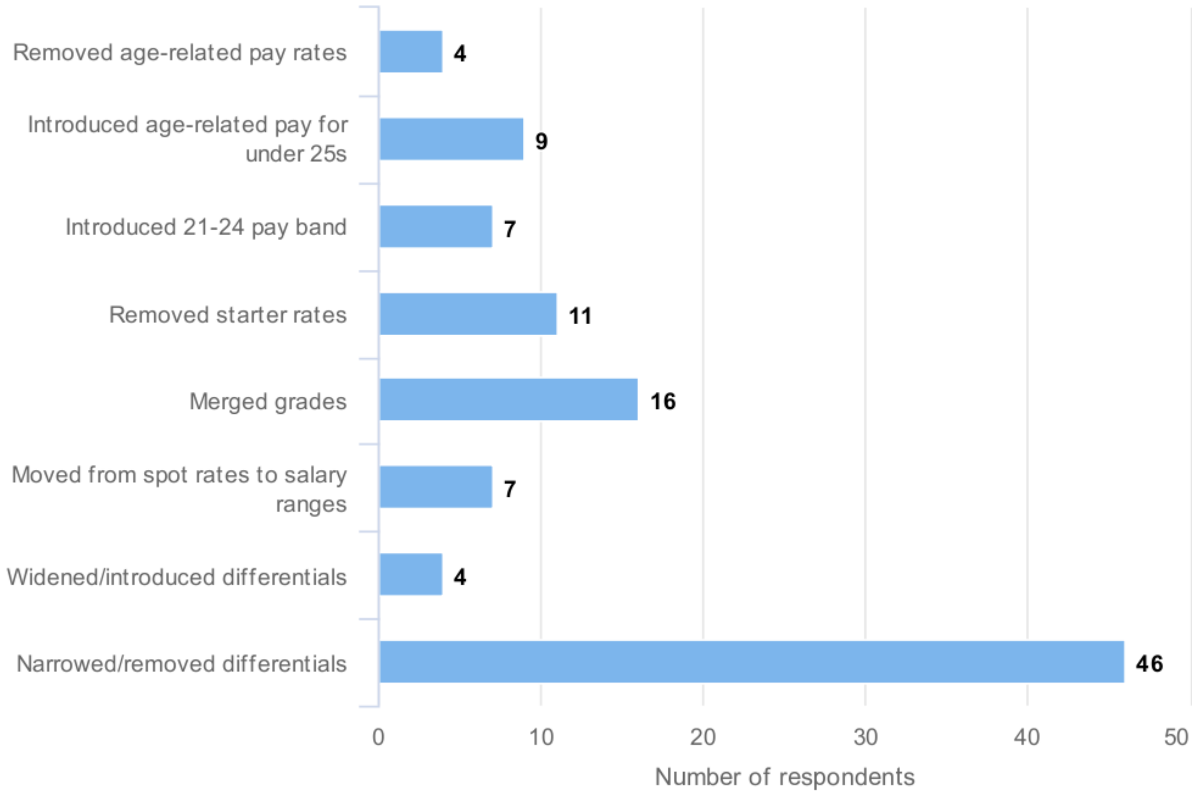
4.2. Pay and grading structures

The research shows that the NLW is having a range of impacts on pay structures, leading to the merging of lower grades; the removal of starter rates; and the introduction of age-related pay.

The survey asked employers whether they had implemented any changes to their pay and grading structure since the advent of the NLW. The largest number of respondents (46) stated that differentials have narrowed or been removed altogether (see figure 18). Broken down by sector, the greatest incidence of this was in hospitality, where 7 out of 12 respondents reported narrowing/removing differentials. Half of respondents in manufacturing reported doing so, followed by 45% (14 out of 31) in childcare and housing/social care). In retail, nine out of 22 respondents (41%) reported narrowing/removing differentials, while in the public sector, just 24% of respondents (7 out of 29) said they had done so. In business and financial services, the incidence of this response was lowest at just 13%.

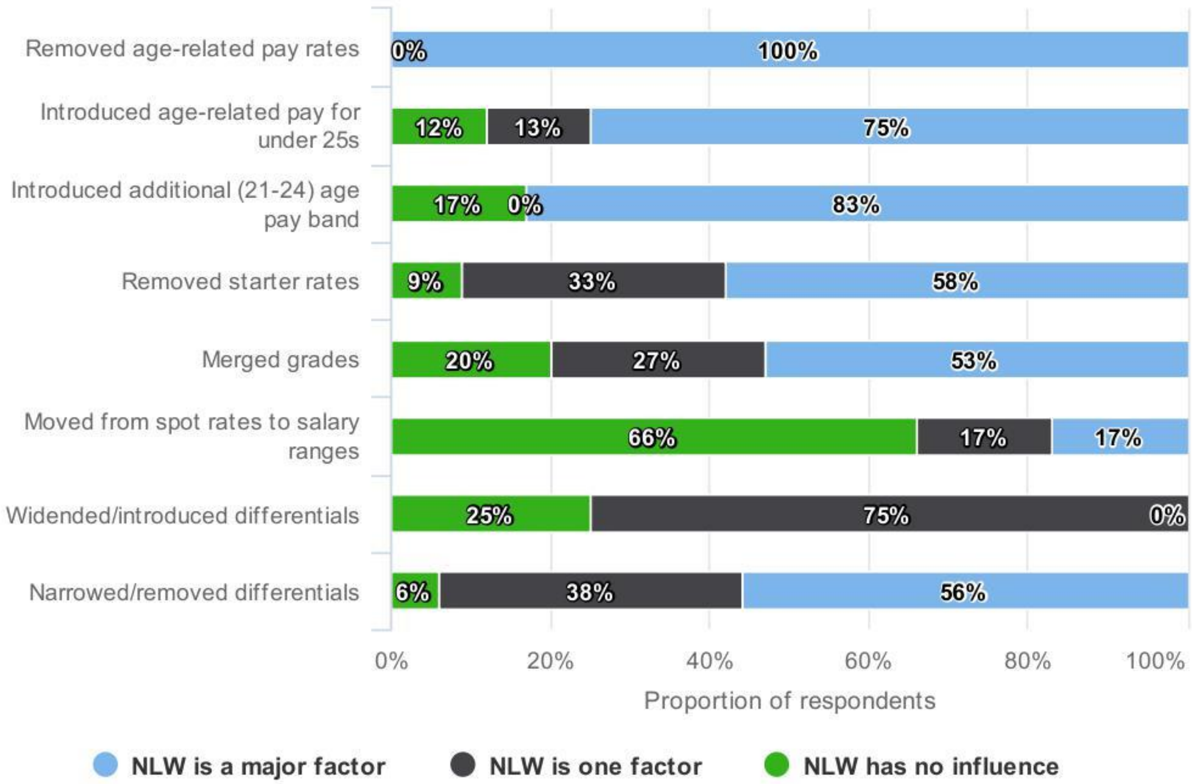
Among organisations that indicated the extent to which the NLW had influenced this development (see figure 19), 56% cited it as a major factor and a further 38% as one factor. With the exception of business and financial services, employers in every sector and of all sizes are feeling the effects of the NLW on differentials, to a greater or lesser extent.

FIGURE 18: NUMBER OF RESPONDENTS REPORTING CHANGES TO PAY AND GRADING SYSTEMS



Source: IDR

FIGURE 19: EMPLOYER RESPONSES ON INFLUENCE OF NLW ON CHANGES TO PAY AND GRADING SYSTEMS



Source: IDR

Although comparatively fewer employers (16%) have streamlined their pay systems by merging grades, although this typically involves a substantial change in the organisation which not all firms are able to do. The influence of the NLW on this development was also very strong. All but one such respondent indicated the extent to which the NLW had influenced their decision to merge grades, with just over half (53%) citing it as a 'major factor' and a further 27% naming it as one factor. These responses reflect a wide range of sectors (except business and financial services) and organisational sizes.

At first sight, the 12% of respondents that have removed starter rates since April 2016 appears to be a relatively small proportion. But overall only 20% of respondents this year operate starter rates, compared with 38% in our 2016 survey. Looking at the role of the NLW in the elimination of starter rates, only one respondent said the NLW had no influence, while 58% of those that had done so cited it as a major factor and a third as one factor. This provides evidence that the NLW is affecting organisations' pay structures since the higher adult rate has (in some cases) made the starter rate obsolete or close to it and we have seen further stripping out of starter rates – once a common feature of retail pay systems.

A quarter of those that have eliminated starter rates came from the public sector and these accounted for almost half of the respondents that cited the NLW as a major factor. However this may be a function of the sample. All other such responses were relatively evenly distributed between the sectors, they included two major retailers and two major food manufacturers. Indeed our research on the retail sector has indicated that this has been a feature of responses to the NLW there, while in this survey this development was far more common among larger employers: almost three-fifths (58%) of those that had removed starter rates employed at least 1,000 staff, with organisations of between 250 and 999 employees accounting for a further quarter. This chimes with the fact that smaller firms tend not to operate starter rates.

Similarly, although the numbers of respondents reporting changes in their approaches to age-related pay are relatively low, those that have done so have been strongly influenced by the NLW. Just under a tenth of respondents (9%) have introduced age-related pay, while 7% have widened the use of age-related pay by introducing a new category for staff aged 21 to 24, in line with the revised NMW framework. Of those respondents that were able to express the role of the NLW in these developments, the vast majority (88%) of organisations cited the NLW as a factor (three-quarters said it was a major factor and a further 13% said it was one factor) in the introduction of age-related pay. Again, these were predominantly larger employers with 1,000 staff or more, with many coming from the retail sector. A similar proportion (83%) of respondents attributed the expansion of age-related pay bands to the NLW (a major factor in all cases) and, once again, these were typically larger employers, mostly within retail.

As might be expected, very small proportions of respondents (4% in each case) report that they have widened or introduced differentials or that they have removed age-related rates. However, perhaps counter to expectations, a large proportion of such organisations attribute these developments to the NLW (all respondents that could express the influence of the NLW on their decision to remove age-related pay rates said that it was a major factor, while three-quarters of those that had widened differentials cited it as one factor in this development). A closer look at these responses (although small samples) shows that respondents that had widened differentiates were larger employers from a range of sectors and those that had removed age-related pay rates were mostly smaller employers, in retail and childcare and housing/social care.

Among the respondents we interviewed at greater length, some have removed grades near the bottom of their pay scales and anticipate doing more of this in response to future increases in the NLW. However, given the high proportion of employers who state in the survey that they have increased job responsibilities or reorganised roles, it is surprising to find little evidence of major reorganisations of teams or work organisation in the 2017 case studies. However, one major retailer (case study F) did introduce a new pay and grading structure in April 2016 in response to the NLW, reducing the number of non-management grades from 22 to three and removing the link between performance ratings and basic pay.

The pub business we interviewed is undertaking a project aiming to better match staff and hours to demand, partly in response to the advent of the NLW. It considers that this may be having some effect on individual job responsibilities, although more for salaried pub managers than front-of-house staff. Meanwhile steps taken to reduce staffing costs (such as reduced hours and not replacing leavers) at the retail and wholesale distributor appear to have increased staff workloads by default, but not as a deliberate move to upskill staff or redesign jobs.

5. Productivity, prices and profits

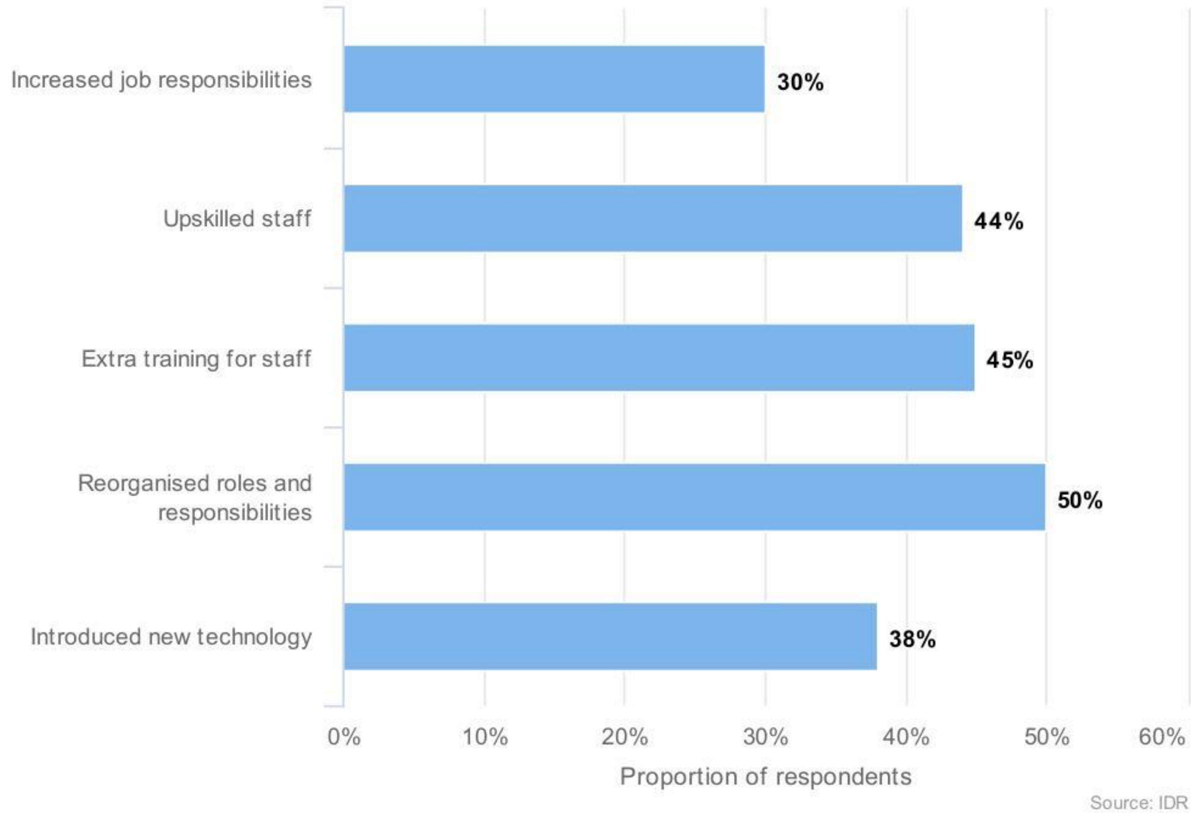
The survey sought to gather evidence of the NLW's impact on productivity, prices and profits and employers were asked a series of questions regarding moves they may have taken to increase productivity, as well as about any changes to prices and profits and the role of the NLW in these changes.

5.1. Productivity

Increasing productivity is one way in which employers might respond to the rising NLW. The survey shows that the most common approach here is to reorganise roles and responsibilities (50%), closely followed by extra training (45%) and upskilling (44%) for staff. These changes, especially the reorganisation of roles or responsibilities, may be connected to streamlining/simplification of pay structures and IDR has already monitored examples of firms removing grades following the advent of the NLW (see section 3).

While the survey indicates that relatively large proportions of employers are taking these steps, only around a quarter specifically link these changes to the NLW. However the case studies highlight that there does appear to be a relationship between the NLW and the introduction of new technology, with the rising cost of labour, as embodied by the NLW, cited as a rationale for investment in labour-saving equipment.

FIGURE 20: PROPORTION OF RESPONDENTS IMPLEMENTING PRODUCTIVITY CHANGES SINCE APRIL 2016



Interestingly, while the survey suggests that a large proportion of employers are upskilling staff, using extra training and reorganising roles and responsibilities, when questioned further, most case study employers described any increase in training, for example, as **not** linked to the introduction of the NLW and instead is motivated by changes to regulatory requirements. One firm (the retail and wholesale distributor) says that increased individual responsibilities partly due to the cost pressures of the NLW have actually made it more difficult to release staff for training, while at the social care company NLW costs have affected the training budget.

A key theme in respect of productivity and the NLW is the difficulty firms report in taking steps to increase productivity in labour-intensive services. The hotel business thinks that making people clean bedrooms faster, for example, could compromise its commitment to quality, while the social care provider says that it cannot see how staff roles and responsibilities could be reorganised in a more efficient way while still providing the same service to clients. The small nursery that has explicitly started to recruit younger workers perceives that the service it provides has deteriorated due to its efforts to keep wage costs down.

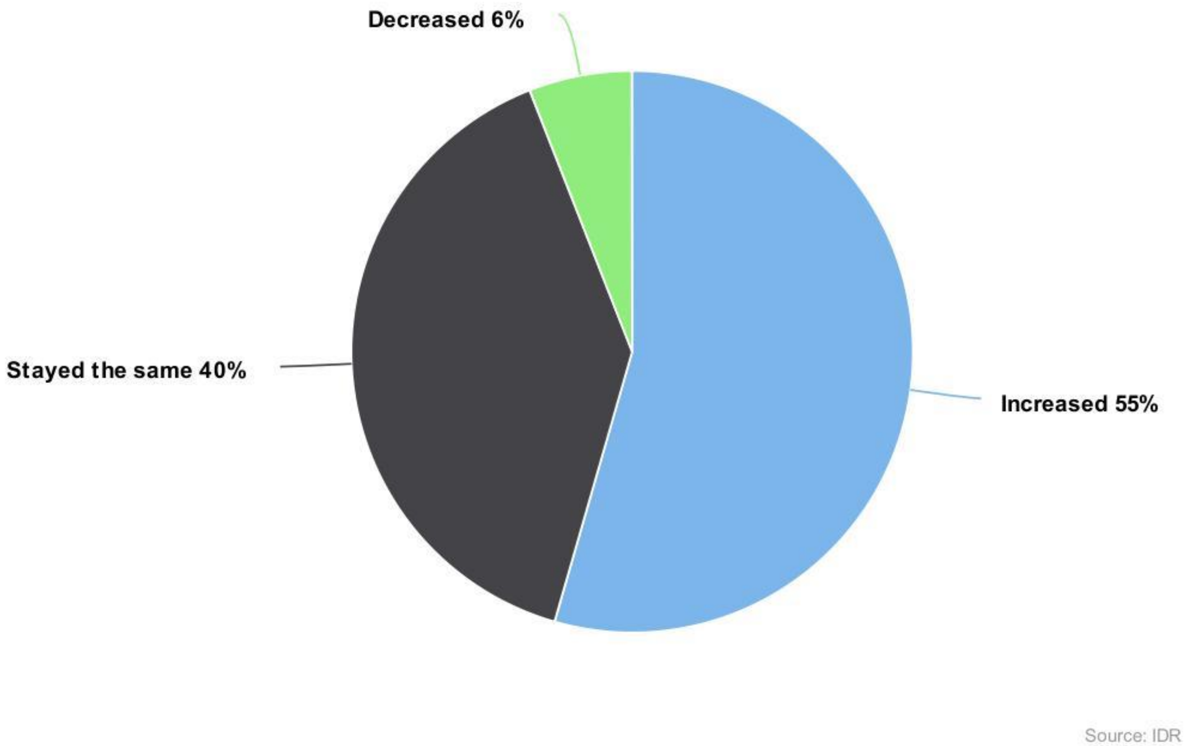
On the other hand, there does appear to be a relationship between the introduction of the NLW and investment in technology at some companies. One food manufacturer (not included in the case studies) that spoke to IDR described how the firm's recent investment in plant semi-automation, which is now complete, would have happened regardless of the NLW, but that rising labour costs strengthened the case for investment in technology and the 'payback' from it. The farming and food manufacturing company (case study E) tells a very similar story of an investment in technology that it plans to roll out over the next six to 12 months. At both, fewer jobs have been or will be required to carry out the same work processes following the roll-out of the new technology.

While food manufacturing is the low-paying sector where the link between higher labour costs and technology appears most evident, one hospitality business is also using technology to help it increase efficiency and productivity, by introducing new tills that enable it to minutely analyse sales data and a labour planning system that will improve its ability to match staff hours to demand. This has been a common approach in parts of retail following the advent of the NLW.

5.2. Prices and profits

In respect of prices, most respondents (55%) state that the prices they charge customers have increased over the past year. This compares to figures from last year's survey when 33% of respondents thought that price increases were likely.

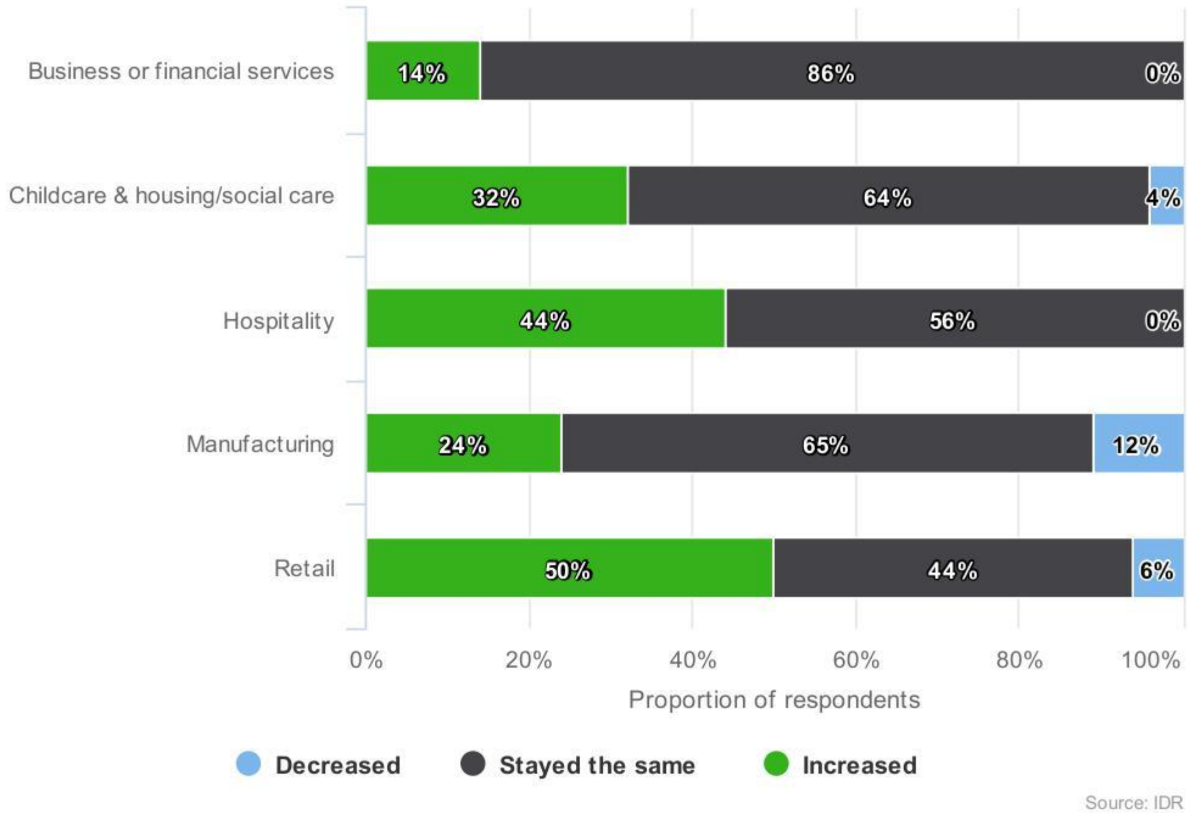
FIGURE 21: EMPLOYER REPORTED CHANGES IN PRICES OVER THE PAST YEAR



By sector, employers in childcare and housing/social care and hospitality were more likely to increase prices than respondents in other sectors, at 50% and 44% respectively. Price increases were linked to the advent of the NLW by 67% of respondents, most often those in 'traditional' low-paying sectors, particularly childcare and housing/social care.

The case studies revealed that the ability to raise prices varied widely by sector and was rarely cited as a response to the NLW – more often an inability to raise prices (due to market competition for example) was cited as an additional brake on profits.

FIGURE 22: EMPLOYER REPORTED CHANGES IN PRICES OVER THE PAST YEAR BY SECTOR



The survey asked employers to indicate how company profits had changed in the past year. Employer views on this diverge, as might be expected, with equal proportions of respondents reporting increases, decreases and no change. A closer look at the responses shows that employers in childcare and housing/social care are slightly more likely to have experienced a squeeze on profits over the last year, while manufacturers are more likely to report profit growth.

FIGURE 23: EMPLOYER REPORTED CHANGES IN COMPANY PROFITS OVER THE PAST YEAR

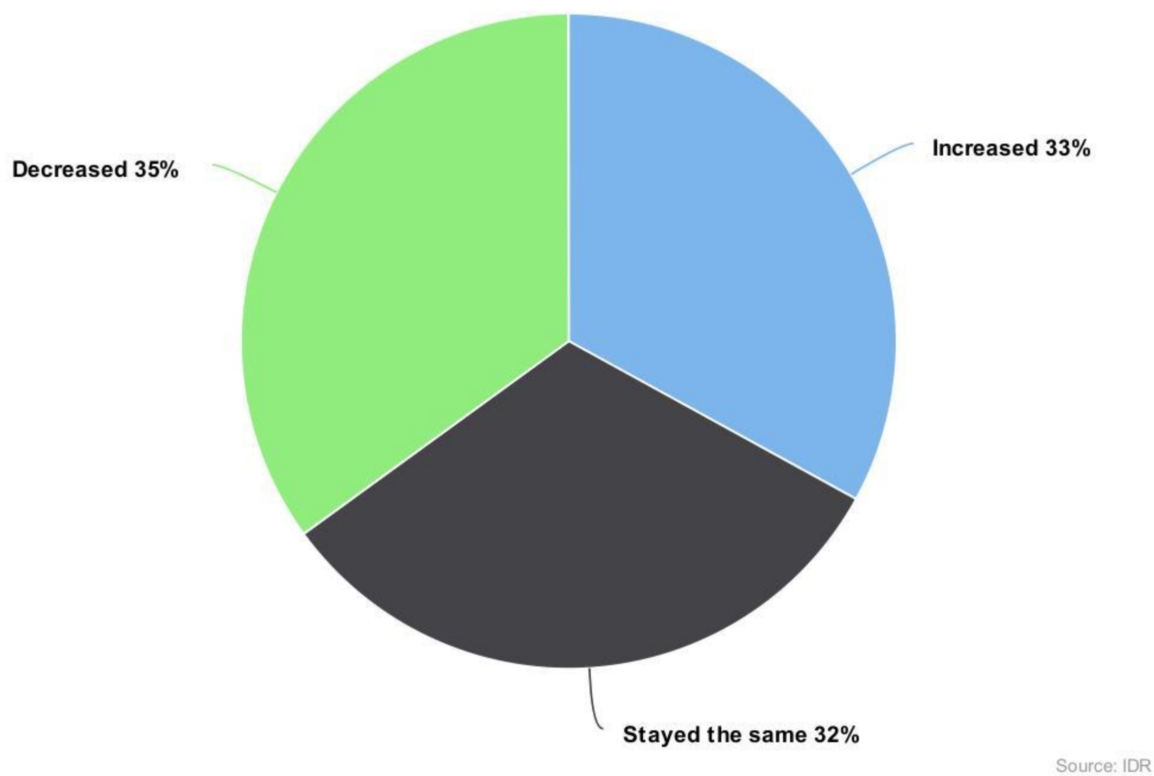
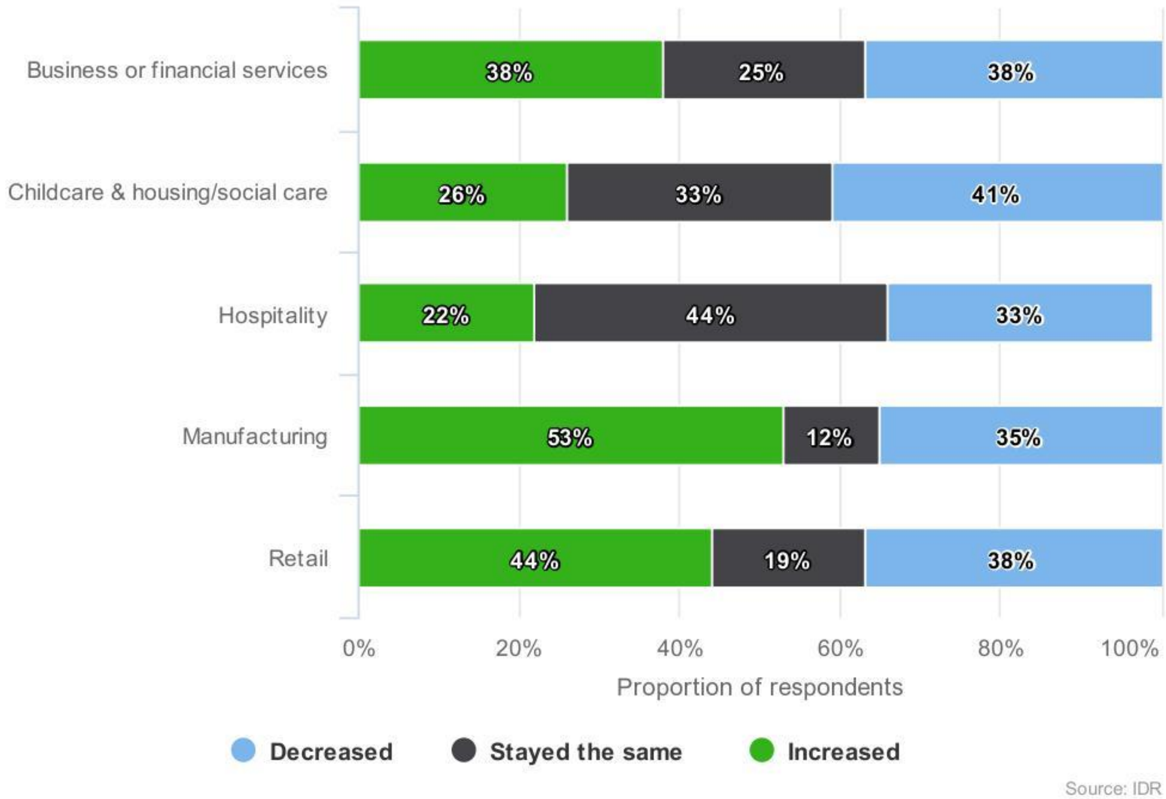


FIGURE 24: EMPLOYER REPORTED CHANGES IN COMPANY PROFITS OVER THE PAST YEAR BY SECTOR



Around a third of respondents indicated that company profits have decreased over the last year. Closer inspection of responses by firms that reported a decline in company profits shows that the majority link this to the NLW – 27 of the 32 firms (84%) reporting a decline in company profits state that the NLW was a factor.

All but one of the case study organisations reported some reduction in profits (or absence of growth) in 2016/17 as a result of the increase to paybill costs resulting from the NLW, although a wide range of other factors, such as competitive conditions, the higher costs of raw materials or, in the care sector, the level of funding from local authorities, also figured.

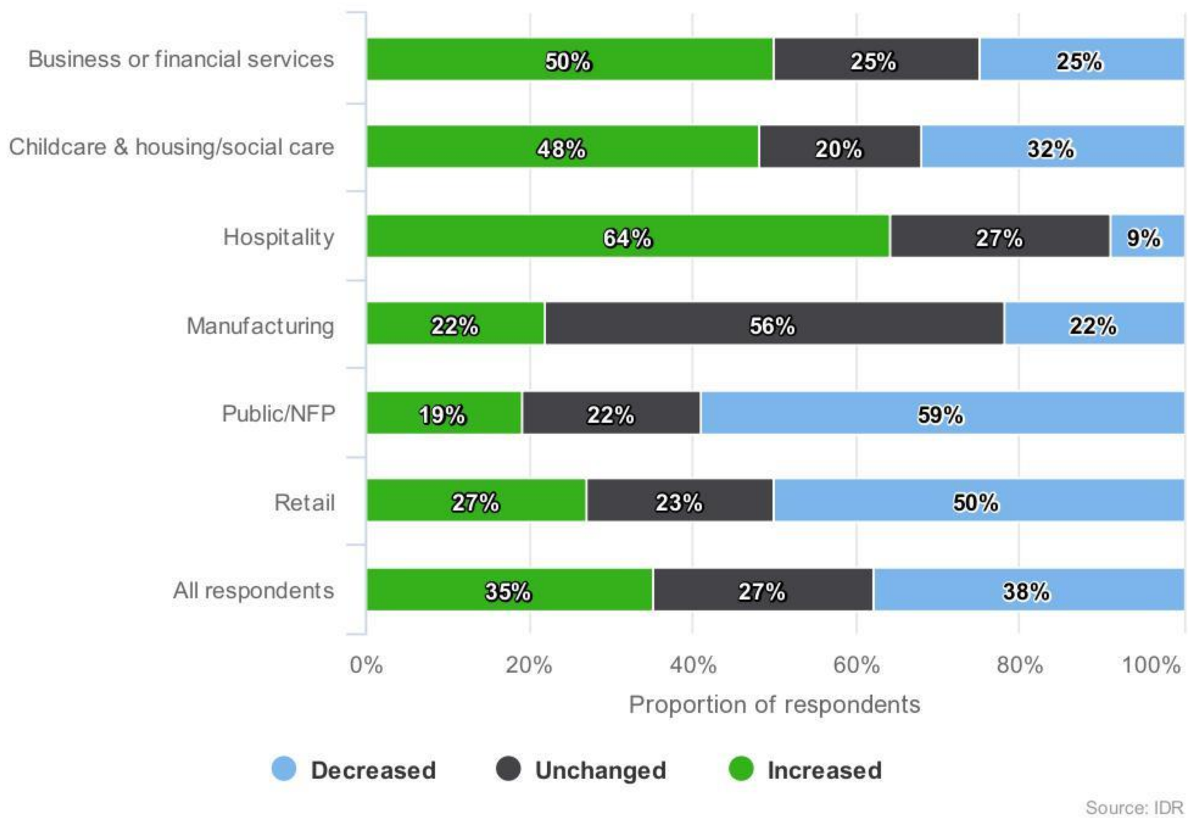
6. Employment effects

In this section of the report we look specifically at low-paid workforces and examine whether the NLW is having an impact on employment, either directly through job losses or by other less obvious means, such as the substitution of older workers for younger workers. We also examine survey responses on the impact of the EU referendum result on recruiting and/or retaining EU nationals.

6.1. Headcount changes

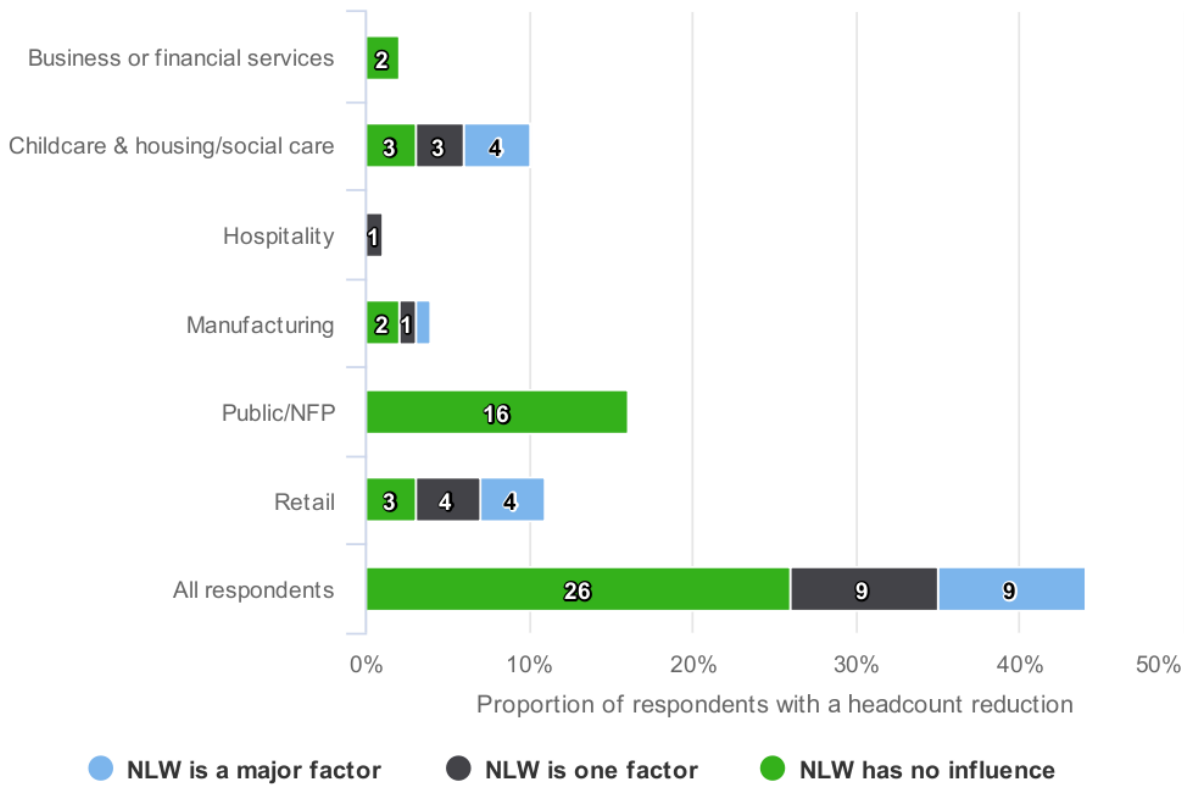
The survey asked employers about any change in the number of permanent/directly-employed workers since April 2016. In many of the sectors covered by the research, more businesses were expanding or maintaining their workforces than reducing them. However headcount reductions were more common (than increases or steady states) in retail employers on the one hand and public/not-for-profit employers on the other, with the NLW looming largest as a factor in the case of retail. Here, it was cited as a major factor by 36% of those reducing employee numbers, and by 37% as one factor in workforce cuts.

FIGURE 25: EMPLOYER REPORTED CHANGES IN HEADCOUNT SINCE APRIL 2016



Employers that had experience a headcount reduction were subsequently asked to indicate whether the NLW played a role in this and 41% stated that it did – half of whom said it was a ‘major’ factor. As the chart shows, there are significant variations by sector, with the NLW having more of an influence in ‘traditional’ low-paying sectors. For example, employers in business or financial services and public and not-for-profit sectors all state that headcount reductions are not linked to the NLW in any way. Meanwhile the small number of hospitality employers that reported a workforce reduction since April 2016 all state that the NLW was a factor in this. Looking at childcare and housing/social care and retail respondents similar proportions (around a third) view the NLW as a major factor.

FIGURE 26: EMPLOYER VIEWS ON THE INFLUENCE OF THE NLW ON HEADCOUNT REDUCTIONS SINCE APRIL 2016



Source: IDR

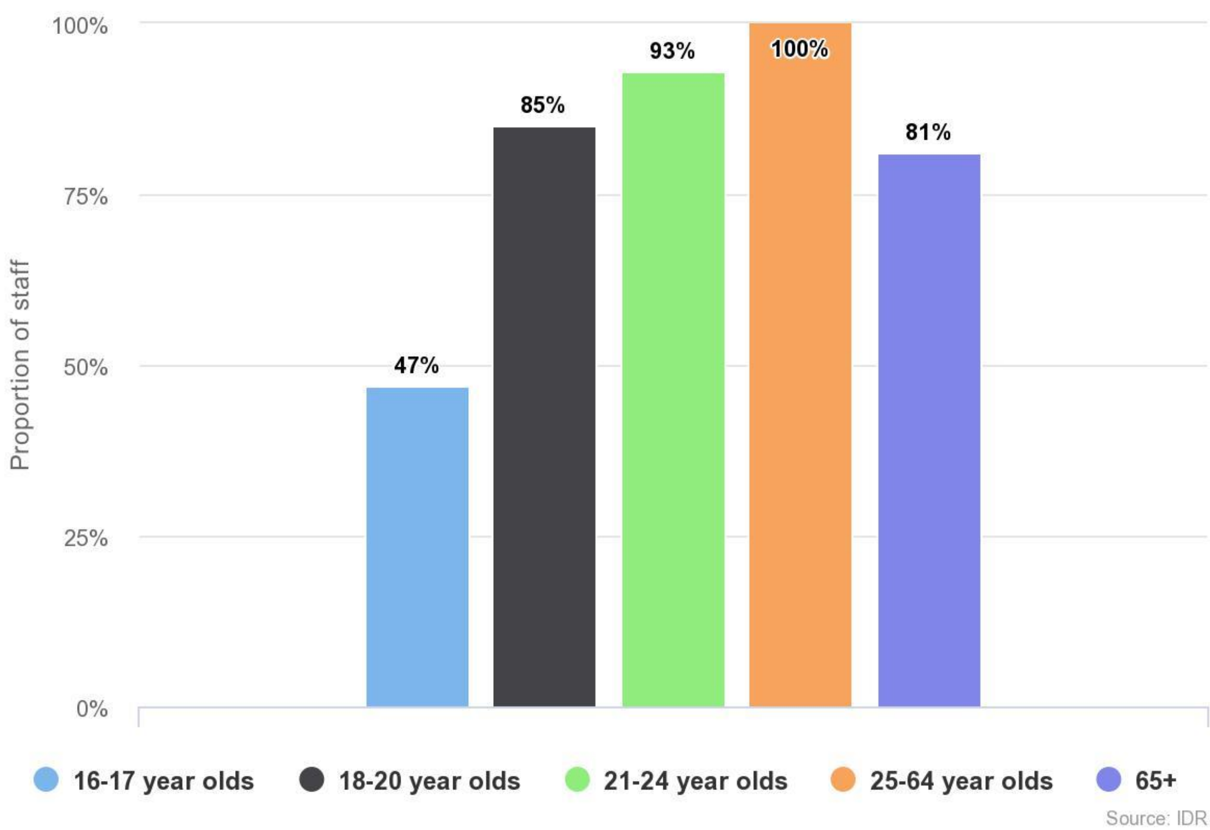
Last year’s survey asked employers to predict how they thought the size of their workforce might change in the near future and 19% of respondents anticipated a decline in workforce numbers at that point. The data from this year’s survey suggests more firms have reduced headcounts than previously predicted. Analysis of responses from 17 firms that provided data in both 2016 and 2017 shows that employers’ predictions were accurate in three out of four cases. Of those that anticipated workforce numbers would remain unchanged over the last year, 4 out of 10 reported a decline (although the same proportion also reported an increase).

One of our case studies explicitly linked workforce changes to the NLW. This was the social care provider (case study A), where a business contraction over the past five years (involving reducing headcount by around 30%) was seen to have increased pace significantly because of the costs associated with implementing the NLW.

6.2. Workforce age profiles

Survey respondents' workforces varied in respect of age profile. All employed staff aged between 25 and 64, and most employed staff aged 18 and over. However the proportion of employers reporting that they employ staff aged under 18 is just under half (47%).

FIGURE 27: PROPORTION OF RESPONDENTS EMPLOYING STAFF IN EACH AGE BRACKET



Where respondents do employ staff aged under 18 this group typically represents a v ery small proportion of the overall workforce. Similarly, staff aged 18 to 20 also represent a relatively small proportion of the total workforce at survey respondents. Those aged 21 to 24 – a key group of interest since the NLW's introduction – represent 7% of the workforce at the median and 11% on average. As figure 28 shows, staff aged under 18 typically account for 2% of the workforce (4% on average), and those aged 18 to 20 represent 3% of the workforce (8% on average). Overall all those aged under 25 combined typically represent 9% of the total workforce (19% on average). The average/mean figures vary significantly from the median because of the range of age profiles.

FIGURE 28: MEDIAN PROPORTION OF STAFF IN EACH AGE BRACKET

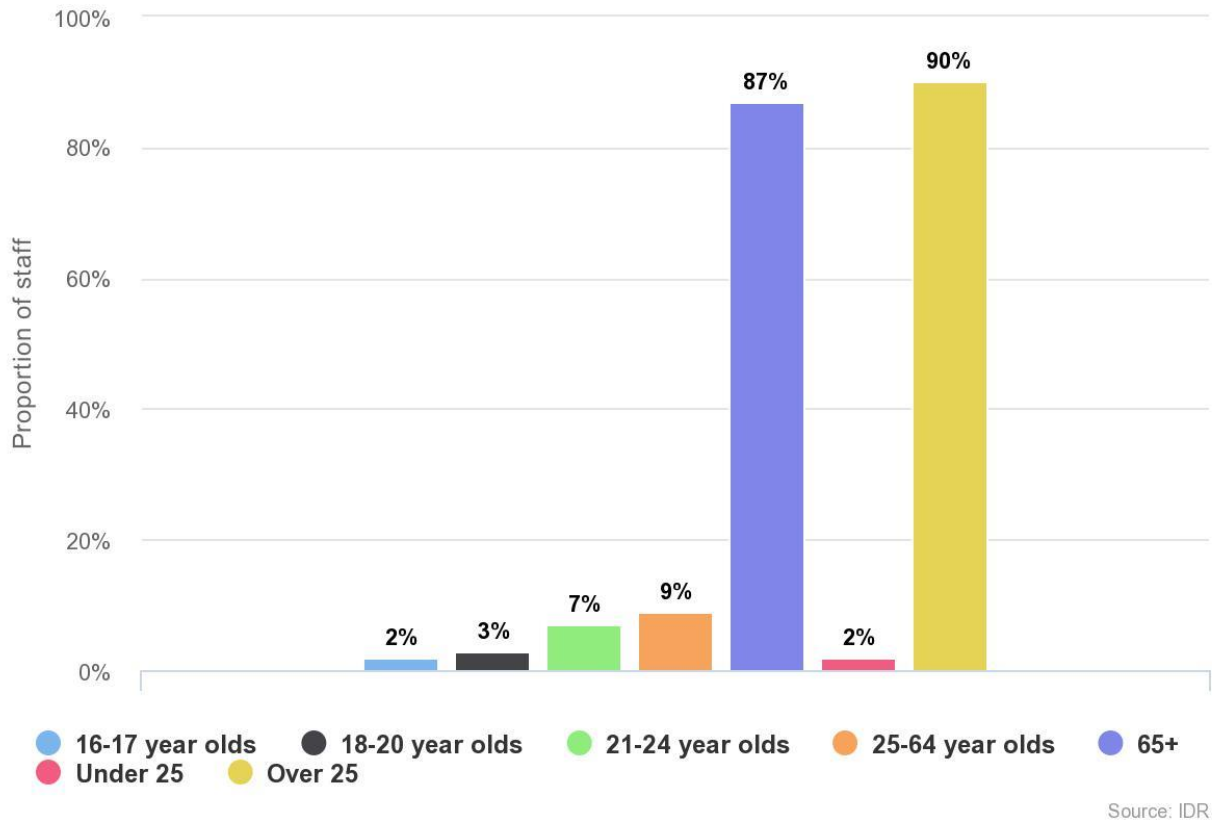
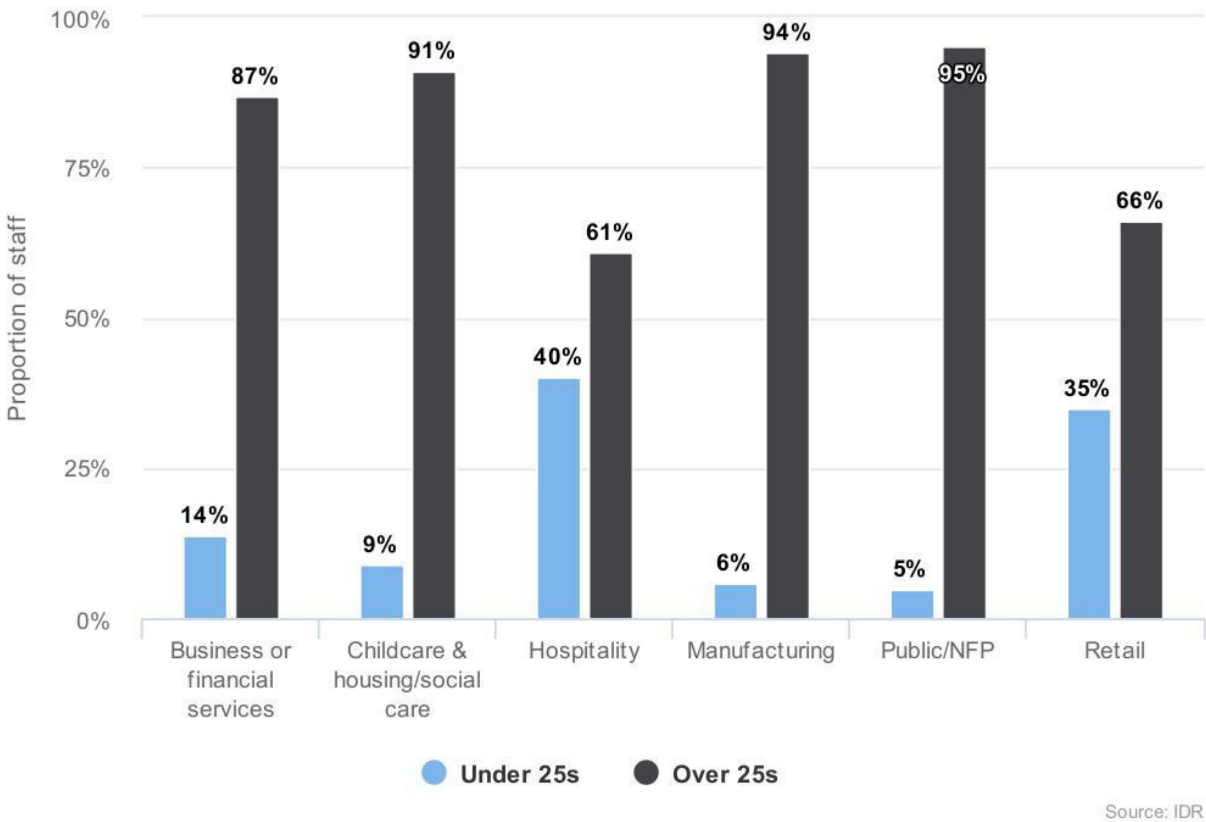


TABLE 16: PROPORTION OF EMPLOYEES IN EACH AGE GROUP (%)

	16 to 17 years	**18 to 20 years**	**21 to 24 years**	**Under 25s**	**25 to 64 years**	**65 years and over**	**Over25s**
Lower quartile	1	1	4	5	68	1	74
Median	2	3	7	9	87	2	90
Average	4	8	11	19	79	3	81
Upper quartile	5	11	15	27	92	4	95
Sample	*52*	*91*	*100*	107	107	87	107

As the following chart shows, there are significant differences in age profiles by sector – with the largest proportions of under-25s employed in hospitality and retail. On the other hand, limited numbers of young people are employed in manufacturing and the public and not-for-profit sectors.

FIGURE 29: MEDIAN PROPORTION OF UNDER AND OVER 25S BY SECTOR



The survey sought to gather evidence of the NLW's impact on age profiles. While the results provide some examples of the NLW having an impact on age profiles, with a shift towards younger workers in some cases, this was not widespread and was offset by changes in the opposite direction in a number of firms. Because of a certain amount of difficulty in persuading large employers to provide information on their workforce age profiles we feel that more research is needed in this area.

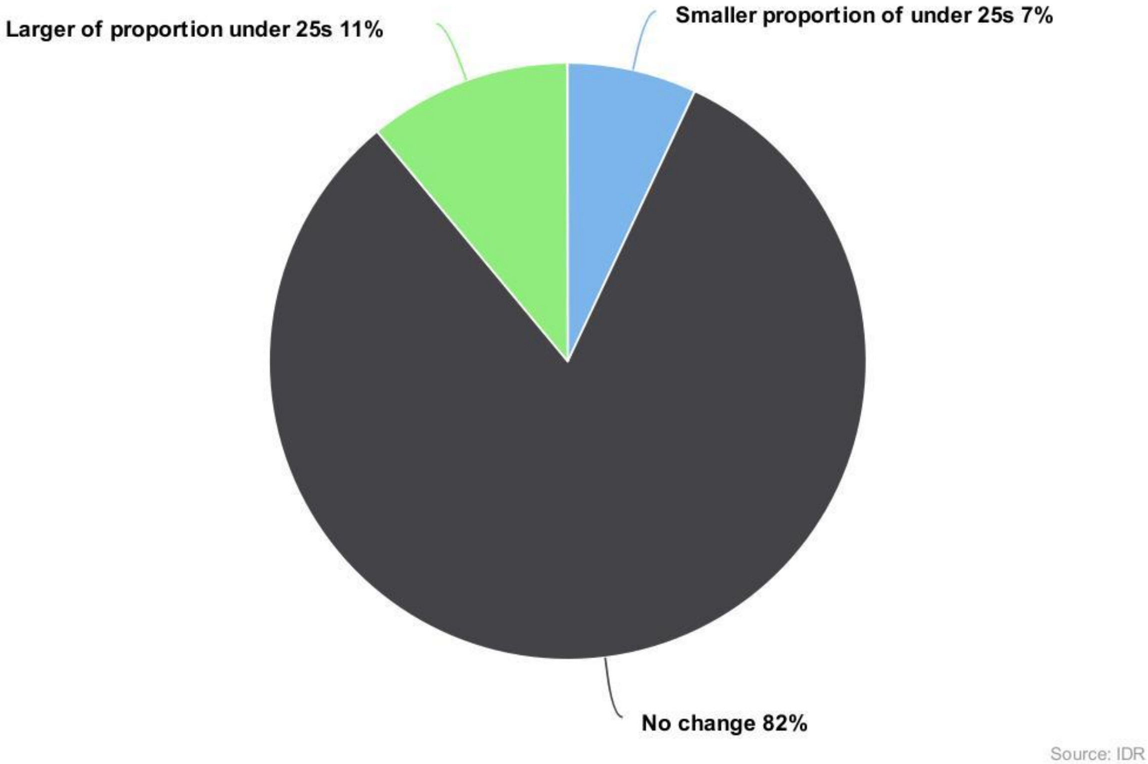
Overall just 11% of respondents state that their organisation has a larger proportion of staff aged under 25 and a smaller proportion aged over 25 than it did in April 2016. Of these employers, two-thirds (eight out of 12 cases – all in retail and childcare & housing/social care) reported that the NLW had an influence on this change. In terms of how much of an influence, six of these employers said that the NLW was a ‘major factor’ and the remaining two respondents said the NLW was one of many factors having an influence. It may be that this could change in coming years, but equally it could be that the duration of the differential between the under-21, 21 to 24, and 25-plus rates mean that the savings for employers accruing from a shift in age profile are minimal, and even then might not be desirable from the point of view of labour/product/service markets. In any case it would be useful to continue to try and track this further over the coming period.

Conversely, some 7% report that they now employ a smaller proportion of workers aged under 25 and a larger proportion over 25 compared to April 2016. In the majority of cases (6 out of 8) this was not linked to the NLW but in two cases the NLW was cited as a ‘major factor’ (both small food retailers).

Looking in more detail at some specific examples, one small childcare nursery that provided data on the size and age profile of their workforce in 2016 and 2017 maintained headcount between 2016 and 2017. However, the nursery’s age profile has been shifting in line with its earlier prediction, with the proportion of under-25s growing from 42% to 58%. Looking further ahead this employer told us that the proportion of under-25s seems unlikely to increase further due to the early years payment model, whereby qualified staff receive the maximum funding level which acts as a disincentive for childcare providers to recruit more younger (and thus more likely to be unqualified) staff.

The case studies also provide two further examples. The retail and wholesale distributor (case study B) reports that more than three-quarters of its workforce are over the age of 25, but it reports a shift towards employing younger workers by store managers, whose bonuses include a wage-cost control measure. Secondly, the small childcare nursery (case study G) has sought to employ workers below the age of 25 in order to minimise wage costs arising directly as a result of the NLW and there has been a significant shift in the age profile. Before April 2016 most of its workforce were over the age of 25, but one year later eight out of its 10 employees are below the age of 25.

FIGURE 30: EMPLOYER REPORTED CHANGES TO WORKFORCE AGE PROFILE SINCE APRIL 2016



Last year's survey found that just over a third (35%) of respondents believed the age profile of the workforce was likely to change following the implementation of the NLW. We found that childcare employers were slightly more likely to consider this a possibility, with those in retail and distribution the least likely to expect much change in this regard. A matched sample analysis of data from 14 firms shows that most of these firms' predictions turned out to be wrong: in 2016 10 of these companies predicted no change to their age profile in 2017, but in fact in 2017 half of the 14 reported an increase in the proportion of staff under 25 and half reported a reduction in the proportion of under-25s. So change did take place, but it is difficult to draw conclusions about the direction of the change.

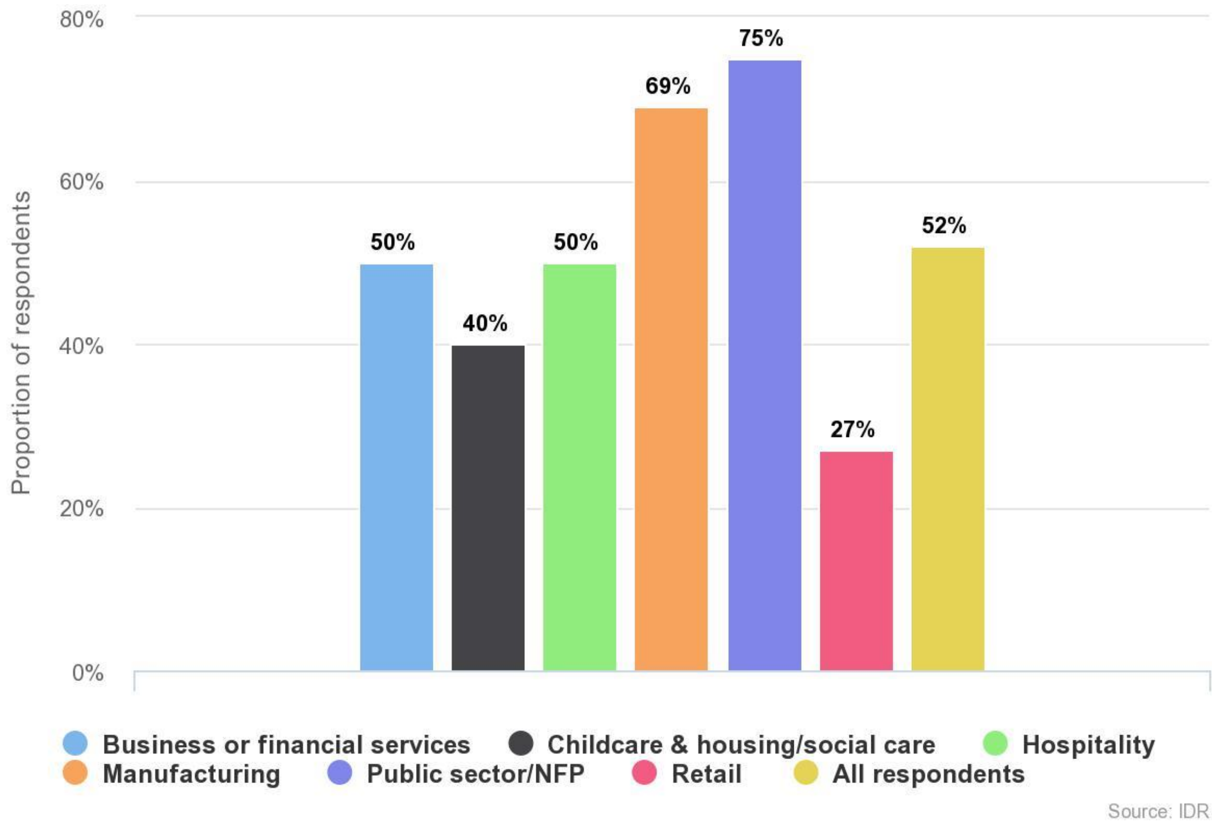
6.3. Impact on agency workers and apprentices

Overall half of respondents (52%) employ agency workers[7], however there are significant differences by sector and in the main agency workers are comparatively less common in the 'traditional' low-paying sectors of the economy, such as hospitality, retail or social care. As the

[7] A number of respondents provided no response and so these have been omitted from the analysis for this question.

chart shows, the overall figure is heavily influenced by the presence of agency workers in manufacturing, and to a lesser extent in the public and not-for-profit sectors. The chart also shows that where agency workers are used in traditional low-paying sectors, this tends to be more common practice in retail and hospitality than at childcare and housing/social care providers.

FIGURE 31: PROPORTION OF RESPONDENTS EMPLOYING AGENCY WORKERS BY BUSINESS ACTIVITY



By firm size, none of the smallest firms employing less than 50 staff responding to our survey report employing agency workers. This practice seems to be more widespread among larger firms (some of which will be linked to the sector trends identified previously).

The survey also asked employers whether agency staff numbers had increased or decreased since April 2016 as part of a series of questions relating to staffing change (see section 3). Overall 19% report that agency staff numbers had declined since April 2016, of which fewer than a fifth (17%) of those state that the NLW has been a factor in this (only one of the 18 stated the NLW as a 'major' factor).

A smaller proportion (12%) report an increase in agency workers since April 2016; however, in the majority of cases this is not linked to the NLW. Overall just three employers of the 13 that reported an increase in agency staff attribute the NLW as a factor, one of whom states the NLW is a 'major' factor.

These data indicates that the new statutory minimum for adults is having a limited impact on the use of agency workers and further comment from one manufacturer suggests that the rising level of the statutory minimum could result in a reduction in the use of agency (and often more expensive) staff: *'[the NLW] only affects some agency contract roles - not directly employed staff - but it will nevertheless have ongoing implications for overall costs and may influence how we use contract roles in future'*.

The food manufacturer (case study E) has reduced its use of agency workers, seeking to improve the quality of its workforce and reduce costs partly in response to wage rises for operational staff.

In the vast majority of cases agency staff represent a small proportion of the directly-employed workforce – less than 10% in 86% of cases (of those using agency staff?) and just 1% in 38% of cases. Overall agency workers represent 2% of the total survey workforce at the median and 5% on average.

The advent of the NLW could potentially lead to more apprentices being hired, since the statutory apprentice rate is significantly lower at £3.40 an hour. In line with this, the survey asked if employers had taken on apprentices and whether and how the number of apprentices had changed. Overall just over half of respondents have taken on apprentices since April 2016 but the majority (82%) report that this is not linked to the NLW. Those that do report the NLW as a factor in this decision are primarily in childcare and housing/social care, accounting for five of the nine employers (two are in hospitality, one in business or financial services and one manufacturer). Looking at increased numbers of apprentices only a small proportion of employers attribute this to the influence of the NLW. To summarise, the survey indicates that the NLW is having very little impact on the use of agency staff or apprentices.

FIGURE 32: EMPLOYER VIEWS ON INFLUENCE OF THE NLW ON AGENCY AND APPRENTICE STAFFING CHANGES

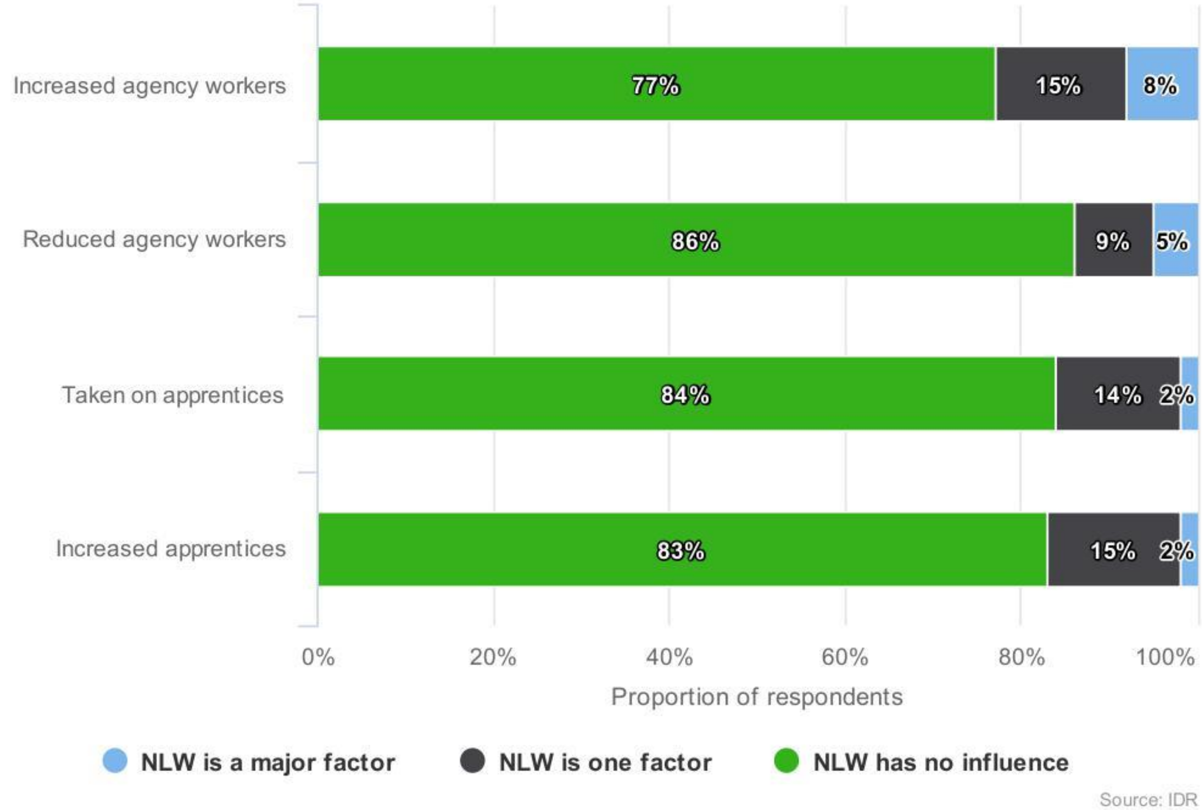


TABLE 17: EMPLOYEE NUMBERS BY STATUS

	Number of directly-employed staff	Number of agency workers	Agency workers as a proportion of directly-employed staff %	Agency workers as a % of all staff (direct plus indirect)
Lower quartile	171	7	1%	0.8%
Median	1,240	28	2%	2.2%
Average	8,578	271	5%	6%
Upper quartile	4,800	100	5%	5.1%
Sample	*117*	*30*	*30*	*30*

On apprentices, most case study employers seem to be responding to the apprentice levy on a gradual basis by recruiting a few more, but some are at the stage of considering whether to take a more strategic approach in terms of the role that apprentices play in their organisations. For example, one major employer interviewed by IDR (not included in the case studies) is considering expanding its apprentice programme. It currently uses apprentices mainly for retail graduate and office support roles but is looking at employing them in other areas as well.

It is notable that at least two case study organisations (case studies D and E) pay adult apprentices the minimum adult rate for the job in the first year – in both cases the adult NLW rate – rather than the statutory minimum. Indeed we did not find evidence of employers explicitly taking on apprentices in order to minimise wage costs, with the exception of the small nursery which stated that apprenticeships were a useful tool in minimising paybill costs, and had hired two apprentices. The question of whether companies might make more use of apprentices might depend on how easy/difficult employers find the management of apprentice schemes.

6.4. Impact on recruitment and redundancies

The survey also asked employers about their headcount management strategies since April 2016 and the extent to which the NLW has influenced replacing leavers, recruitment and redundancies. The findings indicate that the NLW only plays a minor role in employers' decisions to adopt a strategy of not replacing leavers or to slow or freeze recruitment altogether. Around half of respondents had implemented measures to limit staff numbers and almost half of these stated the NLW had an influence on this decision (see charts). The exception was in respect of redundancies, where the NLW had little impact.

The case studies did not provide any further insights on limiting recruitment but mirrored the survey findings on redundancies: namely that most had made redundancies at some point over the 12 months to April 2016 in some areas of their organisation, but in most cases, this was not related to the NLW.

FIGURE 33: PROPORTION OF RESPONDENTS IMPLEMENTING RECRUITMENT STRATEGIES AND REDUNDANCIES SINCE APRIL 2016

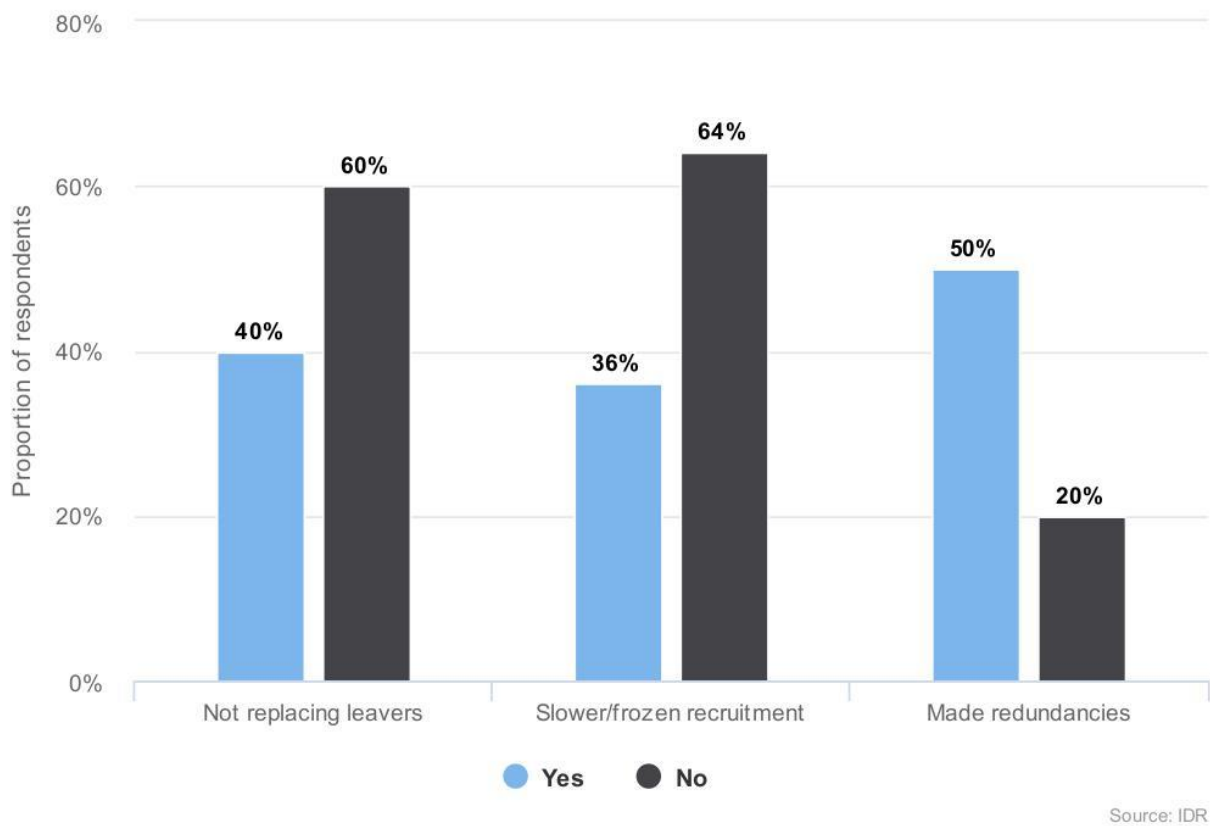
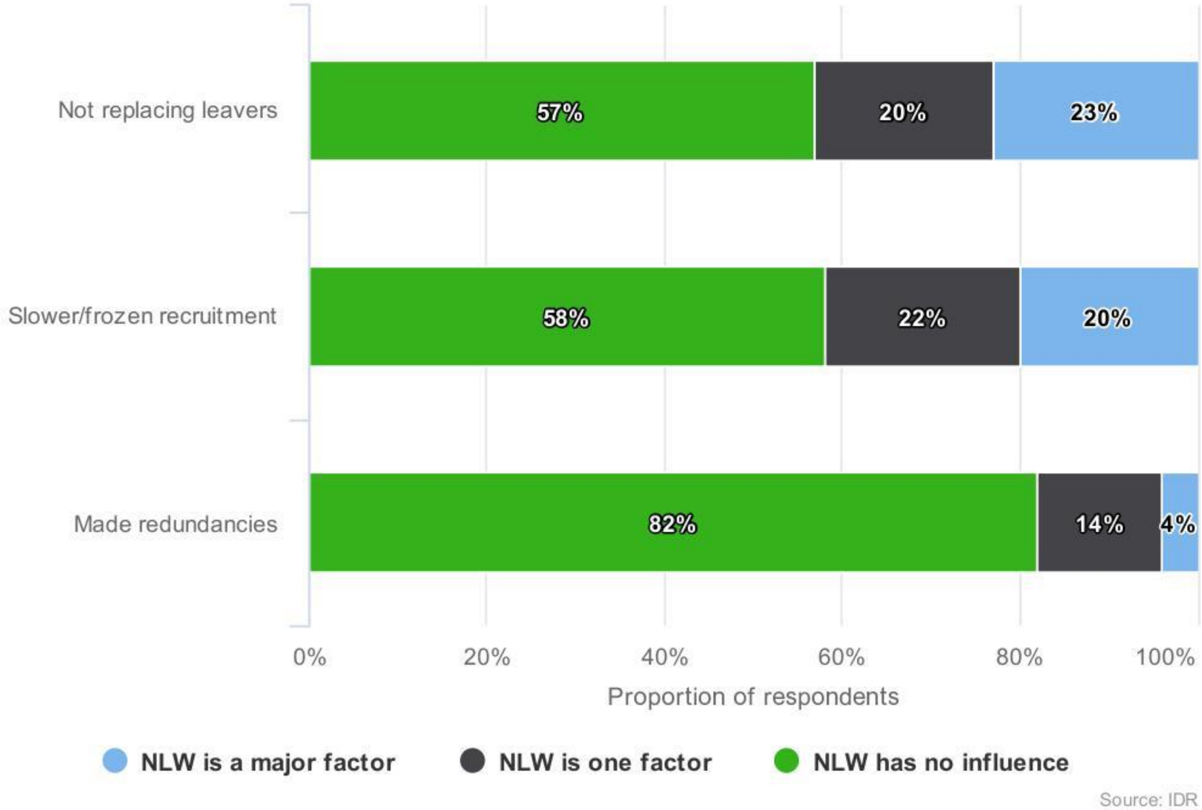

80%
60%
40%
20%
0%
Proportion of respondents
40%
60%
36%
64%
50%
20%
Not replacing leavers
Slower/frozen recruitment
Made redundancies
Yes
No
Source: IDR

FIGURE 34: EMPLOYER VIEWS ON INFLUENCE OF THE NLW ON RECRUITMENT AND REDUNDANCIES SINCE APRIL 2016

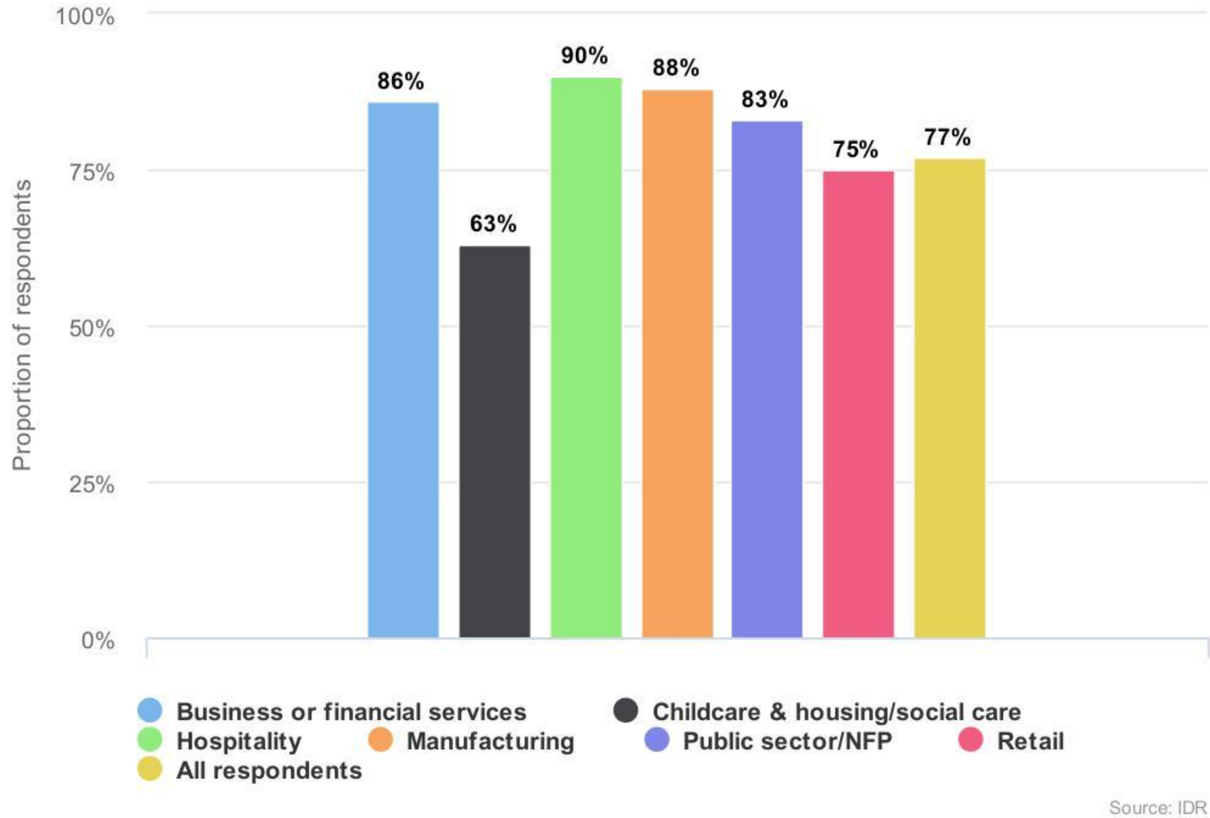


6.5. EU nationals

The survey sought to establish levels of EU employment across the low-paying sectors and the data shows that 77% of respondents employ EU nationals. A closer look at the results by sector shows that this practice is prevalent across most sectors, but particularly so in childcare and housing and social care and hospitality. Some 90% of respondents in childcare and housing and social care report employing EU nationals, while in hospitality the equivalent figure was 88%.

The UK's vote to leave the EU has prompted concerns about the impact on employment, particularly in sectors with large migrant workforces, and respondents were asked if they had found recruiting or retaining EU nationals more difficult since the EU referendum. Overall 11% of respondents reported such difficulties, which indicates a limited impact at this stage.

FIGURE 35: PROPORTION OF RESPONDENTS EMPLOYING EU NATIONALS BY BUSINESS ACTIVITY



The case studies also show that while many firms' recruitment and retention of EU citizens has been unaffected by the referendum decision, some do appear to have been affected. The most significant concerns were voiced by the hotel group (case study D), where 70% of workers at one location are EU citizens. Some are leaving the business (because of the referendum decision, according to the employer) and around 12% of roles are vacant. Other organisations are not yet seeing negative effects but are carefully monitoring the situation.

One effect of the NLW has been to iron out variations in pay between low-paid jobs in different sectors, but other differences persist. For example, the social care provider (case study A) is concerned that if/when more EU workers start to leave local hospitality businesses then social care staff will leave to work in hospitality or retail because these jobs are perceived to be less stressful and demanding. The care provider hopes to both promote its jobs as socially meaningful and maintain rates above statutory minima as much as possible.

7. Case studies

7.1. Case study A – Care provider

This care provider employs 3,600 people at 60 sites in the UK, both to local authority-funded and private clients. It operates 30 residential care and nursing homes and runs a variety of home and community care services for the elderly and people with learning disabilities. It also has a training business that offers training to both its own staff and companies and employees in other sectors. The workforce is predominantly female (80%), aged 25 or over (74%) and part-time (65%). There is a recognition agreement with two trade unions that covers employees in the care businesses and care homes.

Residential employees are all employed on regular hours contracts and tend to work on a three-shift system, while learning disabilities staff also usually provide 24/7 cover via shifts. However, the majority of homecare staff are employed on zero-hours contracts (covering care and travel time hours) in order to cover peaks and troughs in care patterns, an arrangement which long pre-dated the introduction of the National Living Wage (NLW). The company reports experimenting with set hours contracts a few years ago, but found that this led to loss-making contracts, as the company were paying for staff hours that were not being funded by the local authority.

Some agency workers are also used in residential care homes (but not in home or community care). The company would prefer not to do this but finds it necessary to ensure cover for absence and holiday.

National Living Wage and pay rates/increases

There are two main sets of job roles and pay arrangements: those for care workers in home or community settings and those working in residential care homes (see overleaf). In both settings, most roles in both have a starter rate (applying for the first 26 weeks' service) and one or two rates for established staff, while those for managers have a four-point pay scale. Table 1 shows pay rates for community or homecare settings in the company's main geographical area (there are some variations by location). There are no lower age rates (except for a very small number of employees aged 16-17 who are paid slightly below adult starter rates), with the large majority of employees aged under 25 paid the same as those aged 25 or over.

The majority of staff are care assistants (in residential care) and care and support workers (in community and homecare). Only around 10% of employees are on the very lowest rates paid by the company (£7.52ph from 1 April 2017).

TABLE 18: EXAMPLE PAY RATES IN COMMUNITY/DOMICILIARY CARE SETTINGS (MAIN GEOGRAPHICAL LOCATION), 2016/17

Job role	Starter to maximum pay rate from 1 April 2016, £ph/pa	Starter to maximum pay rate from 1 April 2017, £ph/pa
Care and support worker	7.29-7.87	7.61-8.22
Reablement worker	8.04-8.77	8.40-9.16
Community team supervisor	8.88-10.00	9.27-10.45
Care manager	24,163-29,416	24,646-30,004
Business manager	32,130-40,000	32,772-40,800

TABLE 19: PAY RANGES, RESIDENTIAL CARE SETTINGS, 2016/17

Job role	Starter to maximum pay rate from 1 April 2016	Starter to maximum pay rate from 1 April 2017
Domestic/cleaner	7.20	7.52-7.58
Care assistant	7.28-7.36	7.60-7.69
Shift leader	7.83-8.12	8.18-8.48
Supervisor	8.26-9.57	8.63-10.00
Deputy manager	10.44-12.93	10.64-13.85
Manager	15.12-22.19	15.42-23.80

In both 2016 and 2017, the company had to make significant increases to pay in order to comply with the NMW and also made smaller percentage increases to all rates above this. The company still uses starter rates and has not removed any particular rates or points in the pay scale, but differentials between rates at the lower end of the pay scale have been significantly reduced.

The most recent pay review (1 April 2017) saw staff receive an average increase of 4.5%, with increases ranging from nil to 5.5%. In both 2016 and 2017 the difference between care worker/care assistant and supervisor pay rates has been reduced. In the 2017 review, supervisors were awarded increases of 4.5% in order to try and maintain an appropriate gap between their pay rate and that for care assistants.

Trying to prevent an overlap between care assistant and supervisory pay ranges is a key objective, as there are challenges in recruiting to these positions. Going forward, the company feels that maintaining this and other differentials from 2018-2020 while complying with NLW increases "cannot be done". It has done some modelling based on the assumption of £9ph NLW by 2020 and believes that the pay increases that this would entail cannot be funded without care assistants' pay overtaking that of supervisors.

Where agency care workers are used, they can secure an hourly rate that is considerably better than in-house staff, of £8.00 to £8.50, with fees having risen in recent years due to staff shortages. The company reports that some staff move across to agency work in order to maximise their earnings.

Cost-offsetting changes

The company says that the NLW was the main driver behind taking steps in 2016 to make some small changes to overtime and unsocial hours premium rates. Premium pay for working in dementia units was rolled up into the hourly rate as was a higher overtime payment for some staff, but the company says that both these changes only affected some groups and paybill savings were not significant. There have also been recent changes to employer pension contributions, with the company moving from a money purchase scheme for residential care staff (with a 5% contribution for managers and 3% for care workers) to the NEST scheme and a 1% contribution. These changes predated the NLW and reflected pressure to reduce costs from the freeze to local authority grants, but the company says that the NLW is a major factor in holding down employer pension contributions and sticking to the statutory minimum.

Work organisation and productivity

Training and development are a high priority of the company, particularly as it seeks to "grow its own" managers in view of the challenges in recruiting to these positions. However it says that the costs of the NLW (combined with the local authority funding freeze) have led to reductions in its corporate training budget.

It has not taken any specific steps to reorganise work organisation or job roles and has no plans to do so.

The company has around 200 apprentices and says that the number of apprentices has remained around 150-200 in recent years. However, it intends to look at how it can make the most of apprentices in view of recruitment difficulties and the cost of paying the apprenticeship levy since April 2017, which will cost the company around £250,000pa. It does not use the lower apprenticeship minimum wage but instead pays the entry rate for care workers, in view of the fact that many of its apprentices are experienced workers in their 40s or 50s moving from another sector and describing them as "normal members of staff who happen to be studying."

Impact of the NLW

The company estimates that implementing the NLW has cost around £6 million [over both 2016 and 2017]. The company's turnover is around £80 million, while its paybill was around £52 million in 2015/16 and £45 million in 2016/17 (including directors' remuneration and pensions). The smaller paybill is due to retrenchment by the business (see below).

Over the past few years the business has seen a major contraction, with turnover, profit and headcount all decreasing. Five years ago the company employed around 5,000 people, but around 1,400 roles have been lost where loss-making parts of the business were closed primarily because costs could not be met by the local authority fees available. These funding problems predated the introduction of the NLW in 2016, but the company states that the pace of contraction and headcount reduction increased significantly after April 2016 due to the costs of implementing the NLW. For example, one residential home was recently closed, while a number of local authority contracts for home care have ended or been handed back. Fees for private clients were increased (by 3% to 5%) in both April 2016 and April 2017, although clients whose care is funded by the local authority make up the majority of the client base.

The company estimates that the relative contributions of the NLW and the freeze in local authority fees to the business contraction to be around 45% and 55% respectively. Other costs, such as pension auto-enrolment and recent inflationary pressures in costs are also identified as lesser factors.

Impact of the UK's vote to leave the EU

The business employs EU nationals and has found it more difficult to recruit and retain them since the EU Referendum in June 2016. It says that lower recruitment of EU nationals predated the Referendum, with a stronger Euro encouraging some to return to their home countries, but has worsened since the Referendum. One concern is that the NLW is making it less attractive to work in social care given that pay rates are now similar for less demanding roles in retail or hospitality. While the level of EU nationals employed by this social care firm is quite low (70-80 employees) the employer is concerned that the likelihood of many EU nationals leaving the hospitality sector due to the UK's vote to leave the EU will cause retention problems in social care, with care firms unable to offer the pay advantage that they once had. The company's approach is to endeavour to remain competitive on pay and to promote the value of care work as a profession where employees can make a difference, receive good quality training and progress to supervisory and management roles.

7.2. Case study B – Retailer and wholesaler

This firm operates the Scottish wholesale and franchising arm of a convenience store business and directly manages 118 of its stores in Scotland (approximately a further 200 are run on a franchised basis).

Distribution operates out of large warehousing complex in Dundee with a fleet of lorries servicing stores across the length of Scotland from Highlands & Islands to Gretna.

Across head office, distribution and stores the company employs just over 2,000 people, approximately 1,800 of whom are non-management staff.

Pay rates and grading structure

Just over a third (36%) of adult staff are on the NLW, with the largest number of employees on minimum-wage rates working in the stores. A typical store consists of a manager, supervisor and a number of general assistants. Larger outlets also have assistant managers, who, like managers, are salaried.

TABLE 20: MINIMUM PAY RATES FOR STORE SUPERVISORS AND GENERAL ASSISTANTS, BEFORE AND FROM 1 APRIL 2017

Role	Minimum hourly pay rate	
	Before 1 April 2017	From 1 April 2017
Supervisor (keyholder)	7.70	7.90
Supervisor	7.50	7.75
General assistant (25 and above)	7.20	7.50
General assistant (21-24)	6.95	7.05
General assistant (18-20)	5.80	5.80

With the introduction of (and increase to) the NLW, minimum wage rates now encompass some roles within the distribution centre as well, whereas there was previously a differential between store staff and these employees. Pickers and operatives aged 25 and over are on an hourly rate of £7.50, although they also qualify for an incentive payment based on the number of cases they pick – this typically adds between a further 20p and £1 onto their hourly rate. The level of such payments was reduced in 2016 to keep them affordable (the company had considered eliminating them altogether). This does not yet appear to have adversely affected retention among the distribution centre's many long-serving employees.

There are also various administrative positions at head office (in accounting and trading, for example) that are now level with the minimum wage, although these are comparatively fewer in number.

The effect on differentials

The company has found that, as the minimum wage has increased each year, more and more positions have become subsumed into the NLW, particularly administration roles in its head office operations, resulting in differentials disappearing or narrowing. It has therefore had to increase assistant managers' salaries by a similar proportion to ensure differentials are maintained relative to (hourly-paid) supervisors. The NLW has contributed to a relatively smaller budget available for pay increases for salaried staff.

The differential between keyholding supervisors, supervisors and general assistants has also shrunk: whereas keyholding supervisors and supervisors earned 50p and 30p more than general assistants respectively before April 2017, these differentials are now 40p and 25p.

Annual pay review

Hourly rates are now reviewed in April, in line with the annual uprating of the minimum wage. The company estimates that its annual paybill increased by just over £600,000 as a direct result of implementing the latest increase to the NLW and maintaining differentials. It describes the implementation of the NLW and subsequent uplifts to it as 'very difficult'.

As a consequence, it says that there is less in the pot to share out for salaried staff, whose pay is reviewed each June. In 2016, these employees received a general increase of 0.75% of pay from a total budget of £80,000 (by contrast, the increase for staff on the NLW was 4.2%). This year 1% was given to salaried staff.

Size of workforce

To help mitigate the impact of the NLW, the company has sought to reduce staffing costs in stores by £300,000 this year – equivalent to 20 full-time jobs. It has not been necessary to make redundancies; however, in many cases leavers are not being replaced.

Gradual shift in age profile

Well over three-quarters of staff are aged 25 or over. The company attributes this relatively high proportion to the fact that its wholesale arm is a long-standing, traditional business with many older, long-serving staff. Many of its older stores have also retained many over-25s. A small number of staff at head office and in the distribution centre are aged 16 or 17, on a minimum rate of £4.08 (3p above the NMW for this age group) but due to licensing restrictions store staff must be aged 18 or over.

TABLE 21: AGE PROFILE OF WORKFORCE

Age	Proportion of staff (%)
16 to 17 years	1
18 to 20 years	9
21 to 24 years	13
25 to 64 years	76
65 years and over	2

The company introduced age-related pay in response to the introduction of the NLW (before this, all staff aged 18 and over were on the adult NMW rate as a minimum). Store manager bonuses include a wage cost-control measure and the company has observed a tendency for them to recruit more staff aged under 25 as a consequence. However, these employees still account for a relatively small proportion of the workforce.

Job responsibilities and staff development

The NLW appears to have had an indirect impact on roles and responsibilities. As stores are now typically operating with fewer staff, individual responsibilities have often increased by default. However, this reduction in staffing levels has also made it more difficult for managers to release team members for training, so there has not been a deliberate move to upskill staff to take on additional, more challenging duties.

The company does not currently operate apprenticeships for store roles, largely because the rate of turnover in retail is such that it feels the industry does not lend itself to apprenticeships. Instead, it runs its own in-house, accredited training courses for supervisors and managers. It is considering introducing apprenticeships for warehouse roles but with Scotland operating different arrangements from the rest of the UK, the company does not anticipate seeing a significant return on the contribution it makes under the apprenticeship levy.

Changes to working hours and benefits

The company has long offered variable-hours contracts and has extended their use, citing the NLW as a major factor. There has also been an increasing tendency to offer minimum-hours contracts of 10 hours rather than 16 for new joiners. While the full-time working week is 39 hours, with stores open from around 7am to 10pm, in practice two-thirds of staff work part-time

Staff receive six weeks' leave a year including bank and public holidays, compared with the statutory minimum of 5.8 weeks. The company has looked at reducing this but has not yet implemented any changes in this regard. However, it has extended the eligibility requirement for full company sick pay from a year's service to five years' service for new joiners. It anticipates this will eventually save up to £80,000 a year.

Brexit having a limited impact to date

The company's workforce includes a number of EU nationals, particularly from Poland, Romania and Bulgaria. The Brexit vote does not yet appear to have had much of an impact on the number of staff from these countries but the company anticipates it will attract fewer people from the EU over the coming year and is taking steps to monitor this more closely. In addition, a restriction on the number of international students coming to Scotland has cut off the labour supply from this source in cities such as Aberdeen. To help address these gaps, the company intends to foster closer links with schools, colleges and universities, selling retail and distribution as a career option.

The effect on prices and profits

The company is a low-margin business and it says that the NLW has been a major factor in its decreased profits over the past year, as well as having contributed to increased prices. Citing pensions auto-enrolment and the Scottish approach to the apprenticeship levy alongside the NLW, it feels the number of policies targeting employers has been unprecedented.

7.3. Case study C – Large food retailer

This retail firm employs around 165,000 non-management staff (including team leaders) and around 15,000 people in management roles. The majority (68%) work on a part-time basis. No variable or zero hours contracts are used. The workforce is around 56% female and 44% male. Almost one in four (23%) of employees are aged below 25, with 72% aged 25-64 and 15% aged 65 years or over.

Pay rates

There are five levels of location-based premiums, reflected in basic hourly rates to give five pay scales. The rates shown below are those for the lowest pay scale.

TABLE 22: MINIMUM RETAIL PAY RATES, AS AT 1 APRIL 2017

Job role	Pay rate, £ph
Retail assistant	7.66
Team leader	8.47

There are no age-related pay rates with the exception of a recruitment rate of £5.72ph for colleagues aged below the age of 18. This applies until the employee either reaches the age of 18 or has served 26 weeks with the company.

Pay awards and the National Living Wage

An across-the-board pay award took effect from 28 August 2016, increasing basic pay by 4% for all non-management employees. This took the pay rate for retail assistants on the lowest pay scale from £7.36 to £7.66 an hour, meaning that pay rates for employees aged 25 and over were above the level of the National Minimum Wage in 1 April 2017.

A small group of customer-facing staff (around 2,000 employees) saw their pay increased by up to 2% on 12 March 2017 in a separate pay award as they are on a different type of contract with a lower hourly rate that needed to be increased in order to comply with the National Living Wage from 1 April 2017. This is a legacy contract that a declining number of employees are employed on.

Differentials

As a result of the August 2016 pay award, the differential between retail assistants and team leaders slightly increased as a result of the 4% increase applied to both rates, but the difference between rates for team leaders and those on the first management pay band narrowed. Retail and central managers received a 1.5% pay increase on 13 March 2016, lower than the 4% awarded to retail colleagues. The company says that it is keeping an eye on this differential and will be likely to take steps to address in future years by increasing junior management pay. A further priority for it may be to review pay rates in London (where pay rates already include the highest location premium), where the existence of the voluntary London Living Wage, high turnover and high living costs are all factors that the company would like to address in pay terms.

The company has not yet carried out specific modelling on differentials, partly because of near-term uncertainties such as the outcome of the UK General Election. However it does not envisage particular problems.

Cost-offsetting changes

As in 2016, the company has made no changes to employee benefits, hours of work or other aspect of staff terms and conditions as a result of the NLW. At this point there are no plans to make changes in the future.

Costs of implementing the NLW

The company states that the direct cost of implementing the NLW has increased the annual paybill by £624,000.

Impact on headcount, profits and prices

There have been some redundancies since April 2016, partly as the result of a specific structural business changes and increased competition in the sector, particularly from online retailers. These were mainly in higher-paid roles and involved taking out some duplication amongst senior job roles. However the company does identify the NLW as one factor in adding to costs and therefore contributing to the need to make redundancies. The company does not identify any other employment legislation or initiatives as contributing in this way.

The company states that it has made price increases in the past year, but that the NLW has not had any influence on this development. However, it does identify the NLW as contributing to decreased profits, but not as significantly as the competitive trading pressures outlined above. Overall, it describes implementation as “fairly easy” both in 2016 and 2017 and thinks that this will be the case in future years.

7.4. Case study D – Hotel group

This luxury hotel chain employs around 850 staff in the UK, consisting of 765 non-management employees (including frontline supervisors) and 85 managers. There are around 30 agency workers and approximately 80-90 more people work for the company on temporary, zero-hours contracts. In some departments staff work on an annualised hours basis.

The workforce is split 50/50 by gender and the majority (90%) of staff work on a full-time basis. Just 1% of employees are aged between 18 and 20, 23% are aged 21 to 24, 75% are aged 25-64 and 1% are over the age of 64.

There have been no significant changes to the age profile of the workforce, hours worked, types of contract or other aspects of workforce profile since 2016. However the company says that more staff have asked to move to zero-hours contracts so that they have greater flexibility over the hours they work, despite the fact that they lose a number of employee benefits by doing so.

Pay rates and the National Living Wage

The most common job role at the company is that of assistant, incorporating a wide range of roles such as food and beverage assistant, room assistants, golf course attendants, spa attendants and porters. There are three pay bands for hotel assistants (see Table 18) and a rate for first-line supervisors. Across the company around 30% of employees are on the minimum/NLW rate. Rates above the minimum vary by location.

TABLE 23: HOTEL AND LEISURE COMPANY MINIMUMS FOR HOTEL ASSISTANTS AND SUPERVISORS, 2016/17

Grade	1 April 2016 pay band, £ph	1 April 2017 pay band, £ph
Pay band 1	7.20	7.50
Pay band 2	7.34	7.65
Pay band 3	7.50	7.80
Supervisor*	8.00	8.78

*Average base salary shown for supervisors (varies by location)

No age-related or starter pay rates are used. Prior to April 2016 there was a fourth, lower pay band but this was removed as a result of the introduction of the NLW in April 2016.

2017 pay settlement

On 1 April 2017 a pay award worth 2% of paybill took effect, with individual increases ranging from nil to 4%. While most of the higher increases were due to raising pay to the level of the NLW, other rates were increased in line with a market pay exercise based on market salary surveys. There were also performance-based increases (2% for good performers) and some increases as the result of promotions.

Differentials

While implementation of the NLW in 2016 was considered fairly easy once the lowest pay band was removed, it was more challenging in 2017 because of the impact on differentials. Differentials were broadly maintained this year and the differential between assistant rates and average base pay for supervisors actually increased, in part to compensate for reduced differentials in 2016. It is also difficult to judge this comparison as it represents an average across different hotel sites and was influenced by a number of different factors.

The company considers that it may have to remove a further pay band in its implementation of the NLW in 2018.

Other impacts of the NLW on pay

There have been some small alterations to working arrangements as a result of the NLW.

Firstly, the company was advised that it needed to slightly alter its annualised hours arrangements to comply with the NLW, moving from 52 weeks to 52.1 or 52.3 weeks a year depending on whether it was a leap year, rather than doing a simple calculation of £7.50 x 40 hours x 52 weeks. This has introduced a very slight increase to working hours (which the company says has been unpopular with staff), a slight cost of around £90 per staff member and rewriting employment contracts.

Secondly, some employees previously preferred to save up overtime as time off in lieu for their Autumn holidays, but as this may now take their earnings below the NLW in each pay period this practice has been stopped, with staff now receiving paid overtime hours during the same pay period. The company reports that this has also been unpopular with staff.

Managing the cost of the NLW

Direct compliance with the NLW is estimated to have increased the annual paybill at the company by around 5%. There has been no offsetting of the cost by reducing benefits or allowances. The company sees its employee benefits as an essential part of its recruitment and retention strategy as it is experiencing worsening recruitment difficulties at the moment due to the EU referendum (see below). It offers a wide range of benefits including childcare assistance, a crèche on one site, up to 38 days' annual leave, occupational sick pay, season ticket loans and a healthcare plan. It has recently introduced an Employee Assistance Plan (EAP) which is a service employees can use to help with any personal problems they may be experiencing.

Company profits have fallen this year and prices have been increased. The NLW is described as one factor that has reduced profits, but not the only one. Increased costs (particularly food costs) and the weakened pound are two of the other factors.

Productivity

The company has a number of apprentices (eg in kitchens) and there has been little change in their approach to apprenticeships since 2016. They are paid the going rate for the job with one exception, which is a kitchen run by a contractor where the apprentices are paid the statutory minimum rate within the costs of the contract. In general, apprentices tend to stay on with the company.

While the company says there are high levels of training across its business, it has not taken any specific actions to alter job roles or work organisation in light of the NLW and does not see any potential for making low-paid roles (such as cleaning rooms) more productive without this having a damaging effect on the quality of services it needs to provide in the luxury hotel market, as well as worker wellbeing and retention.

The EU referendum

EU citizens currently make up 70%, 50% and 30% respectively of the workforce of the company's three hotels. It is very concerned at the impact of the Brexit decision and considers that it has both caused employees to leave and made recruiting staff much harder. It currently has up to 100 vacancies amongst its workforce of 850 and reports a lack of British-born applicants for its lower-paid roles. It continues to target EU workers abroad (eg attending a trade fair in Germany recently) but reports that EU citizens are now not interested in coming to work in the UK.

7.5. Case study E – Farming and food manufacturer

This company operates farming sites and three manufacturing/processing sites, the latter employing the majority of its 619-strong workforce. The majority of its operations are based in Scotland. The workforce is 59% male and only 6% work part-time. The majority of employees (91%) are aged between 25 and 64, while 7% are aged 18 to 20 years and 2% aged 65 or over. Agency workers are used on a seasonal basis, but there is no use of zero or variable hours contracts.

There have been no significant workforce changes since the introduction of the National Living Wage (NLW), although there has been an effort to reduce the number of agency workers used and move temporary staff on to permanent contracts. This is mainly because of the high costs of training them and a desire to retain employees rather than lose that investment. The company identifies the National Living Wage is one contributing factor in this development among others, because it requires it to both reduce costs and retain a highly-trained, higher-paid workforce.

Pay and grading

Pay rates in farming operations are significantly higher than the NLW so the focus of this report is on the company's three manufacturing sites, where all hourly-paid staff are paid at or slightly above the NLW.

Currently the starting/minimum rate for a production operative is £7.50ph, increased from £7.20ph on 1 April 2017 in order to comply with the NLW. This starter rate applies for one year until the operative has undertaken the relevant training and passed an annual competency assessment. Once this has been completed, the established rate for production operatives is £8.05ph (from 1 April 2017). The majority of operatives are on the established rate.

There is no further pay progression in the role, however the company says that progression to team leader and management roles is common. There are a number of other skilled operative roles that attract slightly higher pay than production operatives, such as forklift truck drivers and technical operatives.

TABLE 24: FOOD PRODUCTION PAY RATE EXAMPLES

Role	Minimum rate of pay
Hygiene worker	7.50 (spot rate)
Production operative (starter)	7.50
Production operative (established)	8.05
Frontline manager/team leader	11.54*

*Calculated from annual salary for a 40-hour week.

No age-related pay rates are used as the company takes the view that they are unfair and demotivating, so the company is unaffected by movements in the National Minimum Wage rates below the NLW and pays apprentices the starting rate for a role (usually the NLW). There are no differences in pay by location.

Most production operatives work day shifts, but a small number work evening shifts, attracting a shift allowance of 12%. There are a further group of hygiene workers (around 60 employees) who predominantly work nightshifts. They are paid at the rate of the NLW but also receive shift premiums.

Pay review

A pay review, negotiated with trade unions, took effect from 1 April 2017. It increased minimum rates in line with the NLW and also increased the rate for established operatives from £7.50 to £8.05 an hour. The shift premium was kept at 12% and working hours at 37.5 hours.

Differentials

The differential between the pay rate for starter and established operatives reduced as a result of compliance with the NLW in 2016, but in 2017 the company has increased the differential significantly from 30p above the NLW to 58p. However the differential between established operatives and supervisors has narrowed. This is the differential of most concern to the company, but it is also concerned about the competitiveness of management salaries above this.

Costs of implementing the NLW

The company estimates that the direct costs of compliance with the NLW in April 2017 added £560,000 to the paybill. As a proportion of the previous years' approximate salary and wages costs, this represents just over 4%.

Offsetting costs

The company has made no changes to other elements of pay or benefits in order to offset the costs of the NLW. However it is considering closing or reducing the subsidy to the subsidised staff canteen in the near future.

Productivity

The company reports that the amount of training (and training spend) has increased over the past year. However it states that the vast majority of training is compliance-driven, reflecting the highly-regulated nature of the food production sector. It does not see this increase in training as directly related to the NLW.

Over the next 6-12 months the company is planning to gradually implement a major programme of capital expenditure that will roll out semi-automation and will reduce the need for manual labour. It is investing in machinery that will semi-automate a number of processes, such as packing and filling. It is not possible to estimate the number of possible job losses at this point but the company says that it can envisage work processes where 12 people are currently working that could be manned by one or two people once the programme has been rolled out. The NLW is identified as one factor that has influenced this decision because of the increased labour costs it represents, but there are other factors as explained below.

Impact on the business

The company is currently loss-making. The main reason for this is identified as the business trading conditions in the food production sector, with rising costs of raw materials alongside price pressures from the supermarkets that restrict producers' ability to increase prices. The NLW is seen as a factor that is adding to costs more significantly than other employment requirements (eg auto-enrolment). It is therefore seen as a contributor to both lower profits and price increases, but in the bigger context of the difficult trading conditions being experienced. The company describes the NLW as having a "very negative" impact on business prospects and says that implementing future increases will be difficult.

Impact of referendum on exiting the EU

The company employs EU nationals and report that the result of the EU Referendum is having a negative impact on recruitment. However, it says that this is a problem relating to recruiting managers, not production workers.

7.6. Case study F – Non-food retailer

This retail company employs 21,878 staff in its UK stores, comprising 18,934 non-management employees and 2,944 managers. Around 69% of staff work part-time hours, with a very small proportion of these (1%) on zero-hours contracts, which are no longer offered to new staff. The workforce is around 77% female and 23% male. Just over a third (35%) of the workforce is below the age of 25, with 6% aged 16-17, 14% aged 18-20 and 15% aged 21-24. These proportions have remained relatively unchanged since we profiled the company in last year's report.

Annual salary review

In line with recent changes to the uprating schedule of the National Minimum Wage, the company moved its annual pay review date from 1 October to 1 April in 2017. At the most recent review, increases for hourly-paid staff ranged from 1.3% to 4.2%, with an average increase of 3%. Employees in the rest of the business received performance-related pay rises from a pot of 2%.

The majority of hourly-paid staff at grade 1 saw their pay uplifted to the new spot rate of £7.50. Those who, as a result of legacy pay grades (see below) were already on or above the new spot rate received a non-consolidated payment worth 1.5%. Pay band minimums for grades 2 and 3 under the new pay structure (see below) were increased by 4% and staff on these grades moved to the pay band minimum or received a 1.5% increase to move up within the pay band if they were already at or above this rate. Employees at the pay band maximum received a 1.5% non-consolidated increase. Across all three grades, 4.6% of hourly-paid staff received a non-consolidated payment.

Implementing the National Living Wage

In response to the introduction of the NLW, the company made significant changes to its pay and grading structures on 1 April 2016, as follows:

- Prior to 1 April 2016 there were 22 retail non-management grades with small pay differentials between each grade eg 25p between sales advisers and supervisors. Effective 1 April 2016, the company reduced its grades to three, and introduced significant pay differentials between the grades (see table below).
- All current retail non-management jobs were mapped to these three grades. Age-related pay applies to the roles in grade 1 (sales advisers) and there is now a spot rate for this grade, equivalent either to the NLW or the midpoint of the NMW for 18-20 years and 21-24

years. There is no age-related pay for the roles in grade 2 and 3 and the pay bands apply to these grades.

- Prior to 1 April 2016 a retail non-management employee's performance rating determined whether they were eligible for a percentage increase. With effect from 1 April 2016 the company removed the link between performance and basic pay, so that all non-management employees now receive an annual increase regardless of performance.

Pay rates for sales advisers

Provincial pay rates for sales advisers are outlined below. Grade 1 accounts for roughly 65% of sales staff; 22% of sales staff are at grade 2 level and 13% are supervisory staff.

TABLE 25: PAY RATES AT 1 APRIL 2017

Role	Before 1 April 2017, £ph	From 1 April 2017, £ph
Grade 1: sales adviser (under-21)	6.25	6.33
Grade 1: sales adviser (21 and above)	7.20	7.50
Grade 2: specialist sales adviser*	7.30 – 7.80	7.60 – 8.10
Grade 3: supervisor	7.80 – 8.50	8.10 – 8.80

*Encompasses a range of roles including senior sales advisers, personal shoppers, visual merchandising assistants and loss prevention assistants.

Impact on other elements of pay and benefits

The company also made changes to age-related pay in response to the NLW, moving from three age categories (under 18, 18-20 years and 21 and above) to two (under-21 and 21 years and above). As already mentioned, these age differentials only apply to grade 1 roles (sales advisers). The approach to location pay remained the same: there are four location categories and the location premium is built into the hourly rate for employees in premium, outer London and inner London stores. The location premiums were last adjusted on 1 April 2016. There were no other changes to terms and conditions and benefits.

Experiences one year on

The company describes the implementation of the new structure as relatively smooth, due in large part to consultation with and support from senior management and clear communication to all hourly-paid staff. It conducted thorough briefings on the new structure in February and March

2016 and since staff would either remain on the same pay rate or receive an increase, the changes were generally well received.

In October 2016, conscious that there were some staff who had not been eligible for a pay rise the previous April and would therefore have received no increase for a year, the company awarded affected employees a pay increase or non-consolidated lump sum equivalent to the pay award. The following April, it again used the NLW as the starting point for the pay review process, with those staff who had received an increase in October 2016 receiving a subsequent increase in line with their colleagues. According to the company, the new pay structure had by this point come to be regarded as 'business as usual', with most retail managers comfortable using it.

The company feels it is too soon to say whether the changes to its grading structure have affected productivity and the way people work, not least since the appointment of a new chief executive has set in train a range of other productivity changes, such as how stock is delivered to stores, new service standards, and merchandising.

The most marked difference has been among line managers, who no longer have to deal with the complexities of 22 different grades and have therefore been freed up to do other things. Line managers have also reported that the removal of the link between pay and performance has changed the nature of performance conversations for the better.

NLW now encompassing some head office roles

The latest increase to the NLW has meant that its scope has expanded beyond the company's retail staff and now affects some 150 employees, largely in entry-level finance and HR roles, at its support centre in the South West. As of April 2017, these employees' pay would either be at the level of the NLW or only slightly above it and simply applying the NLW rate to the positions in question would eliminate existing differentials with other roles. The company therefore implemented a new pay structure, which lifted affected staff above the NLW and put in place clear differentials above this level. The structure has been designed in such a way that subsequent increases should be manageable without impacting differentials.

As with retail non-management staff the previous year, the introduction of the new pay structure has been accompanied by the elimination of performance-related pay, because if only performance determined an individual's increase the differentials could not be maintained and staff could fall below the legal minimum. Just as it had when updating the retail pay structure, the company ensured there was extensive communication about the changes beforehand to stress that no-one would be losing out. Those who were not in line for a pay increase instead received a non-consolidated payment.

The company has found that the elimination of performance-related pay has entailed a cultural shift for this population and will consider how exceptional performers could be rewarded. It is therefore making greater efforts to identify talent within this group of employees and ensure progression. The staff turnover rate within the support centre is generally sufficient to allow for this. The company intends to continue monitoring this group of staff to ensure performance is recognised adequately but it is confident it has a strong framework to build upon.

Treating this population differently from a pay review perspective has also had an operational impact in terms of staff communications and how these employees are recorded in the company's HR systems.

Differentials with junior management roles under pressure

As part of the 2017 pay review, the company has also had to increase the pay band minimums for sales managers (a junior management position, equivalent to department manager at many other large retailers) to ensure clear differentials would be maintained relative to hourly-paid supervisors. Sales manager 'designates' (trainees) are now on a minimum of £18,000, up from £16,000 in 2016. Similar increases have been implemented for the three sales manager pay bands above this level to ensure differentials continue to be maintained. The maximums of each pay band have remained the same and pay bands are therefore narrower as a result.

Increasing the salaries of all junior managers below these new minimums cost around £65,500, which was a relatively small amount for a company of this size. This was funded from the pay review budget (2%) for this group of staff.

The near future

In 2016, the company had anticipated consolidating two of its three retail assistant/supervisor roles during the following two years. However, the subsequent appointment of a new HR director, as well as the new chief executive, has resulted in a new people strategy. The proposed consolidation is therefore still a possibility but there have been no further moves towards this over the past year.

The company feels the redesigned pay structure it implemented ahead of the introduction of the NLW in April 2016 provides it with a solid foundation for managing any future changes that may arise. Among its immediate short-term concerns, it cites a need to be more creative in how it attracts temporary staff to cover the busy Christmas season, now that most retailers are offering similar wages. And although the company does not anticipate much direct impact from last year's Brexit vote from a staffing perspective, it believes that resourcing at its outsourced distribution provider could be affected, depending on what restrictions are placed on the employment of EU workers.

7.7. Case study G – Small nursery

This small single-site nursery in Oldham in the Northwest of England is in its third year of business. It has 10 members of staff on the payroll: two apprentice nursery nurses, five qualified nursery nurses, a supervisor, a deputy manager and a manager. All but one of the nursery's employees are female.

All employees are on full-time contracts (40 hours a week) except one who has recently chosen to move to part-time hours. However, as outlined in more detail below, the nursery has started to manage costs by allowing staff to reduce their hours on an ad hoc basis.

Pay rates and grading structure

The nursery has always paid nursery nurses in line with the prevailing minimum statutory rate for their age, while supervisors received an additional 10pph and managers/deputy managers received a further 20pph on top of this. However, the latest increase in the NLW has put pressure on these differentials and as of 1 April, the supervisor rate is now equivalent to the statutory floor. This is manageable at present because all current nursery nurses are on youth rates and there is therefore still a gap between their pay and supervisor rates. However, the gap with the notional adult nursery nurse rate has effectively been eliminated. The nursery intends to address this later this year by slightly increasing the supervisor rate as nursery nurses currently aged 24 move into the 'adult' band. The deputy manager pay rate was increased in April to maintain the 20p differential relative to the supervisor rate. However, the gap between the deputy manager rate and the statutory floor has reduced by 10p.

As statutory rates are integral to its pay structure, the nursery has always reviewed pay in line with statutory uprating dates, moving from October to April as of this year. The firm calculates that its annual paybill of £80,000 went up by £5,000 (or 6.3%) as a direct result of the NLW increase.

TABLE 26: JOB ROLES AND PAY RATES AS AT 1 APRIL 2017

Job role	Before 1 April 2017 £ph	From 1 April 2017 £ph
Deputy manager	7.50	7.70
Supervisor	7.30	7.50
Nursery nurse (aged 21-24)	6.95	7.05
Nursery nurse (aged 18-20)	5.55	5.60
Apprentice nursery nurse	3.40	3.50

Age profile of the workforce

The nursery has always paid younger staff the relevant rate for their age, except for those in supervisory positions (the current deputy manager is under 25, for example). When the NLW was introduced, it added a further band to its pay structure to cover employees aged 21 to 24: the highest proportion of qualified nursery nurses working at the company now fall within this band. The nursery readily acknowledges that it now actively seeks to employ qualified nursery nurses aged under 25 to save on wage costs. The NLW has therefore been a major factor in the changing age profile of the nursery's workforce. Before April 2016, most of the firm's qualified nursery nurses were aged between 25 and 33 but it now employs a larger proportion of staff on youth rates (80% of its workforce), with the following overall age profile:

- 16-17: 10% of staff (one employee)
- 18-20: 30%
- 21-24: 40%
- 25 and over: 20%

Use of apprentices

There is no pay band equivalent to the statutory minimum for 16 and 17 year olds: staff in this age group are invariably on apprentice rates as nursery nurses are typically 18 or older when they achieve their level-3 qualification. The nursery has offered apprenticeships since it was first established and now employs two apprentices, which it says is the maximum number it can accommodate within its existing structure. Within reason, apprentices undertake the same duties as qualified nursery nurses – not least since they need to acquire this experience to obtain their qualification. However, given the nature of the work there are some limitations to what they can do – they cannot be left alone with multiple small children, for example.

The nursery regards apprenticeships as a significant tool in helping it manage the challenges of an increasing pay bill resulting from the NLW. However, it feels that standards have dropped as a result. The firm would be keen to keep good apprentices on after they have achieved their level 2 qualification; however, in practice it has found that apprentices do not always see their course through to completion and sometimes lack what it regards as a satisfactory work ethic.

Employee benefits and training

Staff receive limited benefits, with the exception of a 10% discount on nursery fees and access to discounts and special offers through a voluntary benefits scheme administered by the nursery's HR consultants. The nursery therefore has limited scope to make savings in this area that could be offset against an increased pay bill.

Employees will also be eligible for a pension from October when the nursery's auto-enrolment staging date takes effect, although the management suspects that take-up will be limited, especially once employee contribution levels start to increase towards the 4% mark. Nonetheless, the process of getting a third party to put a pension scheme in place has added almost £600 to the nursery's operating costs this year.

The nursery has extended the range of training it offers, running sessions in-house (sometimes with the aid of outside companies) and enrolling staff in relevant free courses operated by the borough council. Training is largely designed based on fulfilling the necessary regulations (for example, first aid qualifications) or meeting OFSTED requirements rather than with a view to improving productivity. Staff are offered time off in lieu to compensate for any training they undertake outside their usual working hours.

Funding the increases

In spite of the challenges outlined above, the nursery says it found it 'very easy' to implement the NLW and the subsequent increase in April 2017. That said, the nursery operated at a loss in its first year and made a profit in 2016; it remains to be seen what effect the NLW and other factors will have on profits this year. The nursery's business manager (the owner's spouse) does not yet take a salary.

To date, the nursery has passed on wage increases to parents each October, putting fees up as each increase in the NMW took effect. It has not had to pay business rates in 2017, resulting in a £4,500 saving that has offset the majority (90%) of the latest pay bill increase in April. This has enabled it to keep this year's fee review date at October for the time being. However, Oldham is a deprived area – the most deprived town in England, according to the Office for National Statistics[8] – and the nursery therefore has limited scope to raise fees above what is absolutely essential. This is compounded by the fact that the respondent feels that the nursery education grant it receives from the local authority, although recently increased for the first time in eight

[8] https://www.ons.gov.uk/peoplepopulationandcommunity/housing/articles/townsandcitiesanalysisenglandandwalesmarch2016/2016-03-18

years (to £3.88 an hour per child), is inadequate, not least since funded weekly hours are set to double from 15 to 30 for preschool-aged children from September.

While the scope for offsetting measures has been limited, the nursery has found that some staff are willing to reduce their working hours during less busy periods. This can be planned to a certain extent around school holidays and there is also scope to let staff go home early on an ad hoc basis. This is entirely optional but the nursery has found that employees are often happy to take time off at short notice on quieter sunny afternoons. The nursery estimates that this arrangement applies during roughly 12 weeks of the year and could save it about £600 a month in staffing costs in quieter months.

Appendix 1 – Profile of survey respondents

Survey coverage

	All directly-employed staff	Non-management staff	Managers	Sites operated
Median	1,240	859	141	7
Average	8,578	7,653	1,028	168
Total	1,003,664	841,776	112,009	17,944
Sample	*117*	*110*	*109*	*107*

Profile of respondents by sector

Sector	Count	Percent
Business or financial services	7	8
Childcare & housing/social care	26	31
Hospitality	10	12
Manufacturing	15	18
Public sector/NFP	24	29
Retail	18	22
Sample	*120*	

Profile of survey respondents by organisation size (headcount)

Headcount	Count	Percent
Less than 50 employees	14	12
50 to 249 employees	21	18
250 to 999 employees	21	18
1,000 to 9,999 employees	43	36
10,000 and more	19	16
Sample	*117*	

Profile of survey respondents by number of sites

Sites	Count	Percent
Single-site organisation	24	20
Multi-site organisation	96	80
Sample	*120*	

Profile of survey respondents by region

Region	Count	Percent
All UK regions	24	21
East	16	14
East Midlands	22	19
London	14	12
North East	12	10
North West	20	17
Northern Ireland	13	11
Scotland	23	20
South East	30	26
South West	18	15
Wales	16	14
West Midlands	20	17
Yorkshire and the Humber	21	18
Sample	*120*	

Workforce profile by age (proportion of employees)*

	16 to 17 years	18 to 20 years	21 to 24 years	25 to 64 years	65 years and over
Lower quartile	0	1	3	68	1
Median	0	2	7	87	2
Average	2	7	10	79	3
Upper quartile	2	10	15	92	3
Sample	*106*	*107*	*107*	*107*	*107*

*All respondents.

Workforce profile by age (proportion of employees)

	16 to 17 years	18 to 20 years	21 to 24 years	25 to 64 years	65 years and over
Lower quartile	1	1	4	68	1
Median	2	3	7	87	2
Average	4	8	11	79	3
Upper quartile	5	11	15	92	4
Sample	*52*	*91*	*100*	*107*	*87*

Workforce profile by hours and gender (proportion of employees)*

	Part-time workers	Full-time workers	Agency workers	Male workers	Female workers
Lower quartile	18	40	7	23	51
Median	42	58	28	37	64
Average	40	60	271	38	62
Upper quartile	60	82	100	49	77
Sample	*113*	*113*	*30*	*113*	*114*

*All respondents.

Workforce profile by hours and gender (proportion of employees)

	Part-time workers	Full-time workers	Agency workers	Male workers	Female workers
Lower quartile	20	40	24	51	20
Median	44	59	38	64	44
Average	41	60	39	62	41
Upper quartile	61	82	49	77	61
Sample	*110*	*112*	*110*	*114*	*110*

Appendix 2 – Questionnaire