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Impact of future targets for the NLW

A report for the Low Pay Commission

IDR

Pay Data | Intelligent Decisions

This report has been produced by Incomes Data Research for the Low Pay Commission.

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Executive summary

This aim of this report is to provide the Low Pay Commission with insights from employers on the impact of future targets for the level of and the age threshold for the National Living Wage (NLW). It also looks at how employers in low-paying sectors have been affected by the economic effects of COVID-19.

The key findings are as follows:

- Successive above-inflation increases in the NLW have had significant implications for wage compression or differentials
- Many employers in low-paying sectors now have limited scope to offset further increases to the statutory minimum by reducing terms and conditions – efforts to manage the paybill are now often more indirect, for example changes to the pay structure
- The forthcoming changes to the NLW qualifying age are of little concern to most employers, with few operating youth rates for reasons of simplicity or fairness
- The COVID-19 pandemic has had a significant, and usually detrimental, impact on business activity (and consequently pay awards) for many organisations
- There is evidence of greater use of technology and multiskilling, with the inference in some cases that employers will expect more (in terms of level of skills or flexibility) from staff on the lowest rates
- Many organisations are hoping for a lower increase in the NLW this year, to reflect the economic impact of COVID-19 on their revenues
- There is a widespread call for the Government to announce NLW increases (and forecasts) earlier, to enable better planning.

What have we learnt from this research?

Successive above-inflation increases in the NLW have had significant implications for wage compression/differentials at many organisations in the low-paying sectors. For some, there have been repercussions across the entire pay structure for hourly-paid staff (and in two cases beyond on differentials with salaried roles). That said, some other employers we spoke to said the increase would be relatively straightforward to absorb, albeit with an impact on profits.

What is clear is that, four years on from the implementation of the NLW, over which period it has increased relatively steeply compared with pay awards in the wider economy, most employers with large numbers of staff on the statutory minimum have limited scope to offset increases by reducing terms and conditions (for example, by cutting annual leave, eliminating unsocial hours premiums or reducing overtime), having already exhausted most such measures. Instead, efforts to manage the paybill have been more indirect, taking the form of changes to the pay structure or expanded apprenticeship schemes, for example.

None of the employers we spoke to appear overly concerned about the imminent change to age bands. Relatively few are affected – several indicated their opposition to youth rates on fairness grounds – and of those that are using age bands, most have yet to confirm their approach. It seems likely that many will simply absorb next year's planned reduction in the NLW qualifying age, from 25 to 23, without significant difficulty. This chimes with the findings from other research IDR has undertaken over the past year – especially within retail, where it is predominantly the retail catering sub-sector that continues to follow the statutory age brackets, whereas some retailers, particularly the large food retailers, pay all workers over the age of 18 or 21 the same rate.

The coronavirus pandemic has had a significant (usually, but not always, detrimental) impact on business activity for many of the featured organisations and, consequently, on this year's domestic pay awards. In several cases, only those on the lowest rates have received a (NLW-aligned) pay rise this year, with a number of employers deferring increases for those on higher grades or freezing pay. However, many frontline staff in low-paid 'key worker' sectors have also received bonuses to recognise their commitment during challenging circumstances. For some, the pandemic has caused employers to defer or rethink plans for a more comprehensive overhaul of their reward strategies, either due to affordability or because their focus is required elsewhere in the short term.

Inevitably, implementing increases of up to 6.2% for the lowest-paid has had consequences for differentials in many cases, exacerbating existing wage compression concerns (and in those cases where higher-paid grades have had smaller or no increases, the issue is arguably greater). Nor is this simply an issue for the gap between the lowest rate and that directly above it: at some organisations, the consequences are being felt much higher up, such that they are contemplating rethinking their pay structures for hourly-paid staff altogether. This sometimes goes hand in hand with more extensive use of technology – we have seen this, for example, in the expansion of self-service tills in supermarkets, but the concept has also moved into other sectors, such as hotel self-check-in – and efforts to expand employees' skillsets. In some cases, the inference seems to be that employers will expect more, in terms of level of skills or flexibility, from staff on the lowest rates. It remains to be seen to what extent they are willing or able to continue to pay for this and can consequently bear further relatively high increases in the statutory floor.

While the sample includes many employers from the traditional low-paying sectors, such as retail, hospitality and social care, there are also representatives from sectors such as manufacturing and business services, where the statutory minimum is now a factor in pay decisions where it previously had not been a consideration as the lowest rates here have to date not increased at the same pace as the recent steep rises in the NLW.

Several employers we spoke to are modelling the 2021 uplift in the NLW, with most of these anticipating that this will be more difficult to accommodate than previous rises. Many have expressed a hope that the next increase will be lower than those seen in recent years, due to the impact of COVID-19 and the associated recession on revenues and business activity. Several have also called for earlier announcements of new NLW rates and a clearer view of the latest estimates.

Introduction

Incomes Data Research (IDR) was commissioned by the Low Pay Commission (LPC) to conduct research into the likely impacts on employers of the new targets for the National Living Wage, first mooted in the spring of 2019 and confirmed by the Chancellor in his Budget announcement on 11 March 2020. As well as gauging employers' views on their readiness to meet the target of reaching two-thirds of median hourly earnings by 2024, this research also looks at how they might be affected by the planned reduction in the age entitlement for the NLW (this is set to take place in two stages: firstly to 23 in April 2021 and then to 21 by April 2024).

The LPC was keen to understand how these announcements have affected pay approaches, including any structural changes to reward, jobs and workforces, with a particular focus on workers aged 21 to 24. Additionally, given the events of recent months and their impact on business operations in many sectors, the research looked at the effect of the coronavirus pandemic on the low-paid, including use of the Coronavirus Job Retention Scheme and the extent to which organisations have topped up pay for furloughed staff.

Methodology

This report is based on primary evidence gathered by IDR from HR managers by way of semi-structured case study interviews conducted specifically for the purposes of the research. The sample of organisations to be approached for the research was drawn up by IDR and agreed with the LPC.

Case study organisations identified as potential targets for the research were initially contacted via an electronic letter of introduction from the project manager inviting them to participate (see Appendix 1). The principal route for obtaining case study agreement was to contact the Reward Manager (or Head of HR) in the first instance, who where necessary referred us to another more suitable colleague.

Interested potential participants were sent the interview questionnaire (see Appendix 2) and one member of the project team had responsibility for chasing up and confirming potential case studies.

Once confirmed, case study organisations were asked to complete a short pre-questionnaire. The purpose of the pre-questionnaire was to gather key facts and figures beforehand. This included details of their current lowest rate of pay and age profile of the workforce. For full details see Appendix 3.

Profile of case study organisations

The coronavirus pandemic and subsequent shuttering of businesses had an impact on reaching potential interviewees, either because they were on furlough leave themselves or faced an increase in workload dealing with a variety of staffing issues. However, despite these additional challenges we were able to secure and conduct 26 telephone interviews between May and September (four subsequently withdrew agreement to their case studies from publication but the information obtained has helped frame our conclusions).

The sample includes employers from across the private, public and not-for-profit sectors, with the majority representing the traditional low-paying sectors. However, a handful come from industries such as manufacturing, where the rising statutory floor can now be seen to be having an impact. Previously, the lowest rates in these sectors had not increased at the same pace as the recent steep rises in the NLW.

The sample includes firms from across the private, public and not-for-profit sectors, with the breakdown provided in Table 1.

Table 1 Profile of case study organisations

Case study	Business activity	UK headcount
A	Business services	204
B	Housing and social care	2,700
C	Hospitality (hotels and restaurants)	35,000
D	Housing association	203
E	Retail (non-food)	24,943
F	Engineering	4,000
G	Hospitality (cafes)	16,500
H	Hospitality (restaurants)	17,542
I	Retail (food and non-food)	82,445
J	Local government	1,306
K	Social care	2,504
L	Food manufacturing	3,700
M	Charity	1,746
N	Manufacturing/engineering (automotive components)	92
O	Construction	10,880
P	Retail (food)	65,000
Q	Housing and social care	1,000
R	Social care	433
S	Retail	16,787
T	Specialist engineering	11,500
U	Specialist engineering	5,500
V	NHS Employers (Agenda for Change)	1.2 million

Case study A is a business services company that provides electronic point of sale hardware and maintenance, mainly to the retail industry. It employs 204 staff and its head office is in Wales.

Case study B is a housing association and social care business, which provides social housing and care services in over 150 local authority areas across England. It currently employs 2,700 staff.

Case study C is the UK's largest operator of hotels and restaurants. It employs around 35,000 people in over 1,200 hotels and restaurants throughout the UK.

Case study D is a housing association providing social housing in Scotland. It employs 203 people.

Case study E is a homeware retailer employing just under 25,000 staff across 290 stores and its head office.

Case study F is a transport engineering firm employing around 4,000 staff at various sites across the UK.

Case study G is a hospitality chain employing over 16,500 staff at approximately 1,560 coffee shops nationally.

Case study H is a quick-service restaurant chain with 1,389 sites across the UK, 187 of which are managed centrally. Managed restaurants employ over 17,500 in total.

Case study I is a food and non-food retailer employing 82,445 people across all regions of England, Wales and Scotland.

Case study J is a local government employer in the East of England, employing 1,306 staff.

Case study K is a social care charity operating across most of England, providing care for those with autism, learning difficulties and mental health needs. It employs around 2,500 staff.

Case study L is a global confectionery company operating with 3,700 staff in all regions of the UK.

Case study M is a charity which provides life-saving services. Its workforce fluctuates throughout the year, with around 1,700 staff at peak season. It also has a large volunteer workforce.

Case study N is part of a global group which predominantly develops, manufactures and sells automotive components. There are 92 UK employees based at the firm's manufacturing facility and offices in the North West of England.

Case study O is a construction and infrastructure company employing 10,880 people, of which around 2,000 are represented by the National Joint Council and the Construction Industry Joint Council.

Case study P is a food retailer operating more than 2,500 local, convenience and medium-sized stores. It employs just over 65,000 people across all regions of the UK.

Case study Q is a housing and care organisation employing 1,000 staff across the UK.

Case study R is a social care charity supporting children and young people. It employs 433 staff across the east and south west of England.

Case study S is a high-street retail chain selling a variety of household goods. It currently employs almost 17,000 staff across England, Scotland and Wales.

Case study T is a specialist engineering company employing 11,500 staff.

Case study U is a specialist engineering company employing 5,500 staff.

Case study V is with NHS Employers, the employers' organisation for the NHS in England. It looks at pay arrangements for those on the Agenda for Change (AfC) terms and conditions, covering approximately 1.2 million staff.

Chapter 1: Research on company practice

This section of the report provides an overview of practice evidenced by the case study interviews as well as a small number of other employers in low-paying sectors who spoke to us off-the-record.

Pay systems

The case study organisations are broadly evenly split in terms of the type of pay system they operate for their lowest earners (predominantly pay ranges and spot rates, with one housing association using incremental pay scales). Among those with spot rates, a handful in practice allow progression between different spot rates to reflect growing competence within the same role. For example, in the case of a large hospitality firm we spoke to, there are defined pay points (entry, proficient and expert) for each level of skill development by hourly-paid staff within its hotel division.

The proportion of staff on the lowest pay rate varies widely among our case studies, from 0.2% (at a charity) to 69% at a large retailer; the median proportion is 7% of employees.

Only a handful of organisations among our case studies operate youth rates in some capacity and these may not apply to all roles – in several instances, only apprentices are affected, while at the hotel and restaurant chain, youth rates are reserved for its restaurants division. Where youth rates are operated, in most cases these follow the statutory age bands.

2020 NLW uprating

The majority (77%) of employers we spoke to had to increase pay rates for some workers with effect from 1 April to comply with the latest increase in the NLW and NMW (from £8.21 to £8.72 in the case of the former). Within the sample, the median lowest adult rate as of 1 April 2020 is equal to the statutory floor, at £8.72. By contrast, the median lowest adult rate before this date (within the same sample) was £8.35, some £0.14 above the prevailing statutory minimum.

Increases for the lowest-paid were equal to the increase in the NLW (6.2%) at just under two-fifths (38%) of the case study organisations, with minimum rates remaining equal to the statutory floor from one year to the next. At around a quarter (24% – predominantly retailers or hospitality firms) of the sample, differentials between the lowest rate and the NLW were eliminated altogether with the 2020 uprating (these differentials had previously been worth between £0.08 and £0.46, and £0.14 at the median). As such, increases for the lowest paid at these organisations were slightly lower on average than 6.2%. At a further third of organisations, where the lowest rates are currently above the NLW but are anticipated to come within its scope in due course, pay increases were below the level of the increase in the NLW.

Only one organisation (a housing association) increased its lowest rates by more than the value of the increase in the NLW and this was as part of a move to mirror voluntary Living Wage (VLW) rates – as a consequence, minimum pay rates here increased by 9.9%, from £8.46 (25p above the prevailing NLW but below the 2019 VLW rate of £9) to £9.30 an hour.

Seven employers we spoke to have frozen or deferred pay increases for some or all other groups of staff. Such a move is more likely to be because of the coronavirus epidemic, and its impact on business activity and revenues, than the NLW. An exception is a retailer in the sample, where executive team members have not had a pay rise in five years. As described in more detail below, at some companies, senior managers have even taken pay cuts to help manage cashflow difficulties brought about by COVID-19.

The impact on differentials

Our ongoing monitoring of pay rates in low-paying sectors over the four years since the introduction of the National Living Wage has shown that for many, compression between the lowest pay rates has become more acute with each year's increase. Many of the most obvious means of managing affordability, such as elimination of unsocial hours payments or overtime, have already been exhausted or are solely an option for those employers that are only now coming within the scope of the rising statutory minimum – at least one such organisation reports that these terms could soon be at risk.

Differentials between staff on rates at or close to the level of the NLW and their immediate superiors have been squeezed, or eroded altogether, at many organisations. Nine of the employers in this year's sample indicated that differentials were a problem or were set to become one if the NLW continued to increase at the projected rate. One employer in the hospitality sector has managed to maintain differentials at the same monetary value (£0.20 to £0.30 an hour between points) but this inevitably means that they are becoming less valuable in percentage terms. Higher up the structure at the same company, a pay freeze for salaried roles has led to a near overlap, in basic pay at least, between the most experienced hourly-paid team leaders and salaried first-line managers, such that the differential is now just £0.05 an hour (although the latter receive a better overall package). This situation is set to worsen given the likely freezing of pay increases for salaried staff at the company this year due to the coronavirus pandemic.

Within housing and social care, many employers are struggling to balance the successive increases in the statutory minimum with the more modest increases they receive in public funding. This is all the more acute for those operating as charities, which have seen retail income and other fundraising efforts significantly reduced during the lockdown. One case study organisation from the housing and social care sector has managed to award an increase of 5% this year to staff on the next tier up from its £8.75 starter rate, which has helped maintain differentials, but envisages having to remove a grade from its pay structure at some point. However, at another social care provider, differentials have been eroded to the extent that both support workers and senior support workers are now on the NLW, while assistant team managers receive only a marginally higher salary for a considerable increase in responsibility. There have been no pay increases for any other group of staff since the NLW was introduced. This organisation also reports that rising pay rates at supermarkets are making those roles, which are typically perceived to entail less risk and responsibility, a more attractive proposition than working in care, although rising unemployment has eased these recruitment and retention pressures for the time being. On a similar note, a supermarket we spoke to outside the scope of this research has found that recruitment and retention for junior head office roles has suffered now that (more convenient) in-store customer assistant roles offer similar rates.

At one non-food retailer in the sample, the gap between staff on Level 1 (the lowest grade) and those on the next grade up has decreased from 48p to just 5p with the latest uplift in the NLW. The Reward and Benefits Partner feels that the most recent statutory increase has undone much of the work the company has undertaken on pay over the last four years and describes this state of affairs as 'soul-destroying.' Another retailer we spoke to has eliminated starter rates to maintain a differential between its lowest pay rate and the NLW. Meanwhile a manufacturer that sets its apprentice rates at the level of the NLW is starting to see the differential between these and its 'outturn' rates narrowing as the former increases more steeply than pay rates for the rest of the company.

Few of the organisations have yet to overhaul their pay structures for hourly-paid staff in a more significant way in response to the NLW increases but several report that they are now seriously considering doing so. In some cases, this has been precipitated by their response to COVID-19 and the virus's impact on revenue. According to one hospitality firm in the sample, as of April, '*we are now at the point where we can't squeeze [differentials] any further; some will have to go*,' while a charity explains that '*we know that the rate of the NLW is moving and that has been compressing our grades for a while. And while we've been able to work around it [so far], we are getting to a stage where we can't*.'

Some organisations are making more use of technology – or have plans to do so – to help make the pay budget go further – for example, by making restaurant kitchens more efficient, allowing for automated check-in in hotels or extending the use of self-scanning in supermarkets. One retailer we spoke to off-the-record said '*it's sad but true, if you can get a piece of technology to do the job of a person, that's what we will do…*'

There is also an appetite among employers in various sectors to make staff more multiskilled, such that they can undertake a wider variety of tasks. While this is sometimes described as role 'enhancement', it is usually also intended to provide employers (and sometimes employees) with greater flexibility and, in some cases, increases what is expected of staff in the lowest-paid roles.

Future increases in the NMW/NLW

Many organisations in the sample have modelled increases in the NLW for the next few years, taking the stated target of two-thirds of median earnings by 2024 as a starting point. As already mentioned, some (especially within the hospitality industry) are now at the stage where more comprehensive changes to pay structures for hourly-paid staff may be necessary to accommodate future rises.

While most organisations appear to be working on the basis that the next increase will be at a similar level to those seen in recent years, there have been calls from many for the LPC to recognise the economic impact of COVID-19 and the pressure that this has placed on affordability, particularly in certain sectors. One hospitality company, for example, says: '*from our side, we would like to see some restraint in terms of how [the LPC] approaches it and with no significant uplifts which would put additional strain on companies to maintain jobs and ability to support longer-term growth. This needs to be balanced with still maintaining reasonable pay levels across the UK*.'

Similarly, one social care provider, reliant on charity shop income for much of its funding, told us: '*we want to continue to keep our staff pay competitive and we do value the principle of the NLW but the reality is that if it goes up by another 5% or 6% next April that is going to put us under some intense pressure. We did have to sadly shut about 10% of our shops. They did not come back from the closure [under lockdown] and we had to make some staff redundant. A big increase to the NLW could push more of our shops towards unprofitability […] the NLW has given us an incentive to keep increasing wages but this year an increase would disproportionally impact compared to other years because we would be in a less good financial position going into April and so therefore we might have to make, or be pushed closer to make, difficult decisions*.'

The same contributor echoes several others in calling for an earlier announcement about the amount of the increase in the NLW, to help it plan its response carefully. It says: '*the more warning people get, the better they can plan for the changes and that will be better for individuals as well as the businesses. A freeze in this year's increase would not be a bad thing, or an inflationary rise and not a super-inflationary rise*.' The HR Manager at an SME technology firm, meanwhile, is concerned about the currently-predicted rate of £10.69 and feels that four years is not long enough for businesses to reach this level: '*if the LPC could stretch out the increases a bit more that would be helpful, as that gives us more time for the business and industry to recover from the pandemic. It was a bit of a stretch before the pandemic, but seeing where the economy is right now, higher rises could destroy jobs*.' Another manufacturer suggests that earlier notification of increases to minimum rates could even result in higher rises for staff: '*invariably what everyone will do is move as slowly as possible because of affordability and actually if we start to plan out, we can start to think about whether we can do something more. I appreciate it's difficult for them to know what the market is going to do, especially in the current climate*.' Meanwhile a retailer, as well as wishing to know when the next announcement will be, is keen to have a clearer view of the latest estimates on the future level of the NLW.

Not all businesses we spoke to are overly concerned about future increases to the NLW, however: one supermarket anticipates that it will be able to absorb these relatively comfortably, albeit at the expense of profits.

Reduction in the qualifying age for the NLW

Only four of the organisations we spoke to vary pay according to age within the core workforce (in one case, this is reserved for the restaurants division, with no age distinction within hotels), although a handful of others operate youth rates within their apprenticeship schemes. A fifth (retail) employer, which had eliminated age rates, temporarily reserved NLW-aligned pay increases in April for staff aged 25 and over, to help manage the economic impact of the coronavirus on its business. Under-25s then saw their pay increased to £8.72 in June.

Consequently, the impact of the planned reduction in the qualifying age for the NLW, to 23 next year and 21 by 2024, is likely to be limited for our case study organisations and few expressed concerns about its implementation. Indeed, some are already looking to eliminate or reduce the use of youth rates independently of the Government's intentions in this regard, although coronavirus may delay this. The retailer mentioned above, which introduced an under-25 rate as a temporary measure, described identifying who had to be on what rate as an 'added complication', while a hospitality firm has ruled out implementing a new age structure (to help manage affordability), '*given that the financial benefit is going to reduce between now and 2024*.'

Several of the organisations in our sample oppose age-related pay on fairness grounds. Our contact at one charity we spoke to said: '*We revisited the decision [on implementing youth rates] this year because naturally we were looking to try and save everything that we could and even in spite of everything going on at the moment we still believed it was truly important that you are paid for the job that you do, regardless of age*.' Meanwhile a housing association HR Manager said: '*I have issues with the age banding and I am glad to hear it's coming down because we support young homeless people and I fail to understand sometimes just why the people who set the minimum pay rate think, just because you are 17 for example, your costs are less than someone who is 25*.'

For some companies, the nature of their business activity limits their scope to make potential savings on the wage bill by using youth rates. One hospitality firm anticipates that Brexit will make recruitment more challenging and that it may look at broadening the talent pool by targeting more older workers as a result. And a food retailer we spoke to outside the scope of this research feels that targeting younger workers removes a degree of flexibility, especially within its smaller convenience stores, as only staff aged 18 and over are able to sell alcohol.

Changes to pay as a result of COVID-19

Around three-quarters of participants have made use of the Coronavirus Job Retention Scheme and just under half of organisations reported that COVID-19 had affected their pay review for

2020/21. Several of these have deferred their pay review for all or certain groups of staff (for example, senior managers or salaried employees), with some making necessary adjustments to remain in line with the new NLW. As already mentioned, instead of applying its usual across-the-board increase, one homeware retailer implemented age-related pay as a short-term measure to help offset the economic impact of coronavirus. Over-25s received a pay increase in April in line with the statutory increase in the NLW while those aged 24 and under had their pay award deferred until 1 June 2020, at which point their pay was increased from £8.35 to £8.72 to match their colleagues aged 25 and over. Store managers and head office staff have yet to receive an increase this year and the company has suspended its yearly review of hotspots and location pay.

A further three organisations had already agreed their 2020 pay review before the extent of the coronavirus pandemic became clear, while another three implemented a pay increase in line with the terms of existing long-term deals.

A charity in the sample had to renegotiate a pre-agreed increase as its revenue was significantly reduced by the lockdown. As a result, performance-based increases were not paid and only the minimums of the bottom two pay bands were increased: the lowest was increased in line with the NLW, while a 2% increase was applied to the one above this to help alleviate some 'bunching' at the lowest end of the pay structure. Another charity had to put a planned increase in its lowest hourly rate, to £9, on hold as coronavirus impacted affordability due to a significant loss of income from its retail arm. Only those on rates below the NLW (20% of staff) ended up receiving an increase this year.

Some low-paid workers received bonuses or temporary pay rises in recognition of their work on the front line, as outlined in the table below, but not all organisations that would have liked to were in a position to afford this. At one social care organisation, the one-off bonus that is planned for care staff at the end of the year will be taken from a pot of money that had been set aside to harmonise terms and conditions following a recent merger; this harmonisation will not go ahead as a result. By contrast many senior managers, often at the same companies, have seen a temporary reduction in their pay.

Table 2 Short-term changes to pay as a result of the coronavirus pandemic

Business activity	Nature of change
Food and non-food retail	Bonus worth £25 a week for staff on lowest three grades of pay structure at work during May and June (up to £200 in total) Chairman and executive directors took temporary 20% pay cut
Food retail	£50 bonus for frontline staff
Non-food retail	15% bonus based on April earnings for staff on lowest grade
Hospitality	Hourly-paid workers at keyworker hotels received 50% premium (65% for nights) and those carrying out caretaking duties received temporary increase of 20% (35% for nights) – partly in recognition of 100% top-up for furloughed colleagues Voluntary indefinite pay cuts of 20-30% for executive members/executive directors
Housing/social care	£300 discretionary bonus
Housing/social care	15% premium between 30 March and 31 May for 400 field-based key workers (e.g. maintenance staff, domestics, caterers, scheme managers)
Technology	20% pay cuts for directors; TOIL instead of overtime
Construction	Temporary pay cuts of 15-20% for higher-level staff, managers and directors

Chapter 2: Case studies

Case study A – SME technology firm

Background

This case study organisation is a business services company that provides electronic point of sale hardware and maintenance, mainly to the retail industry. It employs 204 staff, and its head office is in Wales.

Key points

- Staff on the lowest grade are paid £17,000 a year and rates are topped up to meet the statutory minimum hourly rate of £8.72 as required each month.
- Larger increases in the NLW in recent years have meant that it has now caught up to the company's lowest salary.
- Coronavirus has significantly affected sales and the firm has furloughed around a third of its workforce.
- The company does not operate age-related rates and has no intention of implementing them once the age threshold for the NLW reduces.
- Further large increases in the NLW are likely to put pressure on other aspects of the reward package, especially unsocial hours payments.

Pay rates

Staff are on spot salaries and the lowest annual salary is £17,000. This salary is paid to 28 staff in a variety of roles, including warehouse operative, call coordinator (equivalent to call centre agent), repair engineer, 1st-line helpdesk adviser, HDI technician and a few administrative roles. Each month staff pay is topped up to meet the statutory minimum level depending on how many hours they have worked. Top-ups are larger during months where there are more working days.

Implementing the 2020 rise

The firm has not yet undertaken its pay review for 2020, since the pay review anniversary date is 1 September [it subsequently confirmed that due to affordability and the impact of COVID-19, it implemented a pay freeze]. The company's approach for implementing the April 2020 NLW rise is to top up salaries for any affected staff, excluding those currently on furlough (which totals just three of the 28 staff currently on the lowest salary). The HR Manager hopes that when this year's review has been concluded the lowest annual salary will be raised to a sufficient level so that no staff will need to have their monthly waged topped up to be legally compliant.

Last year the company applied a 1% pay rise from 1 September 2019, followed by a further rise of 1% in January 2020.

Prior to the introduction of the NLW the company did not monitor statutory minimum wages but the NLW has now caught up to the company's lowest salary. The HR Manager explains: *'until they started doing these big jumps [in the NLW] we never had an issue, except for staff joining on an apprenticeship where we had to keep an eye on the minimum rate. Rises of 5-6% when our awards have been 1-2% is how we have started being caught by it – as well as how they calculate it for salaried employees, which is a real negative for us as we need to take the number of working days in a month into account'.*

Future increases in statutory wages

There is no planned increase for 2021 yet and it all depends on company performance. Continued higher rises in the NLW could start to impact other aspects of the reward package. Staff currently receive 31 days' annual leave (including bank holidays), group life insurance at four times salary, 15 days' company sick pay after three months' service, overtime paid at 1.5 times salary, double time on bank holidays plus basic pay, NEST pension, 75% income protection, ride-to-work scheme, legacy childcare voucher scheme, paid private healthcare with the option of paying to add their spouse/child, and free parking at the Cardiff office.

The HR Manager explains: *'if you start making the rates of pay quite high, and then the cost effectiveness is starting to get impacted, it could put pressure on the other aspects of the reward package. There's a big risk to overtime and unsocial hours premiums as that's a significant cost.'*

Reduction in the qualifying age for the NLW

The company does not operate age-related rates and has no intention of implementing them once the age threshold for the NLW reduces.

Table A1 Age profile at the SMT technology firm

	Number of staff	Proportion of workforce
Under 21	1	0.5%
22-23	4	2.0%
23-24	5	2.5%
Aged 25 and over	194	95.0%

Impact of the coronavirus pandemic on the low-paid

The company has tried to reduce wage costs as a result of the current pandemic, with a 20% pay cut for directors, deferred payments for non-executive directors and by providing time off in lieu rather than paid overtime.

The company has also made use of the Coronavirus Job Retention Scheme (CJRS) and furloughed 83 staff (approximately a third of the workforce). Some staff have since been brought back to work but 71 remain on furlough. Furloughed staff are in a variety of jobs but exclude senior managers and helpdesk staff. Proportionally it has impacted lower-paid staff more than better-paid staff. Furloughed staff receive 80% of their regular wage under the scheme and this is not being topped up. The HR Manager explains: *'the decision was taken not to top up because we felt it disadvantaged those still working'*. The firm plans to use the scheme up to the end of October, although it all depends on workload.

The firm has not made any redundancies, but this might be something they have to consider in the future, depending on how the retail market bounces back. It has always tried to avoid redundancies in the past and has not replaced leavers when it has faced tight times before, but this situation has so many unknowns.

The HR Manager is concerned about the currently predicted rate of £10.69 and feels that four years is not long enough for businesses to reach this level: *'if [the LPC] could stretch out the increases a bit more that would be helpful, as that gives us more time for the business and industry to recover from the pandemic. It was a bit of a stretch before the pandemic, but seeing where the economy is right now, higher rises could destroy jobs.'*

Case study B – Housing association

Background

This case study is a housing association and social care business, which provides social housing and care services in over 150 local authority areas across England. It currently employs 2,700 staff and there is no trade union recognition.

Key points

- Pay rates for those on the lowest grade are just above the statutory NLW at £8.75.
- This year's general pay award was 2% for most staff, with larger rises of up to 6% for staff affected by the latest increase in the NLW.
- Care staff also received a £300 discretionary 'thank you' bonus for working in difficult circumstances due to the coronavirus pandemic.

Pay rates

The organisation is made up of three businesses: a housing association, a property and maintenance firm, and a care business. The care business is the part of the organisation that is the most affected by changes in statutory minimum wages. Around half of the organisation's 800 care staff received around a 6% pay increase as a result of the NLW increase or to maintain pay differentials. The lowest rate of pay currently sits at £8.75 per hour outside London as care services are not provided in the capital.

Table B1 Pay structure for care staff, effective 1 April 2020

Job title	Minimum	Maximum
Care and Support Enabler (Unqualified)	£8.75	£9.30
Care and Support Enabler (Qualified)	£9.35	£9.85
Senior Care and Support Enabler	£9.90	£10.30

Implementing the 2020 rise

In 2020 the organisation implemented a 2% general pay rise for most staff, with higher rises for those affected by the NLW. Staff on the previous lowest rate of £8.25 received an increase of 6% from 1 April 2020, taking the minimum rate to £8.75. The differential between the minimum rate and the NLW has shrunk slightly from 4p above to 3p above, due to rounding up to the nearest 5p an hour i.e. the statutory minimum of £8.72 has been rounded to £8.75, whereas last year the minimum rate was rounded from the NLW rate of £8.21 to £8.25.

The HR team carried out a small number of adjustments to the grading structure as part of this year's pay review. The changes predominantly affected cleaners working in the housing business. Cleaners' pay rose due to the NLW and the next rate above had to be increased to prevent cleaners' pay overlapping with the subsequent grade in the hierarchy. Cleaners were previously paid £15,754, which rose to £16,827, and the salary for the grade above moved from £17,739 to £18,094 for a 35-hour week.

When asked about this round of changes to pay structures the Senior HR Manager said: '*well everything is a legacy; if you look at our grading framework there are some anomalies in there. So, we smoothed the inconsistencies out. It's always tricky to communicate to someone why you're changing their pay and making it different to someone else's. And you also find it can be expensive because when you're changing things to make them different, the winners win and the losers are protected, so there's a cost there. It was mainly smoothing but also when we re-designed it we got to the point where, if you look at the proposed increases in the NLW trying to get to £10.50 by 2024 and if you break that down you realise it's going to be a 5% increase every year for the next five years. So, I looked at my HR Director and said in the housing association it's not many employees and we can we cope with that, and that we would for the foreseeable future move all the grades up by a higher amount, reducing the differentials slightly each year.*'

So far, the organisation has been able to maintain differentials, the Senior HR Manager explains: *'our care business is most affected by the NLW. You may know that the care industry is not particularly well paid or well funded. Approximately half of our 800 care staff are on low-ish pay.*

They may not be on the NLW but they are on the next tier up and so we've given all of those more or less a 5% increase to make sure that the differentials are maintained. Even if they were not at the living wage, we would give them the 5% increase to maintain the differentials.'

As part of discussions on the 2020 pay review the organisation considered removing starter rates but decided against it as starter rates are considered fundamental to the pay framework. Instead the organisation chose to raise the established rate slightly more, to enable space in the structure for a starter rate (which is currently £8.75 for a period of 12 months)*: 'we retained the starter rate but increased the established rate. The permanent rate has gone up, so that we can fit in the starter rate.'*

No other terms to the employment contract changed as a result of this year's increase to statutory minimum rates.

Future increases in statutory wages

Currently the organisation is budgeting for a pay rise of between 2-3% for the majority of staff in 2021, depending upon how much the business can afford, what the labour market is doing and whether there is any increase in pension costs. It is likely lower-paid staff – who number around 400 – will receive higher increases due to the rising NLW.

The organisation looks to the Office for Budget Responsibility (OBR) forecasts for the NLW forecast, but the Senior HR Manager feels the current forecast of £8.90 in 2021 seems too low and suggests: *'if you're trying to aim for £10.50 in four years' time it needs to be over £9 [in 2021]. I've got my own forecast of it being £9.13, a 4.7% increase. I've told that to the care business so that they know this is a problem every year.'*

The organisation accepts that continued higher rises in the NLW will have a negative impact on differentials between grades and that this will play out until such time that the difference becomes so small a grade will have to be removed from the structure. The Senior HR Manager explains: *'when we tweaked our grading framework, we discussed how we would cope with the*

5% increases at the bottom and we said we would have to allow differentials to shrink and I think that will work for a few years but there will be a point if it carries on – I don't know what the point is – where we'll have to say well we'll miss out a grade. So, we'll allow a squeeze on differentials for as long as we can.'

Reduction in the qualifying age for the NLW

The organisation does not operate age-related pay for its main workforce and there are no plans to introduce it once the age threshold for the NLW reduces. The Senior HR Manager explains: '*Age-related pay rates are arguably not fair. We don't have them now, I can't see why we would introduce them. Paying someone less on the basis of their age – whilst it may be legal – it's basically not fair.'*

The organisation does however make use of the statutory apprentice rate and is considering expanding its use of apprentices in the future, although gradually and not significantly. The organisation currently employs around 50 apprentices, with a range of ages but with a heavy youth bias. *'We are going to try and expand our use of apprentices. Some parts of the business see that as a talent solution, and some see it as part of the resourcing mix because they are cheaper and part-funded by the Levy. However, it's not an official strategy, just something we are considering.'*

Pay for apprentice care workers is increased to mirror that for apprentices in the property and maintenance business, where pay is higher as they work a longer working week: *'Our trades team in our property functions are on a 39-hour week. We have joiners, plumbers, electricians and maybe even bricklayers. We calculate our annual apprentice salary based on the 39-hour week plus a little bit of rounding up. Apprentices in our housing association, because they do a 35-hour week, automatically get an 8-9% higher hourly pay rate so they are well above [the statutory minimum apprentice level]'.*

The profile of the workforce, like many firms in housing and social care, is generally older with approximately 10% aged under 25. The organisation currently employs around 300 younger workers. This has not changed notably in recent years and is not expected to over the coming few years.

Table B2 Age profile at the housing association

	Number of staff	Proportion of workforce
Under 21	100	3%
22-23	100	3%
23-24	100	3%
Aged 25 and over	2,400	90%

Impact of the coronavirus pandemic on the low-paid

The organisation furloughed 600 staff under the Coronavirus Job Retention Scheme (CJRS). Of those there was a mix of reasons for the furlough arrangement: those who are shielding or with underlying health conditions; those who have found there is currently no work for them (predominantly in sales and marketing); and those with no childcare available. The Senior HR Manager said: '*Most of the people we have furloughed are our repair and maintenance people, where we temporarily withdrew most services, and we were only doing emergency repairs. We put those people on a rota to cover emergencies. We are in the process now of largely bringing people off furlough and get them back to doing work.'* There are currently around 30 people yet to return to work for the reasons above.

Key workers in the care business were rewarded for working in difficult circumstances with a discretionary 'thank you' bonus: '*We have paid a £300 bonus as a one-off to about 450 carers in April, that was discretionary, and they wouldn't normally get it. But it was to recognise that they were working hard in difficult circumstances.'*

In other parts of the business there would normally be a modest annual bonus in July, based on corporate criteria and performance measures, but this year the bonus round is under review: *'we haven't decided what we are going to do yet. We may well pay a flat rate, previously that was a* *percentage of pay, but it may well be that we pay a flat rate as a thank you, building on what we did for the carers in April.'*

There has been one change to terms and conditions due to the coronavirus: the organisation has extended life assurance to cover all employees. The Senior HR Manager explains in more detail: *'Previously it only applied to employees in the pension scheme, and those who are non-pension scheme members in the housing association part of the business, but we've now extended it to the care employees who are not in the pension scheme as well.'*

The organisation has not made any staff redundant and there are currently no plans for redundancies.

Case study C – Hospitality firm

Background

This company is the UK's largest operator of hotels and restaurants. It employs around 35,000 people, of whom just under 32,000 are hourly-paid, in over 1,200 hotels and restaurants throughout the UK.

Key points

- The company operates a 'pay for progression' model putting into practice the company's belief that increased skills should be reflected in the rate of pay received. Pay for progression is a set of fixed hourly pay rates which apply to distinct pre-defined levels of knowledge and responsibility. The starting rates of pay are designed to be competitive; the highest rates of pay are given to the most highly qualified, multi-disciplined and specialised team members who demonstrate the required skills following the completion of 'progression steps'.
- The statutory minimum pay rates are used as either a starter rate for entry to a role or as the core rate for those roles where there is potential to earn more over and above base pay.
- Percentage differentials have been squeezed in the last three years as the company has maintained the same monetary rather than percentage gaps between pay points at each pay review.
- The coronavirus impact has led to a pay freeze for salaried staff, such that in some sites, the highest-paid hourly-paid workers and first-line managers are now on broadly the same rate of pay. (The April 2020 NLW and NMW increases were applied.)
- The company is about to undertake a review of its pay strategy for the next few years, factoring in the optimal operational structure for the future, the challenges around the labour market for skills, increases in the level of the NLW, the consequences of the coronavirus pandemic and the proposed reduction in the qualifying age for the NLW. These may inform a rethink of the current approach to the pay for progression model, rates of pay and differentials.

Pay rates

With the exception of front-of-house restaurant staff, who are on spot rates, the company operates a 'pay for progression' model for hourly-paid staff, with defined pay points for each level of skill development (entry, proficient and expert). Jobs are grouped into grades based on role type and accountabilities. Entry rates for back-of-house restaurant staff and hotel team members are aligned with the NLW and have been for some time. Through the progression model, these workers can see their rates increase by 20pph and a further 30pph when they reach 'proficient' and then 'expert' level. Altogether, some 6,574 employees (18.8% of the workforce) are on the NLW with the majority sitting above.

A youth rate applies within the restaurants division: the rate for workers aged 16 to 20 is higher than the statutory youth rate (this accounts for 5.7% of the total workforce), while restaurant staff aged between 21 and 24 are paid in line with the NMW (currently £8.20). There is no further in-role pay progression for front-of-house staff. Back-of-house restaurant workers start on the appropriate youth rate or NMW/NLW but move onto the corresponding adult rates when they reach 'proficient' and 'expert' level.

London-based roles attract the highest location premium and there are a small number of outlets in pay 'hotspots' attracting premiums of 30pph or 60pph. There are 4 geographical pay zones across the country and the company also has 'hotspots' within a geographical zone (the 'hotspot' pay zone initiative is in its formative stages and efforts to expand it following a promising trial have been put on hold as a result of the coronavirus epidemic). All salaried roles, including deputy and general managers, are on salary ranges.

Implementing the 2020 rise

The company increased its minimum hourly rates in line with the increases to the statutory minimum on 1 April. To maintain differentials in monetary terms it applied the same increase, of 51p, to all hourly-paid roles except the most senior team leaders (the increase for this group of staff is explained in more detail below). It has taken this approach over the past three years to ensure the differentials are still meaningful. As a result, percentage differentials have gradually narrowed over this timeframe. '*We have a 20p to 30p differential between each of our points and this approach means we could maintain that*' explains the company's Head of Reward and HR Policy. '*We're trying to maintain them as best we can while knowing that actually that's getting harder each year with the above-inflationary increases in NLW*.'

Support centre employees and salaried operations managers, meanwhile, were due to receive annual pay review increases of 2% and 2.5% respectively from 1 May. However, as a result of the coronavirus epidemic the company has decided to put this increase on hold, affecting 3,792 staff members, and it is currently unclear when it will be in a position to implement it.

One consequence of this has been that the new basic pay rates of some of the most experienced hourly paid team leaders ('team leader – specialist') have started to come into line with the salaried first line managers: the differential is now just 5pph. '*We've got some sites where the team leader is essentially earning the same as the first line manager on an hourly basis and that is a problem,*' says the Head of Reward and HR Policy. '*We were going to address some of that this year in our salaried staff pay review, which we then stopped, so we have essentially made the problem slightly worse this year because we gave the hourly-paid roles an increase and we didn't do that for the salaried staff.*'

While these two staff groups are currently on broadly comparable basic pay rates, managers receive a better overall package including an annual incentive payment, which ranges from 25% up to 50% for site managers, and access to healthcare and other benefits. '*So, it's a different total package but on pay they are pretty similar at the moment.*'

The company has not sought to make any other changes to pay and benefits as a result of rising minimum wages. Overtime, for example, offers limited scope for further savings as the company only pays overtime rates at Christmas. However, it has made some changes in respect of flexible-hours contracts and more efficient use of technology. '*Certainly, in hotels, we've got automated check-in processes and more technology but there's a limit to how much of that you can do in a hotel. You can't really automate housekeeping – you need a person to do that, there* *isn't a machine that can do that at this moment in time. But where we can make greater use of technology we have, so long as it doesn't impact the guest experience.*' Existing hourly contracts already contain provisions for adjusting hours both up and down and the company has made use of this flexibility in the past year as demand has declined and been less predictable. '*Over the last 12 months particularly we have seen a trend in the hours available for employees being reduced due to the uncertainty we were facing around Brexit and reduced demand which results in fewer people on shift.*'

The company may make further changes in the areas of technology but there are no firm plans in this regard at present, although it has a long-term 'Hotel of the Future' project underway. There is also a continued aim to make contracts more flexible and still provide a level of consistency and security for employees.

Increases in the level of the NLW are a significant factor in the company's financial planning. According to the Head of Reward and HR Policy: '*Of a total business of 35,000 people, 32,000 are hourly-paid so we are a heavily hourly-paid, team member-led organisation. And therefore, the wage cost that sits at that level is significant. So, any significant shift in the NLW rate impacts our ability to recruit, train and progress people.*' As such, the company's current 'pay for progression' model, through which staff obtain pay increases for developing skills, may also be at risk, while differentials may be squeezed further. '*There is a point at which that may become challenging for us and it's on our plan for this year to do some longer-term thinking.*'

Future increases in statutory wages

The company has modelled increases in the statutory minimum for the next four years based on Government projections of the NLW reaching £10.50 by 2024. '*We've essentially drawn a straight line from here to there to see what that means each year,*' says the Head of Reward and HR Policy. On this basis, the company has assumed the NLW will reach a level in the region of £9.17 next year, representing an increase of 5.2%, but it may deviate from its recent approach at the next pay review and make more differentiated awards. '*At this moment we haven't agreed what we'll do and how we'll apply that – whether we award a blanket pence-per-hour increase or* *whether we need to do something different. I expect that with the year ahead, balancing low revenues and significantly reduced profit growth, with the labour market and Brexit we will have to think carefully about what to do with our April 2021 pay review.*' However, the lowest pay rates will continue to be maintained at the level of the NLW.

Reduction in the qualifying age for the NLW

As already mentioned, the company currently operates a youth rate in its restaurant division. Younger workers currently comprise around a quarter of the company's workforce and, as outlined above, those aged under 25 in the restaurants arm of the business are currently on either the NMW for staff aged 21 to 24 or a youth rate ahead of the current NMW for the younger age brackets (around 2-3,000 employees are currently on this higher rate).

The company is aware of Government proposals to reduce the qualifying age for the NLW and had already looked at approaches to aligning pay rates with no age differentiation – the Head of Reward and HR Policy reports that this is a challenge that the company revisits regularly. '*The restaurants' position on age differentials is something we look at every year which requires a really solid business case that shows by paying more than the market how we can drive better guest scores, give our customers a better experience and retain people longer. We need to be able to draw those correlations really clearly as intuitively it makes sense, with enough insight to be able to make that investment as a business priority. It is something we need to look at with the Government NLW plan and the impact on age-related pay which may slowly dissolve over the years.*'

Table C1 Age profile of the workforce at the hospitality firm

	Number of staff	Proportion of workforce
Under 21	4,401	12.6%
22-23	2,425	6.9%
23-24	2,273	6.5%
Aged 25 and over	25,861	74.0%

The relative proportions of staff in each age bracket have not changed materially since the NLW was introduced but with the potential adverse impact of Brexit on labour supply, the company is making efforts to attract a broader pool of candidates and this may include attracting older workers. '*We do know that there is potentially an older demographic we could look to target more in terms of recruitment activity and we're considering where else we can look at talent pools. That's more to do with the potential challenges of Brexit and freedom of movement than the NLW: there will be fewer EU workers in the UK, especially in our London hotels they are the majority of our population, so how do we mitigate the risk of losing this pool of labour and be able to recruit and replace the level required at the right pay rate which is attractive and competitive enough?*'

Impact of the coronavirus pandemic on the low-paid

The coronavirus has had a significant impact on the company, with the closure of all its restaurants and all but 39 hotels in the first half of the year, which remained open for key workers (e.g. near hospitals), as well as a handful of training hotels where new protocols around PPE and social distancing were trialled ready for reopening, which was completed in early August across the organisation. There was a skeleton staff of workers who continued to carry out caretaking duties at the closed hotels and there may be support required for more localised closures now due to local lockdowns. '*There are certain things they have to do on a daily basis to make sure we can reopen the hotel quickly when we're able to*' says the Head of Reward and HR Policy, who explains that, while the company has taken full advantage of the furlough scheme, with 27,000 operational staff and just over half the support centre on leave as at mid-June, it continued to spend £80 million a month on salaries and fixed costs, while essentially shut.

Hourly-paid staff at keyworker hotels have received a pay premium of 50% on their hourly rate (or 65% for those working nights), while those carrying out caretaking duties have been awarded a temporary increase of 20% (35% for nights). This is partly in recognition of the fact that the company has topped up pay for their furloughed colleagues to 100%, rather than the statutory provision of 80%, until the end of July. At the same time, executive committee members have taken a voluntary indefinite pay cut of 20% or 30% (executive members and executive directors respectively) from April or May, while planned pay rises for salaried staff have been frozen as outlined above.

The company may consider redundancies but is unable to '*say anything with any certainty, other than that we are looking at all options at the moment and it will depend on customer demand.*' Its planning encompasses various potential scenarios for reopening following lockdown, including a possible second wave of the virus. '*Each of these scenarios will determine what our business looks like for the rest of the year and what we have to do. But at this moment there's nothing that's been positioned or agreed.*'

These challenges are shared by many in the sector and the company hopes the economic effects of coronavirus will be taken into consideration when the NLW uprating is determined in the coming years. '*I'm sure the LPC will be thinking about the impact COVID-19 has had on the economy and particularly on hospitality businesses. From our side, we would like to see some restraint in terms of how they approach it and with no significant uplifts which would put additional strain on companies to maintain jobs and ability to support longer term growth. This needs to be balanced with still maintaining reasonable pay levels across the UK*' says the Head of Reward and HR Policy.

Case study D – Housing association

Background

This housing association provides nearly 4,500 homes in a Scottish city. The housing association employs 203 people and negotiates pay with Unite the Union.

Key points

- This year marked the second and final year of a two-year pay deal.
- The housing association is planning to review and modernise the pay framework in 2021/22. to maintain the differential between its lowest rates and the real Living Wage.

Pay rates

The organisation operates incremental pay throughout, with all staff moving up by one increment each year. It is accredited with its local Living Wage association (which mirrors the Living Wage Foundation rates) and has looked at accreditation with the Living Wage Foundation but cannot at this point in time guarantee its entire supply chain would be eligible. A project team has been established to address this with a view to securing Living Wage Foundation accreditation in April 2021.

There are relatively few staff on the minimum rate of £9.30 per hour: the groups still affected are five Modern Apprentices, four youth workers and a business support assistant.

The lower end of the pay scale is set out below. The organisation does not currently have any posts at grade 2; the 17 roles at grade 3 cover a range of administrative and customer adviser positions.

Table D1 Incremental pay scales: bottom three grades

	Minimum	Point 2	Point 3	Point 4	Point 5	Maximum
Grade 1	£15,685*	£15,970*	£16,210*	£16,455*	£16,926	£16,997
Grade 2	£18,251	£18,537	£18,822	£19,107	£19,392	£19,677
Grade 3	£20,533	£20,875	£21,217	£21,559	£21,902	£22,244

* no longer in use (see below).

Implementing the 2020 rise

The housing association has a two-year deal in place and is currently in the second year of that deal. Under the terms of the deal, it awarded an increase in April of 2.2% in year one (2019) and 1.6% in year two (2020). The award was informed by the Consumer Prices Index (CPI) and all grades and increments were uplifted in line with that percentage.

There were no other changes to pay and conditions as part of the 2020 pay rise.

Future increases in statutory wages

As demonstrated in the table above, the increases in the real Living Wage have caught up with the bottom of the housing association's pay scale. While it has not used those points for a number of years because of the decision to mirror the VLW, it has prompted the organisation to consider that it may need to review the grading structure in the coming year. As the HR Manager explained to IDR: '*we are finding that Grade 1 is losing some of its incremental points. It's not been a problem for us up to now because we don't have many people on Grade 1 but at some point, we will have to revise our grades, or it will simply start on Grade 2. The real Living Wage is catching up with where Grade 1 was.*

'We are either going to have to write off a whole grade or we are going to have to restructure at least the bottom grades. But we are looking at that as part of a review of our terms and conditions over the coming year.'

The increase in the real Living Wage is not the only factor affecting pay at the organisation. It is also reviewing its offering because the current structure is perceived to be out-of-date and it wants to be better placed to benchmark pay against other organisations. One approach the charity is taking is to potentially introduce a 'cafeteria-style' benefits system so that the choice for employees is more tailored to their needs than a bulk across-the-board offering. The HR Manager says: '*we are looking at whether we are able to introduce more of a "cafeteria style" to our benefits because we are a housing association and a charity so we can't really keep adding to our benefits package. But people maybe want different things so we are looking at whether people can select a package that better suits them at that point in time. We are working with an industry body, Employers in Voluntary Housing, to look at what form that might take. They have been running a project on this. It had been put to one side because of the coronavirus, but it has recently been reactivated. So, it's really reviewing our benefits package and seeing whether without increasing cost we can increase flexibility in the benefits but that might also include looking at hourly rates, etc.*'

The organisation will go into discussions in November to review the 2021 pay award.

Reduction in the qualifying age for the NLW

The housing association does not operate age-related pay and has no plans to introduce an age-related pay structure in the future as the qualifying age for the NLW moves from 25 to 23 and again to 21. The HR Manager says: '*I have issues with the age banding and I am glad to hear it's coming down because we support young homeless people and I fail to understand sometimes just why the people who set the minimum pay rate think just because you are 17, for example, your costs are less than someone who is 25. If you are trying to get somewhere to live, I think there is an element of unfairness in age banding and I think there should just be a single rate.*'

Impact of the coronavirus pandemic on the low-paid

Half of the workforce were considered to be keyworkers and were working as normal in the community throughout the lockdown. It was because of this that the charity decided out of fairness that the 25% of the workforce that went on furlough leave should have their pay capped at 80%. However, this viewpoint was not shared by the trade union and the charity is in discussions about this still.

Some hours were reduced for those who continued to work in the community to reduce their risk of exposure to the coronavirus, with no reduction in pay.

To reduce the impact of a build-up of holiday entitlement, the housing association asked staff to take ten days' leave before the end of September 2020. The HR Manager explains: *'we asked people to take at least ten working days by the end of September. We have quite a generous holiday entitlement. We have 27 days of holiday, not including public holidays, and we didn't want everybody to save them on the basis that they couldn't go away so we asked people to take at least ten days by the end of September and that seems to have worked quite well.'*

Coronavirus fast-tracked plans to move towards more agile working practices and this is something the charity will keep moving forward as a recent staff survey showed an increased appetite to work from home.

Case study E – Non-food retailer

Background

This multinational homeware retailer employs 24,943 staff based in 290 stores, located across the UK, and at its head office (851 people).

Key points

- As part of the 2020 annual pay review, the company implemented the pay rise for hourly-paid staff in two parts, firstly to staff aged 25 and over on 1 April and then to staff aged under 25 on 1 June.
- There has been no pay rise for the store management teams or head office yet this year.
- The organisation has fast-tracked new wellbeing resources for staff as part of its response to coronavirus.

Pay rates

The company operates spot rates for its work level 1 employees, which includes customer advisors up to team leaders. The lowest rate is £8.72, in line with the NLW, and this rate is now paid to all staff regardless of age. There are currently 17,540 members of staff that are on the lowest rate, which makes up 68.7% of the workforce. Previously the company used to have a gap between its lowest rate and the statutory minimum but since the introduction of NLW and the annual rise, this has slowly been eroded because of affordability challenges.

Implementing the 2020 rise

The retailer adopted a different approach in its 2020 pay review. Usually the organisation applies an across-the-board general increase but due to uncertainties brought about by coronavirus, it implemented a staged pay review process based on age.

Over-25-year-olds had their pay increased in April 2020 in line with the statutory increase in the NLW and those aged 24 and under had their pay award deferred until 1 June 2020, at which point they also had their pay increased to £8.72. The store management and head office staff have had no pay award so far for 2020.

Table E2: Pay rate as of 1 June 2020 for hourly-paid staff

	Spot rate £ph
Customer Advisor/Administration	£8.72

The organisation had experienced some erosion of differentials between grades and so as part of the second phase of the 2020 pay review in June, it reinstated pay differentials between staff on the lowest rate and those directly above them. These vary between £0.25 and £0.75 according to role (these include HR administration, showroom advisors, store delivery drivers and team leaders).

Table E3: Changes to pay rates for reinstating differentials in 2020

Staff group	2019	April 2020	June 2020
Customer Advisor/Administration (over 25)	£8.35	£8.72	£8.72
Customer Advisor/Administration (under 25)	£8.35	£8.35	£8.72

Additionally, the firm decided not to go ahead with its yearly review of hotspots and location pay. There were no other changes to terms and conditions as part of the 2020 pay review.

Future increases in statutory wages

The retailer will monitor future increases in the NMW/NLW to understand how further increased labour costs will impact the company. For under-25s, it previously paid a minimum rate above the statutory minimum (£8.35) but has now aligned its minimum rate to the NLW.

The Reward Advisor reports: *'In previous years we've always had a differential between the NMW/NLW and our base rate of pay but as the increase in the NMW/NLW over the last few years has been quite significant, it's [placing pressure on] affordability: can we afford to maintain that differential? It has been harder over the last few years where we've had over a 4% increase in the*

NLW. This year we were planning to pay slightly more than the NMW/NLW but because of the coronavirus and not knowing how the business was going to survive, we only increased to the NLW rate.'

Next year the company aims to restore a differential between its lowest rate and the statutory minimum.

Reduction in the qualifying age for the NLW

The company does not operate age-related pay and has no plans to introduce it in the future as the qualifying age for the NLW moves from 25 to 23 and then to 21. The HR Reward Advisor said: '*the fact that we had to add that additional complexity to our HR systems this year was just a temporary measure because of coronavirus. Having to identify who had to be on what rate because of age was just added complication!'*

Impact of the coronavirus pandemic on the low-paid

Coronavirus has had a significant impact on the retailer as it had to shut all stores temporarily at the Government's request. The company did use the CJRS and at its height had a large proportion of staff on furlough leave. Staff were paid 80% of their salary as per the CJRS rules, with the company topping up the earnings of those above the £2,500 per month threshold (again to 80%) to help mitigate any significant drop in income. The HR Reward Advisor explains: '*To protect the long-term future of the business we furloughed a large part of the workforce. In head office we furloughed 70% and in stores 50%. Most of the colleagues have now returned to work apart from a small amount (around 50) that are still on furlough.'*

All work level 1 staff (just under 20,000 people) received a 15% bonus on 31 August based on what they earned in April as a 'thank you' for their hard work during the COVID-19 crisis.

The firm introduced a weekly communication with staff called 'Wellness Wednesdays' as part of its wellness strategy to help showcase available resources to staff. It was fast-tracked because of coronavirus and became an important part of communications with staff. The HR Reward

Advisor explains: '*it was a weekly communication from our HR Director about how colleagues could best support each other at work or on furlough, discussing topics like eating habits, sleeping and financial worries. This also directed colleagues who may have had concerns to our wellbeing or healthcare providers for advice. The business wanted to remind colleagues to take some time out to look after themselves and each other, and share stories on internal communication platforms on different topics to help with colleagues' personal wellbeing.'*

With regards to redundancies, the retailer may make small changes in the head office team which will result in redundancies, but in stores the company has increased its customer advisor headcount in recent months.

Case study F – Transport engineering firm

Background

This transport engineering firm employs around 4,000 staff at various sites across the UK. The company's minimum salary is in line with the voluntary Living Wage but it notes that the NLW is starting to catch up to its bottom grade.

Key points

- The lowest rate of pay at the company is broadly in line with the voluntary Living Wage.
- While the firm's lowest pay grade is above the NLW, the firm is conscious that the statutory minimum is catching up to the bottom of its pay grade.
- As a result of this and pay outcomes at competitors, this year's pay review in January 2020 included a minimum increase of £700 for staff earning less than roughly £28,000 a year.

Pay rates

The company operates spot rates for lower-paid staff in grades 1-15, 15 being the lowest with an annual salary equivalent to £9.50 an hour (or £10.78 in London).

Implementing the 2020 rise

The annual pay review takes effect each January and it took effect as normal this year as it took place before the coronavirus was recognised to be in the UK. The company operates performance-related pay and staff received rises from a budget of 2.5 to 3%. Individual pay rises are determined by appraisal ratings and an employee's position in the grade, with larger rises for staff lower in their pay range. Internally this is known as the compensation grid and this approach covers all staff. In 2020 the company applied a minimum increase of £700 for staff paid less than £28,000 – it last implemented a minimum increase five years ago. This move affected around 10% of the firm's 4,000 staff covering roles such as administrative roles and entry-level positions.

The Reward Partner reports that the underpinning of this year's pay rises was in part driven by the NLW but mainly influenced by competitors that implemented similar measures. He also notes that even without this the minimum salary would have been above the NLW, but the firm is conscious that it is catching up to the bottom of their lowest pay grade.

Future increases in statutory wages

The firm is not directly affected by rise in the statutory minimum rate, but it is mindful of it and has modelled it. The company is currently considering applying for accreditation with the Living Wage Foundation – it pays a minimum rate of £9.50 nationally and £10.78 in London but is not currently accredited.

The firm views gender pay as more pressing, having recently undertaken an equal pay audit. This could have the result of raising pay for some of the lower grades (predominantly female workers) in an effort to reduce the gender pay gap.

Reduction in the qualifying age for the NLW

The company does not operate youth rates, but it does have separate pay arrangements for apprentices. Apprentices are paid apprentice salaries and these start at £12,500. Due to legacy arrangements, working hours for apprentices vary in certain parts of the business but the same salary applies, which has the effect of lowering the hourly rate. The company therefore ensures that all apprentice rates – whether level 3, 4, 5, or 6 – comply with the highest rate applicable, rather than varying apprentice pay by age.

The firm recognises that it, like many other engineering firms, faces the challenging of an ageing workforce and it has taken steps to increase the number of younger workers as part of succession planning. Currently around 10% of staff are aged under 25.

The forthcoming changes in the qualifying age for the NLW will have no impact on the business.

Impact of the coronavirus pandemic on the low-paid

The company furloughed approximately 5% of staff at the height of business slowdown and decisions on which staff to furlough were driven by the area of work rather than pay level, although the Reward Partner notes that it only affected middle and lower-paid roles. Pay was topped up to 100%.

The company continues to make use of the flexible furlough scheme but the number of staff on furlough will be significantly reduced, to around 1%. It will continue to top up pay for furloughed staff to 100%.

The firm’s use of the CJRS has meant it avoided lay-offs or reduced hours. The only other changes were the withdrawal of some goodwill gestures, such as free food as staff canteens were closed.

The firm usually operates a global bonus scheme at the end of the year and the position on this is currently under consideration.

Case study G – Coffee house chain

Background

This coffeehouse chain operates outlets in all regions of the UK. The company employs over 16,500 staff and has approximately 1,560 outlets based in the UK.

Key points

- This year's NLW increase was implemented for store staff only, both hourly-paid and salaried
- The pay review for all other staff was cancelled for 2020.
- The company is undertaking a thorough review of its store reward strategy, a key component of which will be the response to future increases in the NLW.

Pay rates

Baristas at are paid dependent upon skills and location. There are two positions for baristas: barista and senior barista. The pay structure has three zones for location pay as follows: zone three; airports and inner London; zone two; outer London and hotspots; zone one: everywhere else. There are then two pay points dependent on whether staff are 'training' or 'skilled'.

Table G1 Pay structure for hourly-paid store staff, effective 1 April 2020

Job	Zone 1	Zone 2	Zone 3
Barista (training)	£8.72	£9.02	£9.72
Barista (skilled)	£8.92	£9.22	£9.92
Senior barista (training)	£9.25	£9.55	£10.25
Senior barista (skilled)	£9.45	£9.75	£10.45

Implementing the 2020 rise

The 2020 pay review for 16,189 store staff took effect in April. The total budget was 5.05% and the firm applied differentiated pay rises to staff in different grades and locations. The minimum rate rose by 6.2% from £8.21 to £8.72 and this increase covered around 15% of staff (2,527) who are currently on the lowest hourly rate. In previous years, all roles increased by the same percentage as the increase in the NLW but this year, for reasons of affordability, the company has instead maintained the monetary differentials between the roles. For example, this year skilled senior baristas in zone three were awarded an increase of £0.39, compared with the £0.51 increase that NLW-aligned trainee baristas received. Head office staff have had their pay review cancelled due to affordability, in part because of temporary store closures arising from the coronavirus pandemic.

Differentials have been squeezed as the NLW continues to rise at a rate above the level of pay increases seen for salaried roles, which in the store structure starts at store manager. Within stores due to the different layers of differentials such by skill level, geographical locations and, for managers, the added layer of store size, the Reward Manager notes that compression between pay rates has now reached its maximum point: *'In April we took a different approach, which maintained differentials on a monetary basis but not every role got the 6.2% increase from the NLW as they may have done in previous years [...] for 2021, the differentials are below their previous level and the risk is that you squeeze them and they are no longer meaningful.'*

There have been no other changes to pay, terms and conditions as part of the 2020 pay review. There is a quarterly and annual bonus scheme for all store staff which remains in place. However, as part of its response to the impact of the coronavirus pandemic, the company plans to eliminate the role of assistant manager from its store structure.

Future increases in statutory wages

The company has not made any concrete decisions regarding the 2021 pay increase yet, however as part of that planning process it is looking at every aspect of the pay structure to see if it is still feasible. The Reward Manager says: '*We have gone right back to basics asking ourselves "do we still think that geographical pay is the right thing to do? Are we still convinced that we can afford to have one rate for all and not have age-related pay? Can we still afford to have starter rates for either or both barista and senior barista, or just one?" We are trying to answer these conceptual questions and see what that leaves us with. Once we have the NLW rates [from the Government] we can see what that looks like for April 2021.'*

By revisiting the basics of the pay structure, the firm hopes to make longer-term decisions on what the investment in pay will look like at the company. It was the last year of the previous pay strategy, so it was already on the table to be discussed, however the onset of coronavirus meant that discussions were fast-tracked. The Reward Manager adds*: 'I think we are all agreed that these are things that we want to continue with, because we see the value of them, for instance pay progression provides a retention lever, so if you stay and increase your skills you can get an increase in your pay without having to go elsewhere, and the zonal pay keeps us competitive. However, the question is can we afford it not just for this year but through to 2024, and if not, what has to give.'*

The firm has been modelling NLW rises up to 2024 based on the future target for it to reach 67% of median earnings by then. This shows that that 6% increases in their pay budget would be unmanageable and it will continue to review efficiencies as a way of offsetting the rising costs: '*There is even more uncertainty around sales with COVID-19 and the other option for offsetting pay inflation is looking at efficiencies. However, it forces more spotlight on the pay budget and more scrutiny on things like zonal pay, pay progression and paying everyone one rate, despite their age.'*

Reduction in the qualifying age for the NLW

The company does not have an age-related pay structure and has no plans currently to implement one, although this forms part of its overall review. The Reward Manager explains how the reduction in the qualifying age signals to the business that implementing an age-related structure now would not have the cost benefits it may have done before the changes: '*I guess what [the forthcoming age threshold change in the NLW] has done is allow me to signal to the business the direction of travel from the Government, so if the business did want to put in age-related pay I am actually saying that the benefit of that financially is going to reduce between now and 2024.'*

Table G2 Age profile of the workforce

	Number of staff	Proportion of staff (%)
Total workforce	16,598	100.0%
Aged under 21	3,764	22.3%
Aged 21-22	2,047	12.3%
Aged 23-24	1,785	10.8%
Aged 25 and over	9,022	54.2%

Impact of the coronavirus pandemic on the low-paid

The company has been affected by the Government's lockdown, with the closure of all its stores between mid-March and mid-June. The firm furloughed 95.6% of its whole UK workforce under the CJRS and topped up pay to 100% for a period of around eight weeks. After this, furlough payments moved to 80% for staff at open stores who could not work or 100% for staff based at branches that remained closed. Most staff are now back at work with a proportion working through flexible furlough. There was some disparity in how this played out, since some staff at the head office had clauses which meant pay could not be reduced, whereas other staff had contracts which enabled a reduction to 80% of pay.

One area where lower-paid staff were disproportionately affected by coronavirus was in relation to sick pay. Low-paid store staff are only entitled to statutory sick pay, while head-office staff are covered by enhanced sick pay provisions.

Staff are being encouraged to take holiday across the business to avoid a backlog at the end of the year.

The head office is currently covered by a recruitment freeze and the company recently launched the consultation process for staff affected by the elimination of the assistant manager role.

Case study H – Hospitality chain

Background

This firm is a quick-service restaurant chain with 1,389 sites across the UK, of which 187 are managed centrally and the remainder are franchised. Franchisees can choose their own pay rates, but 86% are on or above all of the company-owned recommended rates. Managed restaurants employ 17,542 staff in total, almost half of whom are aged under 21. The organisation operates youth rates and the current minimum adult rate is £8.72.

Key points

- This year's NLW increase has eliminated the differential between its lowest rate and the NLW. The adult minimum is now £8.72, having been 10pph above the then NLW last year.
- The company removed its 21-24-year-old rate in January 2019 as part of a strategy to return to three age bands following the NLW's introduction in 2016 and introduction of a new age band for those aged 21 to 24.

Pay rates

Hourly-paid restaurant workers are on salary ranges and individuals receive annual performance-related pay rises. The current minimum hourly rate for adult workers is £8.72 and the grade maximum is currently £10.40. The next grade up is for Crew Trainers, with a minimum hourly rate of £8.97. Around two-thirds of the hourly-paid population, some 11,000 employees, are on the minimum rate for their age band.

There are no tips but there is a night premium worth £1 an hour between midnight and 6am. Hourly-paid staff are also covered by a bonus scheme which is based on a monthly assessment of restaurant performance and staff in the top 10% of restaurants receive 50pph for the following two-week period of the month. A higher minimum applies to some locations (primarily London) but largely only for under-18s (a handful of restaurants, such as those in airports, also pay a location premium for some other age bands).

Table H1 Pay structure for hourly-paid restaurant staff, effective 1 February 2020

Job	Minimum	Maximum
Crew (aged 16-17)	£6.50	£7.80
Crew (aged 18-20)	£7.25	£8.70
Crew (aged 21 and over)	£8.72	£10.90
Crew Trainer	£8.97	£11.20
Shift Running Manager	£10.22	£12.80

Implementing the 2020 rise

The organisation operates separate pay reviews for hourly-paid and salaried staff, with the former taking effect in February (to accommodate the statutory increase, with a further performance-based increase usually following in August) and the latter in December. All salaried staff have had a review for 2020, with staff receiving performance-related pay rises averaging 2.6% for 2020. Individual rises are linked to performance ratings with a 0.5-1.0% rise for staff rated as 'improvement required', 1.5-4.0% for 'significant performance' and 4.0-6.0% for 'exceptional performance', effective in February 2020.

As outlined above, hourly-paid staff rates are reviewed in February, to align with forthcoming increases in the statutory minimums, and performance-related rises are awarded in August. The minimum rate was increased from £8.31 to £8.72 – an increase of 4.9% – from 3 February 2020. Performance awards have yet to be implemented this year and the organisation faces a challenge with performance reviews since restaurants have been shuttered as a result of the coronavirus. As a guideline, last year 20% of employees were rated 'outstanding' and received an increase of 4.5%, 70% were rated as 'excellent' and received 2.75%, and 10% received no pay increase.

The Reward Lead explains: '*we're just working through [that]; the challenge we've got is our restaurants have been shut for nearly three months. We do accrue performance for our hourly-paid staff in restaurants; we were due to be doing that in July with pay effective in August; now, we were shut from end March and only just opened beginning of June so we're only just working through what that looks like but we're likely to defer that for 2 months and implement pay effective* *the following month. This just allows our staff to focus on the new norm, the health and safety procedures. It's quite a generic performance review – points based; based on customer service interaction and – I think it's just the fact we've been closed for a quarter, the timing aligns with that. We're also hoping we'll be at fuller capacity by September as well. We are still talking about having a performance-related increase but just the timing of that changing as the crew focus on coming back to work and their wellbeing and safety, rather than performance-related conversations in those first few weeks.'*

This year the lead the company had over the NLW – which was 10p an hour – has been eliminated because the rate moved by more than the company had anticipated and budgeted for. The Reward Lead explains: '*we used the LPC projection for the NLW for last year, which I think was £8.67, and what we had budgeted would have allowed us a 5p differential but because they had come in 5p over what we budgeted it didn't leave us room for movement. We have about 55% of our crew who are 21 and over and they are all on the £8.72 rate or above.'*

In order to maintain differentials, the minimum rate for Crew Trainer (the second-lowest rate) increased by 41p to £8.97 an hour.

There have been no other changes to terms and conditions as a means of offsetting rises the NLW/NMW this year.

Future increases in statutory wages

The company has not yet planned the rise for 2021: *'we'll work through various different scenarios with our pay strategy group and our franchisees. We always look at different options but mainly looking at the longer-term approach and how we get there, rather than just what we're going to do next year. But it will depend on various factors. We don't yet understand what it looks like – what overall business looks like in consideration of everything else so food cost inflation, wage inflation, at what point do we get back to usual in terms of sales performance, so all of those things need to be combined before we can come up with a strategy*.'

The company is looking to invest further in technology as a means of providing efficiencies in restaurants. This is likely to involve *'things like how the restaurants operate internally, changing the layout of kitchens, new pieces of equipment that will make crew able to run more efficiently. Not necessarily reducing labour costs but being able to generate more sales and therefore improve the efficiency of the labour.'*

The firm would like to achieve a gap between its lowest adult rate and the NLW but any differential here would have an impact on minimums higher up the pay structure, so it is something it needs to consider and model carefully. Having said that, retaining and developing staff is very important to the company and many managerial and head-office staff have progressed from joining the firm as a crew member.

'We really push for development; for [young workers under 21] we're quite significantly above NMW rates. For 16-17 year olds I think we're just over 50% above, so we do have a focus on youth, we try to keep those differentials, from a cost perspective it can be maintained where we are; for adult workers it's about future development, there are a lot of training programmes that we do, aside from pay we have bonus schemes, we have lots of recognition schemes, we have benefits, so it's not just about that starting rate. There is so much focus on progression: starting as crew but ending up as business manager, operations manager, there's a lot of head office staff who started off as crew as well.'

When asked about the firm's ability to accommodate future rises in the NLW, it notes: *'we're challenged this year in that there's not really any projections out there for us to work with, it's a bit of a guessing game. We know there's a target by 2024 and that's 2/3 of median but in terms of what that £ number is – in the past, the LPC have given projections and they've always been quite close in terms of where it's landed… in terms of actually understanding what we can/can't afford to do, it's really difficult without a projection'.*

Reduction in the qualifying age for the NLW

The company operates youth rates for its crew member roles (all other roles have the same minimum regardless of age) and it followed the NMW structure until January 2019, when it removed the 21-24-year-old rate. This was not in anticipation of the forthcoming reduction in the qualifying age but part of a longer-term plan to move back to the three age bands that it had operated prior to the NLW's introduction in April 2016.

'We aligned our 21+ to our 25+ rate last January. This wasn't in anticipation of changes, it was always our intention. We had four age bands and our intention was to get back to three; it tied in quite well [with forthcoming changes to the age threshold for the NLW] and obviously we were aware of the potential changes to the LPC remit for last year, and also the suggested approach around staggering/reducing the NLW age, but we had already made that move, so it just reinforced that we had made the right decision.'

The company has ambitions to raise the 18-20-year-old rate closer to the 21+ rate and would ideally like to move away from age-related pay altogether and have the same minimum rate for all crew members. However, from a cost perspective this is not considered affordable. The Reward Lead explains: *'In an ideal world we would pay one rate for the role but from a cost perspective it's clearly not possible so I think in our longer-term pay strategy – not necessarily next year – the ideal would be to get to two age bands and then just slowly close the gap. Based on our projections from last year we would have got to two age bands next year but because of what was announced with the NLW we're not going to be able to do that. Those two would have been over-21 and under-21 but actually our longer-term ambition would be over-18 and under-18, should we go down the two age-band route. In some ways, it's almost forced us to rethink what those two age bands look like and that's something we're looking at but in terms of when that will happen, it's not going to be next year, we're looking at a three- to five-year plan on pay so we'd like to think it will be some way down the line.'*

Table H2 Age profile of the workforce

	Number of staff	Proportion of workforce
Under 21	7,358	42%
22-23	1,805	10%
23-24	1,229	7%
Aged 25 and over	7,150	41%

Impact of the coronavirus pandemic on the low-paid

The company has been significantly affected by the Government's lockdown, with the closure of all its restaurants between mid-March and mid-June. There have been no redundancies but around 90% of staff were furloughed and the company paid the first two weeks at 100%, followed by 80% under the CJRS mechanism. Some restaurants have now re-opened for take away and delivery only and around 50% of staff remain on furlough. New rules allowing flexible furlough and the imminent re-opening of restaurants at the time of the interview mean that staffing is set to change significantly over the subsequent weeks. However, the Reward Lead notes that flexible furlough arrangements will add an extra layer of complexity around staffing, which they are currently working through.

The company has temporarily improved sick pay provision for hourly-paid staff as a result of COVID-19, providing full pay for those sick or self-isolating whereas previously hourly-paid staff were only covered by SSP.

There have been no redundancies as yet and there are currently no plans for redundancies. The firm intends on continuing to make use of the CJRS as a means of avoiding redundancies.

Case study I – Retailer

Background

This food and non-food retailer employs 82,445 people across all regions of England, Wales and Scotland.

Key points

- The lowest adult pay rate is £8.72 per hour, in line with the NLW rate.
- The pay review for 2020 went ahead as planned, unaffected by the coronavirus pandemic.
- The organisation's Chairman and seven Executive Directors took a 20% pay cut throughout lockdown while some staff at levels 8,9 and 10 received bonuses of up to £200 as a 'thank you' for their work during May and June.

Pay rates

The lowest adult rate is £8.72 per hour outside London, in line with the NLW, and £9.70 inside London. The proportion of staff on the lowest rates is small: a total of 286 outside London and 791 inside London. Some of these roles additionally qualify for commission on productivity (such as mushroom pickers) or may have live-in arrangements, such as in the organisation's hotels. The lowest adult rate was 45pph ahead of the £8.21 statutory minimum in 2019 but this differential has been eroded in 2020. According to the HR Analyst, *'this was due to a lack of market movement keeping up with the movement in the National Living Wage.'*

The organisation's pay structure contains ten levels and it is primarily the bottom level (10) that covers hourly-paid roles. Within branches, staff would progress from retail assistant (level 10) to assistant team manager (level 9), team manager (level 8), deputy branch manager (level 7) and so on.

Using market data, the company sets pay ranges for each of these ten levels, which it reports helps to maintain differentials between staff, as if one pay range moves due to the market it finds the others tend to follow suit. The HR Analyst reports: '*if the differentials widen or contract it would be because of the market not because of what we wanted to maintain.*'

The organisation offers performance-related pay that can be awarded based on the manager's evaluation of the employee. It is also worth noting that all staff also participate in a profit-sharing scheme; this was worth 2% of salary in the latest pay-out.

Table I1 Lowest hourly rates

	Current lowest adult rate (ie after 1 April 2020)	Previous lowest adult rate (ie before 1 April 2020)
Outside London	£8.72	£8.67
Inside London	£9.70	£9.60

Implementing the 2020 rise

The pay review runs from December through to March, which means that the details had already been confirmed prior to the coronavirus lockdown. This year the organisation awarded an average of a 2.46% increase to all staff. Increases have been targeted at the lower levels and the company has not actively sought to maintain differentials as all ranges are benchmarked against the market.

No changes to the pay structure or terms and conditions were needed as part of the 2020 pay review to offset the higher increase in the NLW.

Future increases in statutory wages

No plans have been made regarding the 2021 pay review yet. The organisation will review its performance at the end of 2020 before considering the 2021 pay award.

Reduction in the qualifying age for the NLW

The retailer does not operate an age-related pay structure and it is not therefore set to be directly impacted by the forthcoming reduction in the NLW qualifying age.

Table I4 Age profile of the workforce

	Number of staff	Proportion of staff (%)
Total UK workforce (headcount)	82,445	100
Workers aged under 21	12,720	15.5
Workers aged 21-22	4,834	5.8
Workers aged 23-24	3,724	4.5
Workers aged 25 and over	61,167	74.2

Impact of the coronavirus pandemic on the low-paid

Some changes to pay occurred as part of the retailer's approach to coronavirus. The seven Executive Directors and Chairman took a temporary pay cut of 20%. Staff at levels 8, 9 and 10 (not just supermarket shopfloor workers but others working in department stores, the supply chain, head office or leisure facilities, for example) were paid a bonus of up to £200, which equated to £25 for each full week at work in May and June. Staff at level 7 (entry to mid-level management), predominantly in supply chain areas of the business, were given vouchers in recognition of their work.

The organisation used the CJRS to furlough around 14,000 staff due to the closure of 50 of its stores; however, it was able to redeploy some department store employees into the supermarket part of the business where there was increased demand. Those on furlough received their full salary, with the company topping up any shortfall.

All staff have been brought back to work from furlough arrangements apart from those who were working in the eight branches that are set to close (although some of these have returned for a brief period to work through clearing the stock in these stores). While this development is not a direct result of coronavirus, the pandemic has accelerated the changes. There will be some redundancies as a result of the store closures; the company estimates the number at around 1,000 employees but it is hoped that redeployment will help minimise the impact of the changes. The Reward Specialist explains: *'The group consultation has finished and the staff are going through individual consultation where we look at opportunities for them in other areas of* *the business. They could go to another branch or into contact handling as that can be done from anywhere in the country now thanks to home working.'*

The retailer states that it has no intention of claiming using the CJRS retention bonus scheme whereby they would receive £1,000 for each person back in employment.

Case study J – Local authority

Background

Case study J is a local government employer in the East of England. Pay is set nationally and there is a single pay spine for local government[1]. The council employs 1,306 staff in total.

Key points

- Pay is negotiated at a national level.
- The minimum pay point on the national spine is £9.25 but some councils have opted not to use the lowest spine points.
- This case study does use pay point 1 on the national spine.

Pay rates

The majority of the Council's workforce are covered by the National Joint Council (NJC) agreement for local government. This agreement excludes local schools, contractors, companies owned partially or fully by the council and the Chief Executive.

Under the NJC there is a single pay spine which councils implement locally, determining their own grading arrangements. Some councils have opted to cut off the bottom points of the national pay spine, leading to a higher minimum rate, whereas this case study's pay structure starts at pay point 1. Currently 1.83% are on the minimum rate of £9.25 and the types of roles covered include breakfast club supervisors and cleaners.

Implementing the 2020 rise

The 2020 NJC pay deal was agreed in August and backdated to April 2020 and provided for a general pay rise of 2.75%.

[1] Note that some councils have opted out of the national agreement.

Last year the council went through a voluntary redundancy exercise which was aimed at reducing the overall paybill. The council also carried out a review programme in all areas to highlight areas of efficiency. As part of ongoing budget considerations, the council had planned a thorough review of all terms and conditions with the relevant unions this year but because of coronavirus these talks have been put on hold until full consideration can be given to them.

Future increases in statutory wages

Prior to the local government pay deal announcement, the council had already spent time modelling future increases up to the £10 an hour mark. The council supports the rising NLW and believes that those on lower wages should be protected as much as possible.

Reduction in the qualifying age for the NLW

The council does not operate age-related pay and has no plans to implement such a structure in the future as the qualifying age for the NLW moves from 23 to 21.

Impact of the coronavirus pandemic on the low-paid

The pandemic led to additional costs due to increased unsocial hours working and the Policy, Reward and Compliance Manager explains: '*we introduced temporary allowances to a lot of our areas that had to change work hours or shift patterns. A lot of our employees had to move to seven-day working in order to deliver essential services, so we introduced allowances for those. We also introduced weekend overtime for some staff that wouldn't normally be paid overtime. These payments mainly affected the managerial side, but not senior management. All the temporary allowances have now stopped because work has scaled back slightly.*'

The council already had flexible working arrangements in place and so was prepared for the majority of the workforce to work from home full-time where possible.

Staff are being encouraged to take holidays and the council have until April 2021 to reduce any backlog, which it hopes to be able to do.

Case study K – Social care charity

Background

This social care charity operates across most of England, providing care for those with autism, learning difficulties and mental health needs. It is primarily funded through contracts with local authorities. It currently employs 2,504 staff. The lowest rate of pay is £8.72 and approximately 70% of the workforce are on this rate.

Key points

- The rapid rate of increase in the NLW has had a significant impact on differentials between grades, to the extent that the differential between the lowest paid and the role above has been completely eroded.
- NLW rises have resulted in no pay rises for other staff not directly affected by the statutory minimums.
- The charity has limited options for offsetting NLW rises since it is dependent upon local authority contracts for funding and in recent years there have been no or very low uplifts in contract prices and most premium rates of pay have already been removed.
- The organisation faces recruitment and retention pressures due to competition from retail, although this appears to have eased off slightly due to an uptick in unemployment as a result of COVID-19.

Pay rates

The lowest pay rate is in line with the current NLW at £8.72 an hour and this rate is paid to support workers. Budget restraint over the last decade has meant that the charity can no longer afford to pay above the statutory minimum rate and differentials between staff at the bottom of the pay structure have not only been squeezed but have now completely eroded for some. The second-lowest-paid position is senior support workers and staff in this role are now paid the same rate as their colleagues on the grade below who are support workers, despite additional responsibilities of the role.

Table K1 Minimum rates, effective 1 April 2020

Job examples	Minimum (national)
Support worker	£8.72
Senior support worker	£8.72
Assistant team leader	£10.84
Homes manager	£11.80

Implementing the 2020 rise

Staff directly affected by the NLW received a 6.2% increase on 1 April which increased their rate from £8.21 to £8.72. Other than the NMW/NLW uprating there has been no pay increase for other staff since April 2016.

The Director of Human Resources told us that has been causing challenges for many years: '*It has been an increasing problem for many years. 20 years ago we paid twice the rate of the then national minimum wage but that differential has been eroded over the last 10 years and now we are paying the minimum with the result that recruitment and retention has become increasingly difficult. Our employees perform a skilled and responsible job and deserve to be paid more than the NLW but the pressure on funding from local government makes this unaffordable.'*

The NLW has had a significant impact on differentials. The Director of Human Resources reports: '*The rapid rate of increase in the NLW whilst good from the perspective of low paid workers has created a problem for us because our funding from local authorities has not kept pace with the rate of increases. There's been no pay increases for many years now apart from the increase in the NLW, and this has eroded differentials between grades. Our regional rates of pay that reflected high cost of living areas have also disappeared with employees in London now paid the same as those in other parts of the country. In some cases, we have support workers and senior support workers above them who have slightly more responsibility on the same rate of pay. They have now been effectively told that they can either be support workers like their colleagues, or if they want to they can continue being senior support workers but we can't pay them any more money for it which is profoundly unfair.'*

Differentials have been eroded further up the pay structure too: assistant team managers only receive a marginally higher salary for what is an increase in responsibility. The Director of Human Resources regrets that this is the case for staff and says: '*I'm sure many of them are questioning if it is worth the extra stress and hassle that goes with it.'*

Staff are aware of the financial constraints the charity is under and have generally been understanding of the situation. When asked about any backlash from staff, the Director of Human Resources said: *'people recognise the financial constraints that we are under and are remarkably understanding of that. Inevitably people are unhappy about it and do complain about the rates of pay but we try to be a good employer in other areas and our turnover remains well below the average for the sector and we are committed to improving pay for front line workers as soon as we are able.'*

The charity faces recruitment and retention pressures, which the employer states are predominantly driven by rising wages at the supermarkets, such as Aldi, Lidl and Tesco. This makes working as care worker less attractive, as a result of the increased responsibility associated with being a care worker compared to working in a supermarket.

The Director of Human Resources explains: '*We used to have a really good differential between our jobs and jobs in retail for example – that no longer exists. Increasingly when I go and meet groups of staff they are saying "I can get a job at Aldi, getting paid £2 an hour more. When I work as a care worker I make decisions that can determine whether someone lives or dies, if I don't administer the right medication at the right time someone could die. If I don't provide first aid to someone who is choking on their food, they can die". And these people are being paid minimum wages, it's appalling. We're not doing this because of choice but because funding in social care is inadequate. It is having a significant impact on our ability to recruit and retain staff.'*

The Director reports that COVID-19 has reduced recruitment and retention pressures slightly, purely down to rising unemployment.

Future increases in statutory wages

The charity does plan for future rises in the NLW and when asked about its strategy IDR was told that despite some good intentions and aspirational targets, the organisation has not been able fulfil its plans. These challenges are driven by a lack of funding alongside the rapidly rising National Living Wage rates. The Director of Human Resources summarises the position the charity is in as follows: '*we do have a remuneration strategy, which sets aspirational targets that we haven't managed to achieve. We wanted to maintain the 75 pence differential we had between support staff and senior support workers. We also wanted to be able to pay our staff more than the NLW but we haven't been able to do that. We want to be able to give staff a one-off bonus payment funded by a surplus at year end, but we haven't been able to as yet. Lots of good intentions, but the funding does not enable them to be fulfilled. We do modelling for financial reasons based on the income that we would need to achieve the necessary minimum uplifts to the NLW but we are in a market where we don't have control over our price. The local authorities decide how much they will pay us and if it's not enough they just say they don't have any more money.*'

There is no decision on the rise for 2021 as yet, but it is likely to follow the same approach as the last few years, whereby only those directly affected receive a pay rise. In respect of other changes to terms and conditions as a means of offsetting the NLW rise, there is not much left to trim. Premiums have mostly been removed with the exception of bank holiday premiums and the Director of Human Resources reports that these changes have taken place over the last five years.

The Director of Human Resources expects a slowdown in the future increase to the statutory minimums because of the COVID-19 impact: '*I am aware of the planned increase for the NLW and we did think this was going to add further to our cost pressures but I suspect that COVID-19 may change that. Whether this government will think that suppressing the level of the NLW will help employment and the economic recovery or whether politically that is unpalatable remains to be seen. My suspicion is that it won't go up as fast as anticipated because of the economic impact* *of COVID-19. This should help relieve some of the financial pressures on social care but I recognise it will not help our low-paid workers. Another uncertainty facing the sector is the pending Supreme Court decision regarding payment for time spent asleep at work. If time spent asleep is considered to be working time, and therefore eligible for the NLW, the potential back pay costs will be significant for many social care providers.'* The Director of Human Resources said that a new, separate, rate of the NLW for time spent asleep would be a welcome and fair development in his opinion.

Reduction in the qualifying age for the NLW

The charity does not operate age-related pay rates; according to the company this is a *'matter of fairness'* as people are doing the same work regardless of their age and it has no intention of implementing them once the age threshold for the NLW reduces.

Further to this, the charity views not having an age-related pay structure as a means of attracting young people, since it can offer a better hourly rate compared to some other organisations. While the overall number of young workers within its workforce is small, the organisation hopes to be able to recruit more young people in the future to help tackle recruitment pressures and to help rebalance an ageing workforce. The charity is equally willing to take on older workers or any other groups that might be finding it difficult to find a job.

Table K2 Workforce age profile

	Number of staff	Proportion of staff
Total UK workforce	2504	100%
Workers aged under 21	48	2%
Workers aged 21-22	43	2%
Workers aged 23-24	76	3%
Workers aged 25 and over	2337	93%

Impact of the coronavirus pandemic on the low-paid

At the height of the pandemic the charity had 400 of its 3,000 staff on furlough leave. It topped up the salary to 100% for all staff and where additional funding was not provided through the local authorities utilised the CJRS.

Those affected by the furlough arrangement were predominantly ‘experts by experience’ (180 out of 400) who are people who have experience of receiving care and accompany inspections in care homes. Another group affected were disabled people who were being aided by the charity into employment through a workplace scheme. Some 70 carers were furloughed due to health conditions. Most staff have now returned to work.

Apart from furlough arrangements, there have been no changes to terms and conditions as a result of COVID-19. Office-based staff are now almost exclusively working from home and the care staff continue to go to work in the normal way. The charity has paid a one-off bonus to care staff as a ‘thank you’ for the employees’ continued efforts during the health crisis. The money to pay the bonus is being taken from a pot of money which was supposed to be used to harmonise terms and conditions following a merger in January 2019, which means that the harmonisation of terms will be delayed.

The charity accelerated its adoption of new technology in care homes as a direct result of COVID-19. This included giving care home managers tablets to communicate with the various care homes they are responsible for, which helps them to avoid going from place to place. This technology has also been used by residents so that they can stay in touch with their families.

The charity states that redundancies are ‘*very unlikely’* and that it would only be due to lack of work where offices are likely to close on a permanent basis.

Case study L – Food manufacturer

Background

This family-owned global confectionery company operates with 3,700 staff in all regions of the UK. The company describes its employees as associates, which is a continuation of the culture of a family-run business into reward practice.

Key points

- The annual pay review went ahead as planned in March 2020.
- The company is looking to move towards the voluntary Living Wage in plans for 2021.
- Coronavirus had a relatively small impact on the company, and a discretionary bonus was made to staff who worked through the lockdown.

Pay rates

The company operates salary ranges based on a minimum point (80%), a reference point (100%) and a maximum (120%). The Rewards Manager explains: '*So we will have a global position where we benchmark based on data from our preferred consultants and then decisions are left up to individual units so it's an independent process. We will set pay ranges based on the mix of roles we've got and what the market data is. What then comes is the discussion with the rest of the business as to how much can we afford to move pay by. If the business chooses to increase above [the market], that's up to them, if they feel they've got retention issues or something like that.*'

The lowest rate of pay is £8.72, for a very small group of associates (around 10).

Implementing the 2020 rise

The firm implements a merit-based increase each March based on the market rate for the job. Then in April any additional changes that are required, to comply with the NLW, are implemented separately. Sometimes the lowest rates are brought up to this statutory level with the March increase and so no further action is required in April.

There have been no changes to differentials, terms or conditions as part of the review this year. There are future talks to be had regarding shift premia and overtime but the company prefers to keep this separate from any discussion of the annual pay review.

Future increases in statutory wages

It is still too early to tell what increase will be implemented in March 2021 but the Rewards Manager estimates it will be between 2-2.5% across the board. The discussion over next year's pay review may be more focussed instead on looking towards the Living Wage Foundation's voluntary rate. The Rewards Manager explains: '*We haven't had as much pressure probably as some organisations, I'm not saying everything is easy, but that is fine. The interesting conversation at the moment is where is there appetite or the affordability of moving to the Living Wage [VLW], if you don't already get taken there by the convergence of the minimum wage? It is going up by 6% each year and with another one or two years at 6%, it's getting very close.'*

Moving to the VLW would not have a significant impact on for the paybill as it only affects one group of associates (around 200 operators) and above that role there is reasonable headroom. The Rewards Manager told IDR that: *'There's quite a big jump because we go from an operator to a skilled operator [...] We always carry out a costings exercise on the Living Wage when minimum wages for some of the units that have shown interest.'.*

Reduction in the qualifying age for the NLW

The company does not have an age-related pay structure and is therefore not affected by the reduction in the qualifying age for the NLW. It pays a rate that is dictated by the market data and so age plays no factor. This includes apprentices, who are paid the adult (25+) rate.

Impact of the coronavirus pandemic on the low-paid

Coronavirus did not impact the firm as badly as some other areas of the economy. This is down to the diverse nature of the company's business ventures. The Rewards Manager said: *'Fortunately for our global business we were relatively well diversified so where we've not done so* *well in one sector we've done well in another sector – for example, our pet care business is doing very well and our food business is doing well and this compensates for those areas that are struggling a little bit.'*

The company has not furloughed any staff, even where business demand reduced, as it was able either to redeploy people if they lived close enough to another site or agreed with certain staff groups to work reduced hours on full pay. The Rewards Manager told IDR that: *'We have had to reduce hours but not pay. For example, associates in essentially field sales wouldn't be able to do an awful lot. They might be able to do some things but other than that its limited. Supply is a bit easier: we can take the opportunity to do cleaning or maintenance in a site if they're not producing.'*

The firm chose to award an additional bonus to staff who worked through the lockdown, these were mostly factory floor staff such as operators, senior operators and line managers.

Holiday build-up is being managed by encouraging associates to take time off where possible to try and look after staff wellbeing. Associates are currently allowed to carry one week over and the company is trying not to extend that further if it can be avoided. The Rewards Manager explains: *'What we find from a health and wellbeing standpoint is that if people aren't taking a break, especially from home and working quite intensely, they need to take the time off to go and do other things. So, it was challenging when the lockdown was heavy, I think a lot of people cancelled their holiday. Secondly, what we didn't want was as the restrictions eased that everybody would then have a holiday that they needed to take. Likewise, from a costs perspective is everybody there cashing in or carrying forward lots of holidays that then impacts next year? There was some encouragement to take leave.'*

There are no redundancies planned as the company already operates on a lean structure that has been in place over the last ten years to increase efficiencies.

On behalf of the company the Rewards Manager expressed that it would help future planning if they could have more visibility around the minimum wage rates earlier:

‘*the more visibility we can have, the better. We don’t know what the market is going to move by. The more visibility of what the future holds, just helps businesses like ours plan. The next couple of years are going to be tough for lots of companies. It’s the right thing and we have aspirations to get to get to the living wage quicker than the minimum wage gets there and the more transparency they can give on that, the more it helps us plan by getting management boards and HR aligned to what it might look like. Invariably what everyone will do is move as slowly as possible because of affordability whereas actually, if we start to plan out, we can start to think about if we can do something more. I appreciate it’s difficult for them to know what the market is going to do especially in the current climate.*’

Case study M – Charity

Background

Case study M is a charity set up to provide life-saving services. The organisation employs around 1,746 at peak season and has a large volunteer workforce.

Key points

- The charity seeks to follow the Living Wage Foundation voluntary Living Wage (VLW) rate, although it has not sought accreditation.
- The position to apply the VLW rate is based on affordability and is reviewed on an annual basis.
- Its lowest rate is currently £9.30 an hour and this mainly affects seasonal workers, along with a few permanent employees.

Pay rates

For employees, the minimum hourly rate is £9.30 an hour, in line with the current recommended VLW rate. Seasonal employees are most affected by any changes in the VLW rate, along with a few permanent employees.

Implementing the 2020 rise

The charity usually applies performance-related pay rises, however, for the 2020 pay review, due to affordability, it applied a general pay increase to salaries of 1% for most employees. There were no changes to terms and conditions as part of the 2020 review.

Future increases in statutory wages

The charity continues to monitor both the NMW/NLW and the VLW rates and will seek to apply the VLW rate based on affordability. There are no plans to move to a lower minimum rate. The Reward Adviser reports: *'we are in the process of looking at next year, the state of the economy means we are being a bit fluid with our planning. It's in its infancy.'*

Reduction in the qualifying age for the NLW

The charity has no intentions for introducing age-related pay as the age threshold for the NLW reduces from 25 to 23 (and later to 21). The organisation does however currently employ 33 apprentices across the charity in several areas of discipline – including engineering, IT and solicitor apprenticeships. It has separate apprentice pay scales which take into consideration the statutory minimum for their age, but salaries are not driven by this. The charity ensures that pay for apprentices does not fall below the statutory NMW regulations for their age and there are checks in place to ensure people on apprenticeships are being paid the legal minimums or above for their age after the first-year apprentice rate. This approach will be unaffected by the reduction in the qualifying age for the NLW.

Impact of the coronavirus pandemic on the low-paid

No changes to pay have been needed as a direct result of coronavirus. The Reward Adviser reports: '*I would struggle to justify taking pay up or down due to the coronavirus, I know from looking at the news that organisations have looked at terms and conditions and pay but within our organisation there have been no changes.*'

Staff have been furloughed for varying periods and no redundancies are planned.

Case study N – Automotive components manufacturer

Background

Case study N is part of a global group that predominantly develops, manufactures and sells automotive components. There are 92 UK employees based at the firm's manufacturing facility and offices in the North West of England.

Key points

- The firm is not yet affected by the NLW since the lowest rate is £11.77, some way above the statutory minimum.
- The 2020 pay review is part of a three-year deal negotiated with the employee representation group and so was therefore not affected by coronavirus and was implemented in full as planned.
- The pandemic did however affect performance-related bonuses, which were not paid in 2020.

Pay rates

The firm operates salary ranges for all roles at the company and the lowest rate of pay currently is £11.77, which is paid to level 2-3[2] apprentices at the beginning of their training.

Implementing the 2020 rise

The company is currently in the second year of a three-year pay agreement and coronavirus had no impact on the pre-agreed pay rise for 2020. The annual percentage increase is dependent upon a range of factors such as project outcomes, cost of living and affordability.

The three-year pay deal provides for the following general pay rises:

Year 1 (2019) – 2.3%

Year 2 (2020) – 2.3%

[2] Level 2 is an 'intermediate' apprenticeship which provides a qualification equivalent to five GCSEs grade 9-4 and Level 3 is 'advanced' and provides a qualification equivalent to two A-Levels.

Year 3 (2021) – 2.5% (subject to change)

Future increases in statutory wages

Due to the nature of the local pay bargaining arrangements for staff, discussions will take place next year to agree on a future pay rise, however at this time it is too early to tell what that might be. It is unlikely that the pay review outcome will be influence by the rising NLW, the HR Business Partner says: '*I don't think [the NLW] is concerning at this point with the rates we have at the moment, I think everybody is quite within limits. So, for now, it's not an issue.'*

Reduction in the qualifying age for the NLW

The HR Business Partner is aware of the planned changes in the qualifying age for the NLW however, the firm does not have an age-related structure and so the changes will not affect them. The HR Business Partner explains: '*I think it makes sense completely and I can imagine it will have an effect on some employers, especially when they have more people around the NMW level. We have starting salaries for more specialist roles that tend to be higher but our production workers tend to be on a lower salary but are still well above the minimum requirements so I don't think it will have a huge effect on us.'*

The age profile of the company is likely to change over the coming years as some staff retire but this has no correlation with the NLW or efforts to reduce the paybill.

Impact of the coronavirus pandemic on the low-paid

As part of the reaction to coronavirus, the firm furloughed around 75% of staff through the Government's CJRS. Initially pay was topped up to 100% but after a two-month period due to low sales and high cost base, the decision was taken to reduce this down to 80% to ensure business survival and retention of jobs. The HR business partner explains: *'Primarily we [had staff on full furlough] but now we are using flexible furlough with people doing a combination of working and furlough leave, so we have reduced staff hours on a temporary basis with rotation [among staff].'* Around 80% of those that were furloughed initially have now returned to work and those who have not will continue to be on the CJRS until the end of October when it closes.

Staff would normally receive a performance-related bonus each year but this has not gone ahead in 2020 due to the downturn caused by coronavirus. The HR Business Partner states that the staff understood that the automotive industry suffered quite significantly in the early stage of the pandemic.

There is a one-month extension for staff to book holidays, and any concerns about holiday build-up are reducing as a majority of the workforce have now returned back to work. Additional measures were put into place where staff who were on furlough leave can carry over some additional days or sell up to three days back to the employer.

Case study O – Construction and infrastructure company

Background

This is a construction and infrastructure company based in the UK. The company employs 10,880 people, of which around 2,000 are represented by the National Joint Council and the Construction Industry Joint Council.

Key points

- Lowest pay rate is £8.72 currently in line with the NLW.
- The firm is looking to move to the voluntary Living Wage to get ahead of changes in the NMW/NLW.
- Coronavirus caused a range of challenges including temporary pay cuts, redundancies and use of the CJRS.

Pay rates

The lowest hourly rate is currently £8.72 in line with the NLW. There are 252 employees on this rate of pay and they are typically found in operative and cleaning roles, which form part of the workforce covered by local government contracts.

Implementing the 2020 rise

The 2020 pay rise was affected by coronavirus: the original pay review anniversary date is 1 July each year but the review for 2020 was deferred to 1 October. The budget for reviewing managers is 2% and they are tasked with awarding differentiated pay rises based on guidelines set by HR.

In total 8,100 staff will be covered by the review and larger percentage increases will be targeted at reducing pay disparities. The Reward Specialist explains: *'we've given reviewing managers the task of trying to decrease any bands between similar roles or people working in the same locations. If they want to give someone 0% because they are earning more money than the rest of the team, then that pot of money can be used elsewhere to bring people up. We've given them clear guidelines regarding what we expect.'*

The Reward Specialist explains that there have been no changes to the pay structure in 2020 but they will be carrying out a review in 2021. *'Our grading structure doesn't really work. You can have two people on the same grade paid very, very differently. We'll be looking at how much people are paid – are they paid enough? The piece of work will try to bring them in line over time, which we know will take a long time to align but we do need a starting point somewhere.'*

Future increases in statutory wages

Prior to coronavirus the firm was looking to move towards being a voluntary Living Wage employer in 2020 but that has been postponed due to affordability until (possibly) April 2021. The company was looking to do this partly to stay ahead of the NLW and to attract new employees, but also to raise pay for the lowest paid so that they qualify for flexible benefits under the company's salary sacrifice scheme.

Reduction in the qualifying age for the NLW

The firm does have a small proportion of staff on age-related pay rates which follow the same structure as the NMW. The Reward Specialist was not aware of the planned changes to the age structure but the planned move towards the voluntary Living Wage eradicates the pressures around age-related pay for the company.

Table O5 Workforce age profile

	Number of staff
Total UK workforce (headcount)	10,880
Workers aged under 21	120
Workers aged 21-22	209
Workers aged 23-24	312
Workers aged 25 and over	10,239

Impact of the coronavirus pandemic on the low-paid

Coronavirus impacted pay in a variety of ways, some of which only affected higher-paid staff. The company furloughed around 1,200 staff through the CJRS and paid staff 80% as per the scheme. Those who were not furloughed (predominantly directors and managers) agreed a three-month pay cut, the percentage reduction varied across the grades as displayed in the table below. Other staff had their hours reduced, and therefore pay reduced, with decisions driven by business demand for the area of work. These changes mainly affected higher-paid staff.

The company completed a redundancy exercise in July, with 700 job losses. The process mainly affected staff on furlough leave.

Table O2 Temporary pay cuts

	Number of staff
Higher-level colleagues and managers	15%
Other managers	20%
Directors	20%

To avoid a build-up of annual leave, the company asked all staff that had holidays booked to still take leave and managers have been encouraging staff to continue taking holidays. The firm is currently looking into the possibility of having a mandatory business closure for two weeks at Christmas to help staff utilise their leave.

Case study P – Food retailer

Background

This food retailer operates more than 2,500 local, convenience and medium-sized stores. The company employs just over 65,000 people across all regions of the UK.

Key points

- The current minimum hourly rate is £9.00 an hour nationally and £9.90 in London.
- As part of this year's pay review the starter rate was removed in order to maintain a differential between the NLW and the company's lowest rate.

Pay rates

The pay structure for store staff consists of four grades: team members, team leaders, team managers and store managers. The retailer has a minimum hourly spot rate of £9.00 an hour outside London and £9.90 in London boroughs. Alongside basic pay staff receive paid breaks and a premium for night work. Differentials between the four layers of staff in stores have been compressed over the last few years as the NMW/NLW has increased. This is currently being reviewed by the company.

Table P1 Customer Team Member pay rates

Job title	Outside London	Inside London
Customer Team Member	£9.00	£9.90

Implementing the 2020 rise

The pay rise for the retail business went ahead as agreed between the union and the employer in April 2020. Negotiations for the pay rise were concluded in January 2020 before coronavirus started to impact the UK economy. The company paid differentiated rises resulting in front-line store staff receiving a 5% general increase and a smaller merit-based increase of 2.5% was awarded to store managers. The factors considered when setting the merit-based increase for store managers are external benchmarking, performance and the level at which the employee sits within their pay range. Logistics drivers are still in negotiations with the unions.

Frontline staff saw their pay increase from £8.38 to £9.00, which is a higher increase than that in the NLW rate. The Reward Consultant told IDR that: '*some of that has been driven by the NMW but also the market is a big factor. We look at competitors, some of whom pay the true Living Wage and I think are even accredited, so that's one aspect of our thinking. Obviously, [we also have to consider] our own performance as business, what we have available budget wise.*'

In order to maintain the differential between the NLW and the company's lowest rate, the retailer removed the starter rate at the bottom of the pay structure. This shifted the proportion of staff on the lowest rate significantly from 8% to 53% as all frontline store staff are now on the same rate of £9.00 an hour.

Future increases in statutory wages

The company is aware of planned increases to the NMW/NLW and supports the move to 67% of median earnings. Due to the size of the company, there is less concern over managing the impact of these increases on the paybill. The Reward Consultant said: '*We watch the Government agenda very closely. We are supportive of the move; as a big retailer we are better positioned to absorb it. Small business might find it very different and find it daunting. But we can plan and accommodate that kind of increase in the legal minimum although it is a significant cost to our business in terms of the investment in pay. It needs consideration, we could cope, some of our suppliers maybe, but could some of our customers' businesses cope?*'

There are no plans to offset future increases in the NMW/NLW with technology or other changes to other areas of the reward package. Any changes to increase the use of technology or other innovations are driven, the company states, instead by efficiencies and sales.

Reduction in the qualifying age for the NLW

The retailer has no age-related pay structure, having removed youth rates many years ago.

Table P6 Age profile of the workforce

	Number of staff	Proportion of workforce
Total UK workforce (headcount)	65,454	100%
Workers aged under 21	6,992	11%
Workers aged 21-22	4,245	6%
Workers aged 23-24	3,370	5%
Workers aged 25 and over	50,847	78%

Impact of the coronavirus pandemic on the low-paid

Coronavirus had a small impact on the company in terms of pay and reward. The retailer offered all frontline staff either a £100 cash bonus or a £50 gift card and an extra day's holiday, as a thank you for their extra efforts throughout the lockdown.

A number of staff were placed on furlough, utilising the CJRS, on a voluntary basis if they needed to be at home for caring or shielding reasons. Some head-office staff were also furloughed where they had a reduced workload.

Operationally there were large changes; the company had to hire additional workforce in the retail business and the cost-to-serve ratio increased as COVID-secure workplace health and safety measures were put in place.

Coronavirus has put staff wellbeing firmly on the reward agenda and the company is planning to review sick pay, and mental, physical and financial wellbeing offerings for staff in response to the pandemic. Some work had already been done in this area, but it is likely to be a key theme in 2021.

The retailer introduced temporary flexibility in holiday allowances, to let staff carry over holiday into the new financial year and potentially some flexibility will need to be continued into 2021.

There have been no redundancies made or planned because of coronavirus.

Case study Q – Housing and care organisation

Background

This housing and social care organisation owns and manages over 30,000 homes across the UK and employs 1,000 people.

Key points

- This year the organisation raised its lowest pay rate to mirror the voluntary Living Wage and staff on the lowest grade are now paid £9.30 an hour.
- It was unable to apply for accreditation with the Living Wage Foundation as third-party supplier costs would increase customer service charges.
- The organisation has continued to operate at full capacity throughout the current pandemic, without furloughing any employees.

Pay rates

Hourly-paid staff – covering those predominantly in catering and cleaning roles – are on spot rates. The lowest rate is currently £9.30, having recently been raised from £8.46 (see below). This salary is paid to circa 75 staff, primarily catering assistants and domestics.

Implementing the 2020 rise

This year's pay award for all 1,000 non-executive staff was 2.75%, which was effective from the usual pay review anniversary date of 1 April, and this was the award that most staff received. However, those on the lowest rate received rises of up to 9.9% in a move to align their lowest rate to the voluntary Living Wage. The lowest rate rose from £8.46 to £9.30, affecting 75 staff (6.8% of the workforce) in total, the majority of whom were on the lowest rate. Last year all staff received 3% from 1 April 2019.

As the Reward and Benefits Manager explains: *'this was a key part of our reward strategy for this year. We used to pay the NLW as our normal pay award but this year we've committed to setting* *our lowest hourly rate at the voluntary Living Wage. Of course, if the NLW goes above [the VLW] then we'd pay that instead.'*

The organisation has always paid above the statutory minimum and maintained a gap equal to the annual pay award between the statutory NLW and their lowest rate. Last year this was 3%. The gap or headroom between the lowest rate and the adult statutory minimum has widened to 6.7%.

The main reasons for the move were to remain competitive in the market and the organisation also sees this as key to being a fair and reasonable employer. The Reward and Benefits Manager explains how this has been achieved: *'we've moved to a new organisational structure and this cost change was forecast in the budget last October. This went to the board in March this year for final approval where the Directors and Executive were all in favour of the idea of moving to this new rate from the start.'*

The organisation has not made any other changes to the reward package or terms and conditions as a result of this year's rise in statutory minimum wages, however it has looked to widen the scope of some roles slightly, which would provide the organisation with more flexibility by multi-skilling staff – for example, by sharing roles across sites or by including additional tasks in some role profiles, such as domestics and catering assistants. The organisation reports that this has also enriched work for those concerned.

Future increases in statutory wages

The business plan for the organisation had already built in the expected Government target and the move to the Voluntary Living Wage has also been factored in along a similar uplift pattern.

The organisation has no plans to vary or reduce terms and conditions and it has been incrementally increasing its pension provision from matched contributions of 4%, up to 8% this year. The Reward and Benefits Manager told us that the organisation has been *'continually* *looking at the market, colleague feedback and sector movements to ensure that the reward strategy meets the needs of our colleagues*.'

Reduction in the qualifying age for the NLW

The organisation does not operate age-related rates and believes that it is key to pay the right rate for the job and that age-related minimum wage payments should not be a factor in this assessment.

Impact of the coronavirus pandemic on the low-paid

The organisation has not made use of the Government's CJRS. It has experienced some staff shortages due to absence through sickness, self-isolation or shielding. In respect of shielding workers, they have been kept off work on full pay. In order to manage the impact on operations, the organisation established a 'clearing house' or pool of workers with availability or capacity to provide cover to other teams and colleagues.

The organisation also paid around 300 field-based key workers a premium of 15% of basic salary between 30 March and 31 May, which it reports was well received.

Looking ahead, to help alleviate the impact in respect of a build-up of untaken holidays caused by the coronavirus pandemic, the organisation implemented some compulsory leave periods for all staff. The pandemic has also seen planned projects relating to SMART and agile working fast-tracked. A lot of work has been done throughout this period to support health and wellbeing too, including a dedicated wellbeing month promoting information and services available for financial, mental and physical wellbeing, as well as tackling isolation.

Case study R – Social care charity

Background

This charity supports children and young people through various services including a number of residential care homes. It currently employs 433 staff across the east and south west of England.

Key points

- Pay rates for those on the lowest spot rate are at the statutory minimum rate of £8.72; pay for all other staff was frozen.
- Coronavirus has hit the charity hard and affected affordability.

Pay rates

The charity operates on spot rates for staff on the lowest rates, which includes cleaners, cooks, housekeepers and some of the retail staff based in its charity shops. The minimum hourly rate is currently £8.72, having increased from £8.50 in 2019/20.

Implementing the 2020 rise

The charity had previously paid above the NLW and had intended on implementing a minimum rate of £9.00 an hour but the organisation had to hold back due to significant loss of income due to coronavirus. The 2020 pay rise therefore involved only a pay increase for staff that otherwise would have fallen below the statutory minimum for adult workers. This affected around 20% of the workforce and remaining staff received no pay rise for 2020.

The Deputy CEO reports that implementing larger rises in the NLW is a challenge and that differentials are being squeezed as a result of the rising NLW: '*We have always prided ourselves as being above what was the National Living Wage and heading towards meeting the "Real" Living Wage. That has become more and more challenging to us the higher the NLW goes up. We are certainly not opposed to it as a principle, we like it but it has created pressure on our retail* *operation because it has meant that we have had to increase other rates to keep the manager rates suitably distanced from the assistants.'*

The organisation also struggles with pay arrangements for sleep-ins: 'w*e have care staff who perform sleep-ins and to maintain compliance with minimum wage legislation we rely on an averaging method across pay periods so we ensure we take into account the hours worked, the hours attended for sleeping, gross pay and that the average that people receive is above Minimum Wage. [...] We are having to make thousands of pounds a month of top-up payments to our support staff for us to comply and for them to have achieved at least average NLW for all hours worked or attended on sleep. So obviously if the NLW goes up in April that is going to create a bigger challenge and that is something we are putting to our board of trustees with a recommendation to increase our sleeping-in rate quite significantly. We are in a deficit situation this year because of COVID-19 but because it [the sleep-in arrangement] is not a sustainable position for us to continue to do what we are doing we need to do something about it. This is all a consequence of the NLW increase. Which we are in favour of, and we would love to aspire to be a Real Living Wage employer, but we are operating both in charity and retail which is challenging and we are operating in care governed by tenders and contracts awarded by local government who basically don't want to pay more than they have to.'* (Since the interview, the charity has significantly increased the rate it pays as a 'sleep-in' allowance to address this factor.)

There have been no changes to pay structures or terms as part of the 2020 pay round.

Future increases in statutory wages

The charity has not yet planned any future increases; for now, it is still managing the effects of the pandemic. The charity has taken advantage of the grants on offer from the Government and also taken out a large loan to cover costs over the coming months. One concern for the future is whether the retail side of the business will be profitable due to the rising wage floor: 'W*e want to continue to keep our staff pay competitive and we do value the principle of the NLW but the reality is if the NLW goes up by another 5 or 6% next April that is going to put us under some intense pressure. We did have to sadly shut about 10% of our shops – this was not solely for*

COVID reasons but the fact is they did not come back from the closure [under lockdown] and we had to make some staff redundant. A big increase to the NLW could push more of our shops towards unprofitability. It's as simple as that.'

The organisation's calculations of the impact of the NLW on profitability show that it has reduced charity shop profits by around £250,000, which for a not-for-profit organisation means less money going back into service delivery. This is not however suggesting that the charity disagrees with the Government's goal of two-thirds of median earnings, the Deputy CEO explains: *'from a moral point of view the NLW is great and we do want to pay our staff so it's given us an incentive to keep increasing wages but this year (ie 2021/2022) an increase would disproportionally impact compared to other years because we would be in a less good financial position going into April and so therefore we might have to make, or be pushed closer to difficult decisions.'*

The charity suggests that a smaller NLW rise in 2021 and earlier announcement on the amount of increase, so that the charity can plan its reaction carefully, would be helpful. The Deputy CEO says: 't*he worst case for us is not knowing [what the rise will be] and then having to respond, particularly if it's a high increase, because that makes it really difficult and I suspect 2021 will be a year that the Government won't make announcements particularly early. We then have to then react to that. [...] I just think that they need to listen to the voice of the responsible employer as well as the needs of the employees as there is some strain and tension in the system at the moment. I can totally understand the principles and support it entirely, but it isn't going to do anyone any good if there are fewer employers around to employ people and that is what is being risked. Responsible employers want to do the right thing, but they are going to be struggling. The other thing is timing – the more warning people get, the better they can plan for the changes and that will be better for individuals as well as the businesses. A freeze in this year's increase would not be a bad thing, or an inflationary rather than super-inflationary rise.'*

Looking ahead, the charity is considering how it can afford to pay above the NLW again and one consideration is adding value to roles. As the Deputy CEO explains: *'because of the NLW I guess* *we are looking to add value into roles. There was an admin grade role which we are effectively gradually fading out because we are trying to enhance the roles and pay accordingly.'*

Reduction in the qualifying age for the NLW

The organisation does not operate age-related pay for its main workforce and there are no plans to introduce it once the age threshold for the NLW reduces. The Deputy CEO explains: 'W*e tend to think that if someone is doing a job then they get paid the rate for the job and that pay should not be related to age. We use youth rates for apprentices and even then we have paid some at a higher rate rather than the actual statutory apprentice rate, but we have occasionally used the apprentice rate. We work with young people and sometimes we bring some of those young people into an apprenticeship and sometimes they need a lot of input and a lot of support. Here we might not provide them with more than the apprenticeship rate at that point. In terms of our shops, no – if there happens to be an 18-year-old working in a shop they get the same rate of pay as other staff.'*

Impact of the coronavirus pandemic on the low-paid

The charity made use of the CJRS and furloughed 220 staff at its peak. Pay was topped up to 100% in April, May and June, before reducing to 80% of pay under the scheme. The vast majority of staff have returned from furlough leave, with approximately 5% still on the scheme. The roles affected by the continuation of the use of the CJRS include some store staff, staff in specific care services that are not yet operating, and some back-office roles. Some staff in the fundraising team are using the furlough scheme flexibly, such as a 50% on and off rota.

No changes to pay have been made as a result of coronavirus and the only changes to terms have been some staff opting for more flexible working arrangements.

The firm considered the idea of having a one-off bonus for staff who continued to work through the pandemic, but unfortunately there is not enough money to do this. The Deputy CEO explains: '*we are very conscious of the work that our care teams have done [during the pandemic]. Continuing to provide 24/7 residential cover at times there could have been risk to themselves,* *but the economics kicked in and we just don't have the cash. The changes we might make to our sleeping-in arrangements will make a difference although it is not intended to be a reward, but it will make a difference to a reasonable proportion of people's pay. It's not a lack of desire; it's just economics.'*

The charity has encouraged staff to take holiday and those who have been on extensive furlough have been requested to take some days to avoid a build-up of days. There is some carryover of days allowed too, which it hopes will help. Usually this is capped at three days, but the organisation is considering increasing this to six days for some staff if needed.

Around 2% of the workforce have been made redundant due to stores not reopening following the Government's shuttering: '*the vast majority of that was in retail shops where they were not very profitable before lockdown with little prospect of being profitable after lockdown. A few admin roles [were made redundant] where some of that was impacted by retail volume and some of it related to the very changed landscape of fundraising. We tried to keep it to the absolute minimum.'*

The charity is seeking to avoid any further redundancies but it could have to reconsider this if its charity shops take a further hit from the pandemic: 's*adly, if it's more impact on retail then it will impact on the low paid as it will be the assistants and managers who tend to be in that bracket. Equally, if we are getting changes in terms of volume of retail work, potential impact on volume of care work, if there is less public money in funding then that can impact across the board. You will get an initial impact on the low-paid workers, but it could ripple through the ranks.'*

Case study S – Retailer

Background

This high-street retail chain sells a variety of household goods, including pet food, baby food, toiletries and cleaning products. It currently employs 16,787 team members in over 400 stores located across England, Scotland and Wales. The GMB trade union is recognised for pay bargaining for most staff.

Key points

- Pay rates for those on the lowest grade are now level with the statutory minimum rates, having been maintained above this level previously.
- This year's statutory increase has had a significant impact on differentials, both by age and by grade.
- While coronavirus has affected sales, the main pressures the retailer faces are the challenging conditions of the high street combined with rising minimum wages.

Pay rates

Hourly-paid retail team members are on spot rates and there are five grades (Level 1-5). The lowest grade, Level 1, consists of two rates: one for workers aged under 25 and one for workers aged 25 and over. The current rates for levels 1-3 are shown in the table below. There is no variation in pay rates by store location. Assistant managers and store managers are on salary ranges.

Table S7 Pay structure for hourly-paid retail staff, effective 1 April 2020

Job title	Grade	Spot rate
Customer service assistant, under 25	Level 1	£8.20
Customer service assistant, 25+	Level 1	£8.72
Senior customer service assistant	Level 2	£8.77
Team supervisor	Level 3	£10.38

Implementing the 2020 rise

The company has not yet finalised pay talks with the trade union regarding the 2020 pay review and has so far only implemented increases for workers directly affected by the statutory rise. Level 1 workers aged 25 and over received an increase of 5.2% and Level 1 workers aged under 25 received an increase of 2.5% on 1 April 2020.

The remaining staff – hourly-paid retail workers in Levels 2-5, 745 monthly-paid retail managers and 3,028 monthly-paid head-office team members – have not yet received any increase for 2020. In fact, head-office team members not covered by collective bargaining, known as managerial team members, have not received a pay rise in five years, since the business cannot afford to do both. The Reward and Benefits Partner explains: *'we can't afford to go to the NMW or NLW, or above those numbers, and pay our managerial team members'*.

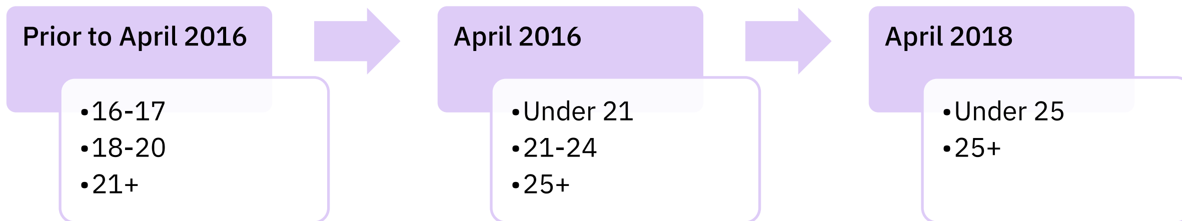
This year's statutory increase has had a significant impact on differentials, both by age and by grade. Since 2016 the company has been moving away from age-related pay by reducing the number of age pay categories and by raising the youth rate to nearer the adult rate.

Prior to the introduction of the NLW the company's age structure mirrored the statutory NMW categories of 16-17, 18-20 and 21+. In 2016 this changed to under-21, 21-24 and 25+ in line with the new structure under the NLW regulations. The under-21 category was removed in April 2018 as part of a two-stage agreement. The company had also been awarding differentiated pay rises in an attempt to bring under-25s up to the rate of pay for workers aged 25 and over.

Last year the 25+ rate was £8.29 – 8p above the minimum statutory level – and the under-25s rate was only 29p lower at £8.00. However, this year the rates are equal to the statutory rates of £8.72 and £8.20 – a gap of 52p between older and younger workers. The Reward and Benefits Partner explains: *'we've been chipping away [at age pay] but this year, due to the size and cost of implementing the NLW we've gone backwards. This year it's been even tougher because [the NLW] went up by so much from £8.21 to £8.72, which really threw us both because we were hoping maybe it wouldn't go that far but also what they did with under-25s [by increasing it by so much].*

We were already at £8.00 so luckily it didn't take a big bite out of us, but we had a differential there previously which has been totally eroded now.'

Figure S1 Changing structure of age-related pay at Case Study S



This year's statutory increase has also had a significant impact on the differential between team members in Level 1 (the lowest grade) and those on the next grade at Level 2. In 2019 the gap was 48p but now it has shrunk to just 5p.

The Reward and Benefits Partner feels that the latest statutory increase has undone a lot of the good work the company has achieved over the last four years and *'to be honest, it's soul destroying'*.

When asked about any other changes to pay or benefits as a result of rising minimum wages, our interviewee reports that scope for making such savings is limited since, with the exception of a night premium worth £1.50 an hour between 10pm-6am, unsocial hours payments and London weighting were removed back in 2016 when the NLW was first introduced, such that *'we haven't got anything left to be trimmed'*. The only other benefits hourly-paid retail staff receive are a 20% staff discount and a team share plan. They are also covered by the NEST pension scheme, with contributions at the statutory minimum level.

Future increases in statutory wages

There is no planned increase for 2021 yet, although the company has been modelling different scenarios for the level of the NLW and NMW in 2021. They also have it on the reward agenda in the next few months to plan a 'roadmap' to 2024. Based on predictions for rises of 5-6%

'potentially that's all we'll be able to afford, to simply pay the NMW and NLW'. Other changes are also likely: *'we've got to – there's no other way'*.

As outlined previously, there is limited scope to make changes to the reward package, but the firm might look at the grading structure, particularly in distribution centres. Investment in technology is one of the things that the company is exploring, with a view to staff becoming multi-functional and able to undertake a wider variety of tasks. A multiskilled workforce can also provide more flexibility.

Reduction in the qualifying age for the NLW

The Reward and Benefits Partner reports that the Board is very much against going back to having three separate rates for younger workers and so it is likely that they will keep the same age structure as they have now, but with the threshold lowered to 23. The company would prefer not to have youth rates – *'the business is very passionate that you get paid for the role that you do and that age shouldn't come into it'* – and had been narrowing the gap between the youth and adult minimum rates.

The company will wait until April 2021 to lower the qualifying age to 23: *'we won't be able to bring it in early as it's just not affordable. If we can afford to do it, we might lower the qualifying age to 21 earlier than 2024 but it all comes down to affordability'*.

Table S8 Age profile of the workforce

	Number of staff	Proportion of workforce
Under 21	1,640	10%
22-23	841	5%
23-24	673	4%
Aged 25 and over	13,633	81%

Approximately 19% of the workforce are aged under 25 and 10% of the workforce are aged under 21 and the company does not expect the age profile to change. The Reward and Benefits Partner explains that *'99% of those aged under 25 work in our stores and are weekend workers juggling sixth form or university and working. We keep them on our books during term time and* *bring them back in the holidays. They are well connected to the stores and usually have family members who either work or worked for us. If our team members decide to retire, we might see younger workers coming in, but I don't think our profile will change significantly towards more younger workers'*.

Impact of the coronavirus pandemic on the low-paid

No stores have closed because of the coronavirus pandemic and all staff are working their contracted hours (note the company does not operate zero or guaranteed-minimum hours contracts). However, the company has reduced store opening hours by opening later in the mornings and closing earlier in the evening to enable shelves to be replenished, stores to be cleaned and team members to spend more time at home. The company has not furloughed any staff nor made any redundancies and has no plans to do so.

There have been some staff shortages due to absence and this is being managed by pooling staff from nearby stores and by redistributing merchandising teams (who would normally be involved in making changes to store displays and layouts) to shopfloor roles on a temporary basis. The company continues to recruit store staff and faces pressures in and around London, having removed London weighting back in 2016 and notes that here '*staff move for 2p an hour'*.

Company sick pay provides for full pay for a short period, followed by SSP, and it covers self-isolation and coronavirus cases. Staff that choose not to come in are welcome to stay at home but are unpaid. Absence levels are higher, but our interviewee was not able to share figures.

The main impact of coronavirus has been on sales, which have been significantly affected by the Government's guidelines for social distancing, which included only leaving home for very specific and essential reasons. The Reward and Benefits partner explains: *'luckily our stores have been able to stay open as they sell pet food, baby food and pharmaceuticals but that has come at a cost to the business. Shoppers are coming less often and spending more on certain items but are also adhering to Government guidelines and are only purchasing essential items.'*

While COVID-19 presents challenges, and the Reward and Benefits Partner will be *'very surprised if "business as usual" returns and we could go into another lockdown. I think things could get worse before they get better,'* the NLW is also presenting more challenges than previously. The company is concerned about the rate at which the statutory rates are rising: *'we just don't know how we are going to do this'*.

Before the current pandemic, the main pressure for the company was from the challenging high-street environment. In respect of store performance, the company has winners and losers, but more of the latter. The sheer number of vacant shops and competition from retail parks makes for very challenging retail conditions.

The business is keen to know when the next announcement on the statutory minimum wages will be, and to have a clearer view of the latest estimates, so that it can plan its implementation in 2021 and beyond.

Case study T – Specialist engineering company

Background

This specialist engineering company employs 11,500 staff who are represented by Prospect, GMB and Unite.

Key points

- The NMW/NLW has only a small impact on the business but does affect its apprentice scheme.
- Coronavirus has affected the organisation's ability to set bonus targets in 2020.

Pay rates

The company operates using spot rates, with a pay progression process. Each job has a narrow pay range of three pay points: pay on entry, pay on attaining full competence, and a 'stretch' performance rating that very few people achieve.

The lowest pay rate is £18,926 for a security warden position. Jobs at this level in the business represent a small proportion of the workforce so any changes in the NMW/NLW have a relatively small impact on the overall paybill.

The entire workforce is eligible for a bonus based on a set of company-wide targets.

Implementing the 2020 rise

Coronavirus put a constraint upon the mandate for negotiations, the negotiations were concluded, and the proposed deal (a 1.5% increase with a minimum payment of £750) is out to ballot throughout September. The Reward Manager reports: '*The deal is 2% but applicable from 1 July, which equates to a 1.5% rise this year and that also means 2% will go into salaries for the next financial year.*'

No other changes were made to the pay structure or terms and conditions. The company is looking to update its pay structure in the future to include a more appropriate job evaluation and grading system, but it is yet to reach an agreement on this.

Future increases in statutory wages

The decision to raise the NMW/NLW to 67% of median earnings by 2024 is not having a significant impact on the company. It carries out NMW/NLW-related checks in preparation for 1 April each year and also finds that the underpinning payment on pay awards each year means that it does not have to make many adjustments each April to be compliant for the NMW/NLW.

Reduction in the qualifying age for the NLW

The organisation was not aware of the reduction in the qualifying age for the NLW and our contact reported she found it hard to find information on the planned changes to the age rates. The organisation needs to assess the impact of the proposed changes and the associated costs before it can decide upon an approach to the reduction in age.

Pay rates for apprentices in year 1 comply with the NMW apprentice rates (currently £4.15), while year 2 rates comply with NMW rates to age 18. There are additional rates for apprentices aged over 21 in year 2, or over age 25 in years 3 or 4, with further differentiation for different apprenticeship schemes and qualification levels (eg NVQ level 2/3/5).

Proportions of staff who are in the age-related bandings have stayed the same over the last couple of years. Each year it takes on 150 apprentices and 50 graduates.

Impact of the coronavirus pandemic on the low-paid

A large proportion of the workforce have been working at home since March and others have been shielding or self-isolating. The Reward Manager reports: *'there are allowances for employees working in certain environmental conditions. Because staff are not working in those conditions, we've negotiated with the trade union for those allowances to be suspended.'*

Coronavirus has affected the organisation's ability to set targets for bonuses in 2020 and there is work underway to establish what those targets could be retrospectively. In addition, there have been some changes to allowance entitlements, as the Reward Manager explains: *'for employees who are unwilling to attend work or choose not to work from home where work is made available, some allowances are not being paid for the duration. Base pay and bonus have not been adjusted, but it remains to be seen to what extent achievement of the bonus targets will be affected by the current situation.'* Meanwhile bonus payments for senior staff have been deferred from June/July to October.

There are no plans with regards to reducing staff hours or redundancies.

Case study U – Specialist engineering company

Background

This specialist engineering company, which supports the Government in its defence strategy, is based on two sites in the Thames Valley. It also has a presence in Scotland. The firm employs approximately 5,500 staff, of whom around 10% are below 25 years old.

Key points

- 2020 pay talks with Unite and Prospect have recently concluded for the main collective staff group.
- Apprentices are not covered by collective bargaining and their rates were reviewed in April 2020 and the second-year apprentice rate (of a three-year programme) was increased due to the rising NLW.

Pay rates

The company operates salaried pay ranges which sit within a grading structure. The structure is organised into grades A-D, with D being the senior leadership team. Grades A-C are collectively bargained with Unite and Prospect. Collective pay rates all sit above the NLW with the lowest (Grade A2) range starting at £19,500 a year for manufacturing roles.

Apprentices (Grade A1) are not covered by the collective agreement while training, although they move onto the main pay structure on completion. Apprentices are paid fixed apprentice rates depending on the year of training (see table) regardless of age.

Table U9 Fixed Yr1-Yr3 Apprentice pay rates

Year	Fixed rate	Equivalent hourly	Date effective
Year 1	£11,000	£5.72	1 Sept 2020*
Year 2	£17,000	£8.84	1 April 2020
Year 3	£19,000	£9.87	1 Sept 2020*

*Revised outside the scope of the NLW.

Implementing the 2020 rise

The 2020 pay agreement for the main collectively bargained group is a two-year deal. For 2020 the agreement is a 2.75% increase to base pay and allowances and for 2021 a 2.8% increase on base pay and allowances, each effective 1 June. The pay award increases are a combination of fixed, across-the-board increases for some groups and performance related for all grades covered by Prospect.

The Reward Manager notes that the NMW/NLW can impact apprentice pay and so the company reviews their rates annually in January ahead of any April changes. The firm has a long history of training staff and has run a Skills Academy for more than 60 years. Apprentices are an important staff group for the business, and it employs 70-80 new apprentices each year.

As part of this year's apprentice pay review the company increased the fixed rate for second-year apprentices from £15,800 to £17,000 to mirror the rising NLW. Commenting on the impact of the NLW, the Reward Manager states: *'increasing statutory minimum levels of pay have impacted us, particularly in the last two to three years. We pay particular attention to spot rate apprentice pay ahead of statutory changes and set apprentice rates of pay in line with the highest NMW age category, so we are not in breach of statutory minimums. As this reduces the pay differential between apprentice pay and outturn rates on the main pay structure, we also review outturn salaries to ensure these continue to provide sufficient incentive to complete the apprenticeship and that pay remains competitive in the market to retain and aid career progression.'*

Future increases in statutory wages

No firm decision has been made regarding the 2021 apprentice pay structure. However, the changes previously mentioned for apprentices in year two were made in April 2020 to comply with the legal minimum. Future increases in the NLW are reducing the differentials between what the company pays apprentices and their outturn salaries for mainstream roles within the business (affecting around 70-80 apprentices each year).

The company's objective is to remain competitive to attract talent into what is an expensive area of the country. So far, the NLW rate increasing across the economy has not impacted the organisation's ability to recruit or retain staff.

The company is able to plan for future increases with reasonable accuracy as it tends to hire the same number of apprentices each year and is therefore able to forecast the outturn costs.

Reduction in the qualifying age for the NLW

The company does not operate age-related pay and has no plans to introduce an age-related pay structure in the future as the qualifying age for the NLW reduces. The company has chosen to set the minimum rates at the level of the highest minimum statutory rate. The Reward Manager said: '*we will be mindful of the reduction in the qualifying age but, because we have spot rates that are set at the highest statutory minimum, it won't impact us.'*

Impact of the coronavirus pandemic on the low-paid

Coronavirus has had little to no impact on the company: it remained open throughout the lockdown and adapted working practices as recommended. This included working from home where possible and implementing social distancing measures. There have been no reductions to pay, however the recent pay agreement also included a COVID recognition payment of £250 (non-consolidated) in 2020 and £300 in 2021 payable to all grades below Senior Leadership, including apprentices.

Flexible working practices have been introduced and special leave has been offered for those with additional caring responsibilities.

The company is encouraging all employees to take their annual leave entitlement but is allowing for additional carry-over of statutory holidays into 2021.

Case study V – NHS

Background

This case study is with NHS Employers, the employers' organisation for the NHS in England, and relates specifically to staff employed on the NHS Terms and Conditions of Service (NHS TCS) also known as Agenda for Change (AfC). This covers approximately 1.2 million staff (all NHS staff with the exception of those employed on the national Doctors and Dentists contracts or the Very Senior Manager contracts).

Key points

- Low pay is a concern for NHS Employers and was a key consideration in the design of the reformed pay structure that has been rolled out over the last three years.
- The NHS in England seeks to be more than a minimum wage employer. A rising NLW places additional cost and structural pressures on the NHS pay scales at the lower end. Where the NLW catches up with the bottom of the NHS pay scale this can contribute towards recruitment and retention pressures for lower-grade roles in the NHS, for example cleaners.
- The minimum NHS TCS pay rate in England rose from £9.02 to £9.21 an hour on 1 April 2020.

Pay rates

The NHS TCS pay structure has been significantly reformed over a three-year period between April 2018 and April 2020 by increasing starting pay in each band, increasing pay at the top of each band and by speeding up progression by reducing the number of increments in each band. The lowest band, Band 1, was closed to new entrants from the 01 December 2018 with all Band 1 employees offered the option of moving into a Band 2 role, to be completed by 31 March 2021.

The NHS is currently transferring those Band 1 staff that wish to move into Band 2 following the closure of this grade and there are approximately 200,000 staff either in Band 2 or in the process of being transferred to Band 2, accounting for around 16% of the workforce.

The current minimum rate of pay is £9.21 an hour, which is the bottom pay point in Band 2, and to which the closed Band 1 spot salary is aligned. The next lowest rate is £9.89 an hour, which is the top pay point in Band 2. Roles at Band 2 include domestic support worker, housekeeping assistant, driver, cooks, porters, security officer, secretary and healthcare assistant. High Cost Area Supplements apply in London and fringe areas as outlined in the table.

Table V10 Minimum hourly rates for NHS AfC staff, effective 1 April 2020

	Inner London £ph	Outer London £ph	Fringe £ph	Rest of England and Wales £ph
Band 2 minimum	£11.50	£11.14	£9.74	£9.21
Band 2 maximum	£12.18	£11.82	£10.42	£9.89

Implementing the third year of the 2018 pay deal (2020/21)

The total paybill increase for NHS TCS staff from the 01 April 2020 – 31 March 2021 was 3.0% under the final year of a three-year deal. The headline increase – or rise for those at the top of their respective pay band and therefore no longer eligible for progression – was 1.67%. Those on the lower incremental pay points in each band received higher increases to bring them into line with the new pay structure, which reduced the number of incremental pay points and removed the overlaps between each pay band.

Since the increase was previously agreed neither the statutory minimum rise nor coronavirus had an influence on the 2020/21 pay award but low pay was an important consideration when designing the reformed pay structure back in 2017/18. At this time, the staff side sought a minimum rate in line with the voluntary living wage, as recommended by the Living Wage Foundation. The minimum was set above this level in 2018 and remained above it in the second year of the deal but has fallen behind it in 2020/21. In respect of coronavirus, at the time of interview employers were working towards submitting evidence to the NHS Pay Review Body as part of the process for determining NHS pay for 2021/22, and anticipated that it might affect the process and outcome.

Future increases in statutory wages

The NHS in England aspires to maintain its position ahead of the statutory NLW and the employers' organisation closely monitors increases in the NLW. The interviewee explained:

'there is some talk about the Government potentially pausing the NLW rise next year and we think this is sensible if they want to protect jobs. Even if that does not happen, we would seek for the NHS in England to be ahead of the NLW in the coming years.'

Reduction in the qualifying age for the NLW

The NHS TCS pay structure does not differentiate by age, however, there is some use of age-related pay for apprentices where this is currently a local matter in determining the rates of pay. There is currently no national agreement on apprenticeship pay and previous negotiations between the staff and employer sides failed to reach agreement.

Impact of the coronavirus pandemic on the low-paid

The Government temporarily put in place some enhanced COVID-19 sick pay provisions as a result of the coronavirus pandemic which will have been particularly beneficial to the lowest paid where unsocial hours can make up a significant proportion of their earnings. The temporary COVID-19 sick pay provision which was put in place includes enhancements in the calculation of the sickness payment – normal contractual sick pay provisions do not provide for this for those who earn over £18,160.

It was noted that in the first wave of the pandemic there have been fewer extra shifts available due to the cancellation of elective work and the resultant redeployment of substantive staff. This will have affected the earning potential for staff that volunteer for additional shifts and also bank workers.

There have been no national 'hazard' enhancements (but local employers may have implemented their own initiatives) nor any use of the Government's Coronavirus Job Retention Scheme (CJRS), including for bank staff.

There have not been any known redundancies specifically linked to coronavirus but there have been some as part of longer-term restructuring in local trusts (although employers may have delayed this during the first phase of the pandemic due to capacity issues).

Appendix 1 – Research letter of introduction

Impact of future targets for the National Living Wage

Dear Colleague,

Incomes Data Research (IDR) is undertaking research on behalf of the Low Pay Commission (LPC) examining the impact of future changes in the National Living Wage on employers. The LPC is an independent body that advises the Government about the National Living Wage and the National Minimum Wage. The Government has recently tasked the LPC with reaching a target of two-thirds of median hourly earnings by 2024. It has also set out plans for the age of eligibility for the NLW to come down from 25 to 23 in 2021 and then to 21 by 2024.

The LPC is interested in understanding how these new targets for the NLW rate and age thresholds are likely to affect employers' pay and reward decisions, including any changes to pay structures and use of age-related pay. Your participation will help to shape the LPC's recommendations to Government.

Your organisation has been identified as being of particular interest to the LPC and we hope you are able to participate. Participation would involve an IDR researcher telephoning your office in the coming weeks to discuss the likely impacts of these changes on your organisation. We will send you the list of questions for consideration before our scheduled call. We will also ask you to complete a short questionnaire with basic information about your organisation, workforce and current minimum rates of pay (just click here).

Although the LPC prefers case studies to be named, all participants can choose to be named or remain anonymous. In return we will send you a copy of the full report once it is finalised which will contain useful information on minimum pay rates and employers' strategies for implementing changes in the NLW.

Yours sincerely,

Louisa Withers

Appendix 2 – Semi-structured interview questionnaire

Impact of future targets for the National Living Wage

2020 NLW uprating:

- What has your organisation decided on its 2020 pay review? What increase did most employees receive? And what about for lowest-paid staff? Did this vary by age group, grade, location or some other factor?
- How has Covid-19 affected your pay decisions, if at all?
- Have you had to make any changes to differentials, as a result of increases to the NMW/NLW, between the lowest-paid and those above them in the hierarchy, including their supervisors? Have you maintained these differentials or widened them? Have you let them shrink a little? What changes were required?
- What, if any, other changes has your organisation made to the pay structure or terms and conditions (ie premiums, overtime, holidays, location pay, holidays, working patterns etc) alongside this year's pay review? What changes? Why? What are the changes aimed at achieving? Were these due to the NMW/NLW or other reasons?
- Do you plan to make further changes to pay or conditions? If yes, to which terms, what changes and on what timeframe?

Future increases in the NMW/NLW:

- Has your organisation already planned what increase it is going to make to pay for the lowest-paid next year (2021), and if yes, what that will be?
- Is your organisation considering any changes to terms and conditions as a result of the 2021 increase, and if yes, what will they be?
- What if any strategy does your organisation have for managing future rises in the NLW/NMW beyond 2021?

Reduction in the qualifying age for the NLW:

- Were you/your organisation aware of the planned changes to the age structure of the NMW/NLW, lowering the age of eligibility to the NLW to 23 in April 2021?

- How do you anticipate it will affect your approach to the structure of pay for staff? What is the timeframe for your domestic changes? How does it differ from the official timetable, if at all?
- How will 21-22-year olds be treated in each of 2020, 2021, 2022 and 2023, ie is there any change to pay for this age group in any of these years (i.e. will you adopt a separate rate for 21-22 year olds), or will your organisation wait until 2024 to bring their pay into line with the statutory arrangements for older workers?
- Will there be any changes to pay for staff under 21?

Other changes as a result of COVID19

- What changes to pay has your organisation implemented as a result of the coronavirus? (ie temporary pay cut, reduced staff hours, additional payments to staff e.g. bonuses or 'hazard pay', time off on full pay, time off with reduced pay)
    - To what extent/how have these changes affect low-paid staff eg what % of low-paid staff have been affected
- Is your organisation making/made use of the newly announced 'Job Retention Scheme' whereby 'furloughed workers' will be paid 80% by the Government? If so, how many staff are affected (including low-paid staff) and at what % rate are staff being paid?
- How many redundancies have you made/do you plan as a result of coronavirus? Were any staff brought back under the CJRS/furlough arrangements?
    - To what extent/how have these changes affect low-paid staff eg what % of low-paid staff have been affected

Appendix 3 – Pre-interview profile questionnaire

Impact of future targets for the National Living Wage

1. Please provide your contact details below:

Name:	
Job title:	
Organisation:	
Parent company:	
Telephone Number:	
Mobile Number:	
Email:	

2. Do you want us to contact anybody else for the telephone interview stage of this research? If so, who?

Name:	
Job title:	
Email:	
Telephone Number:	

3. What is your organisation's main business activity?

4. Please provide a breakdown of your UK headcount:

	Number of staff	Proportion of staff (%)
Total UK workforce (headcount		
Workers aged under 21		
Workers aged 21-22		
Workers aged 23-24		
Workers aged 25 and over		
Female workers		

	Number of staff	Proportion of staff (%)
Male workers		
Full-time workers (30 hours+)		
Part-time workers		

5. Please indicate the geographical locations in which your organisation operates: (please tick all that apply)

- ☐ All regions
- ☐ London
- ☐ South East
- ☐ East of England
- ☐ East Midlands
- ☐ North East
- ☐ South West
- ☐ West Midlands
- ☐ North West
- ☐ Yorkshire and Humberside
- ☐ Scotland
- ☐ Wales
- ☐ Northern Ireland

6. Does your organisation vary pay rates by age?

- ☐ Yes
- ☐ No

7. If yes, do these follow age categories for statutory minimum wages (ie 16-17, 19-21, 21-24, 25+)?

- ☐ Yes
- ☐ No
- ☐ Not applicable

If no, please tell us the age categories that you use:

8. The statutory minimum rates rose on 1 April 2020 from £8.21 to £8.72 for workers aged 25+, from £7.70 to £8.20 for workers aged 21-24, from £6.15 to £6.45 for workers aged 18-20 and from £4.35 to £4.55 for workers aged 16-17. Did your organisation have to increase pay rates for any workers in order to comply with the new legal minimums?

- ☐ Yes
- ☐ Yes but we have not yet implemented the rise as affected workers are currently furloughed
- ☐ No

Comments:

9. If you have not yet implemented increases following the 1 April 2020 rise in statutory minimum wages, please tell us when you plan to implement the rise?

10. Please tell us what the lowest adult rates were and are currently both outside and inside London. If you operate lower rates for younger workers, please provide the 25+ rate:

	Current lowest adult rate (ie after 1 April 2020)	Previous lowest adult rate (ie before 1 April 2020)
Outside London		
Inside London		

And how many/what proportion of staff are currently on the lowest rate?

11. Please describe the pay structure you have covering your lowest-paid staff. For example, do you have salary ranges or spot rates, and the number of grades or levels.

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