National Minimum Wage
Low Pay Commission

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Department for Business, Energy and Industrial Strategy

Dear Secretary of State,

NATIONAL LIVING WAGE AND NATIONAL MINIMUM WAGE RATES FOR 2023

1. I write with the Low Pay Commission's (LPC) recommendations for the rates of the National Minimum Wage (NMW) and National Living Wage (NLW) to apply from April 2023. This letter summarises the rationale for our recommendations, which are the agreed view of the whole Commission.

2. We recommend that the following rates apply from 1 April 2023:

	NMW Rate	Annual increase (£)	Annual increase (%)
National Living Wage (23 and over)	£10.42	0.92	9.7
21-22 Year Old Rate	£10.18	1.00	10.9
18-20 Year Old Rate	£7.49	0.66	9.7
16-17 Year Old Rate	£5.28	0.47	9.7
Apprentice Rate	£5.28	0.47	9.7
Accommodation Offset	£9.10	0.40	4.6

3. Our remit from the Government is to recommend the rate of the NLW consistent with reaching the target of two-thirds of median earnings for all workers aged 21 and over by 2024. The remit asks us to "advise on any emerging risks and – if the economic evidence warrants it – recommend that the Government reviews its target or timeframe". The aim of this "emergency brake" is to ensure the lowest-paid continue to see pay rises without significant risks to their employment prospects. For the other rates of the NMW, including the temporary 21-22 Year Old Rate, our remit is to recommend as high a rate as possible without damaging employment.

4. Last year our NLW recommendation of 6.6 per cent aimed to put us back on course to hit the 2024 target, having recommended a below on-course rate in the midst of the pandemic. In preparation for extending the NLW to 21-22 year olds by 2024, we recommended a higher increase (9.8 per cent) for this group to avoid a very large jump when they become eligible. For those aged under 21, we recommended increases in line with forecast increases in average earnings.

5. Since we made those recommendations, the economic situation has changed substantially. Last October, when we made our recommendations for April 2022, the Bank of England expected inflation to peak at just over 4 per cent and the forecast consensus was for wages to grow at just over 3 per cent. Since then, post-pandemic supply chain issues, exacerbated by the Russian invasion of Ukraine, have caused prices – especially for energy – to increase rapidly, driving the highest levels of inflation we've seen in decades. This means that while we expected the NLW rise in April 2022 to comfortably be a real-terms increase, it turned out to be a real-terms cut, though NLW workers still saw higher pay increases than most other workers.

6. Earnings have also grown more strongly than forecast, driven by a tight labour market. However, earnings growth has been less than inflation and the gap between wage growth and price growth is the highest for decades. This brings us to our recommendations for 2023.

The National Living Wage

7. The arguments on what to do with the NLW are finely balanced. Both employers and workers are worried about rising costs. For workers, an NLW rise normally guarantees their pay rises faster than prices, protecting their living standards. In the current context this is more important than ever. But for employers, rising wages are another bill alongside their energy, raw materials and other costs that can threaten jobs or may need to be passed on through higher prices.

8. The economy is in an unusual position. GDP has recovered faster than in previous recessions, but growth has been negligible over the summer of 2022 as consumer confidence and spending power have been sapped by inflation. Yet the labour market remains very strong. While they have softened slightly in recent months, vacancy levels remain at historic highs, suggesting no shortage of demand for labour. Instead, we have heard frequently that employers are struggling to find staff.

9. Employers told us that while they were concerned about the forthcoming rise in the NLW, they were more concerned about other cost pressures. The majority thought pay would

need to rise because of the tight labour market and because low-paid workers needed a response to the increase in inflation. This year's data confirmed that the number of workers paid the minimum wage had fallen in recent years, reversing a near 20-year trend of rising and then steady coverage. Many employers have raised pay, and more workers have moved to different jobs, taking advantage of abundant job vacancies.

10. Worker representatives told us a real-terms increase was critical to protect the living standards of the lowest-paid at a time of crisis. Over the course of the year, we heard powerful testimony from low-paid workers across the economy on their struggles in dealing with rapidly rising costs. Unions argued that record vacancy levels gave scope for ambitious increases without risking employment. They characterised increases in the NLW since 2020 as overly cautious and called for a bolder approach in setting the 2023 rate, with the on-course path portrayed as the minimum acceptable step in securing the 2024 target.

11. We recommend the NLW increases by 9.7 per cent (92 pence) in April 2023 to £10.42. This is the on-course rate consistent with achieving the target of two-thirds of median earnings by 2024. We estimate an increase of 6.3 per cent will be required in 2024 (when average wage growth is expected to have slowed) to achieve this target, which we currently estimate to be £11.08. We judge this balance, with a higher increase in 2023 than 2024, is appropriate given prevailing economic conditions. While the economy has slowed recently, the labour market is very strong. It is sensible to have a larger increase to reach the Government's target while the labour market is still strong. The consensus among forecasters is for GDP growth to slow in 2023, and among more recent forecasts to turn negative over the year. The labour market is also expected to soften over the course of 2023, meaning a lower increase may be more appropriate in 2024.

12. It is Commissioners' strong preference to recommend real-terms increases to the rates as long as they do not present a "significant risk" to employment chances, as per our remit. However, inflation is extremely unpredictable given the ongoing conflict in Ukraine and the response of Government policy to tackling inflation. For example, at the time we write there are no details as to the design of the energy bill support from April 2023, though the Government has said it will protect those most in need, making the impact difficult to predict. The inflation forecasts available to us at this time suggest a range of 6 to 12 per cent, depending on the scale and method for mitigating energy price rises and the response of the Bank of England to inflation. Our intent with this recommendation is to deliver a real-terms increase for workers on the NLW.

National Minimum Wage

13. Younger workers – those aged under 23 – were the most likely to lose employment during the pandemic. But their recovery was rapid throughout 2021 and 2022 and their employment rates are now close to pre-pandemic levels, aided by the tight labour market and strong demand for labour in youth-friendly sectors.

14. This tight labour market has also improved pay for these workers, where pay has increased substantially, particularly for those aged under 21. Because of this labour market strength for 16-17 and 18-20 year olds we recommend increases of 9.7 per cent – in line with the increase in the NLW – for both of these groups, to £5.28 and £7.49 respectively.

15. Last year we recommended aligning the Apprentice Rate and the 16-17 Year Old Rate and we continue to support this position as we have seen no evidence of negative effects stemming from this change. With this in mind, we are considering if there is a need for a separate Apprentice Rate long term. Next year we expect a new Apprenticeship Evaluation Survey, which would provide the level of evidence necessary to see if a separate rate for apprentices is still justified.

16. The evidence continues to support the decision to bring 23 and 24 year olds into the NLW and the Commission's view remains that 21-22 year olds should also be brought into the NLW by 2024. To smooth this transition and avoid a very large increase once they become eligible, we recommend a 10.9 per cent increase for this group, taking them to £10.18 in 2023.

Accommodation Offset

17. We recommend the Accommodation Offset be increased by 4.6 per cent (40 pence), which is in line with forecast average earnings growth, to £9.10. Our remit noted our intention to review the operation of the offset. We have completed our evidence gathering and will make recommendations shortly. We continue to believe there should be an Accommodation Offset, allowing employers to make a deduction when they provide accommodation; but there are two areas where we would like to see changes to better protect low-paid workers affected by the offset.

18. Firstly, there needs to be greater assurance of the quality of the accommodation for which the offset can apply before we recommend further changes that could increase the value of the offset more quickly. We note that the Department for Levelling Up, Housing and Communities (DLUHC) have recently consulted on plans to extend the Decent Homes Standard from social housing to the private sector, including tied accommodation of the kind for which the offset is deducted. This proposal applies to England only at this stage, while the offset applies

UK-wide, and it remains to be seen if the Government will go ahead with this policy change. Were this change to take place, Commissioners could be more confident that the quality of accommodation in the sector is rising and therefore accompanying increases in the offset would be appropriate. Commissioners are keen to have a reliable benchmark against which the quality of accommodation can be assessed.

19. Secondly, Commissioners are concerned that current arrangements leave workers with low weekly hours at risk of very low income if the offset is taken in full. We have seen and heard evidence of workers with cancelled shifts or short hours having to pay the full offset with little earnings. We have also seen examples of employers with measures in place to protect workers against this risk. We are considering a minimum hours requirement for these workers before accommodation costs can be deducted.

20. We are also minded to recommend that seafarers be exempt from the Accommodation Offset while on board ship – meaning employers would not be able to deduct accommodation costs from their pay below the NMW. This is because seafarers have no choice in whether or not to make use of the accommodation.

21. Finally, the policy interacts with the Seasonal Agricultural Workers scheme, which sets a separate higher hourly rate for this group of workers. Given that there are a range of interactions with other policies, and our desire to simplify the system for both workers and employers, Commissioners wish to work further on the details of our recommendations concerning the offset and will write to you in due course.

22. This time next year we expect to recommend the rate needed to achieve the Government's target of two-thirds of median hourly earnings by 2024, subject to economic conditions and the emergency brake. This is a close horizon for businesses in particular, and we have already heard representations from employers and workers on what should happen after 2024. The Commission stands ready to advise and gather evidence on the minimum wage framework beyond 2024 to inform the Government's decision on this policy.

Yours sincerely,

Bryan Sanderson

Chair of the Low Pay Commission

Copied to: the Prime Minister the Rt Hon Rishi Sunak MP and the Minister for Enterprise and Markets, Dean Russell MP