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20 October 2023

The Rt Hon Kemi Badenoch MP

Department for Business and Trade

Dear Secretary of State,

NATIONAL LIVING WAGE AND NATIONAL MINIMUM WAGE RATES FOR 2024

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 2024. 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 2024:

	NMW Rate	Increase in pence	Percentage increase
National Living Wage (21 and over)	£ 11.44	£ 1.02	9.8%
18-20 Year Old Rate	£ 8.60	£ 1.11	14.8%
16-17 Year Old Rate	£ 6.40	£ 1.12	21.2%
Apprentice Rate	£ 6.40	£ 1.12	21.2%
Accommodation Offset	£ 9.99	£ 0.89	9.8%

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, our remit is to recommend as high a rate as possible without damaging employment.

4. There has been a high degree of political and economic uncertainty in recent years. This has made assessing and forecasting the performance of the economy, and therefore our task, very difficult. It is a tribute to my fellow Commissioners that we have continued to achieve consensus.

5. This year the uncertainty has been compounded by additional concerns about the reliability of official data sources, including the well-publicised problems with the Labour Force Survey (LFS) – the UK's key data source on the labour market.

6. Our recommendations attempt to steer a path through this uncertainty in order to achieve the Government target of two-thirds of the median wage for those aged 21 and above. If our recommendations are accepted this is likely to position the UK at the forefront of comparable economies.

7. This is the first time in the Low Pay Commission's history that we did not have a full complement of nine Commissioners. We have been reduced to two worker representatives rather than three since the beginning of 2023, but the Government has been unable to agree an appointment to fill this position. We urge the Government to avoid this happening again.

The National Living Wage

8. In determining our recommendations on the NLW the arguments were finely balanced.

9. The economy has barely grown for around 18 months, and this weak growth is expected to continue throughout 2024. Inflation and rising interest rates have suppressed consumer spending and real wages have barely risen for 15 years.

10. Small and medium-sized businesses are reporting the greatest concerns. They are more worried than other businesses about their financial resilience and becoming insolvent. Small businesses in particular face progressively more difficult choices in how they respond to each year's minimum wage uprating. Firms in low-paying sectors are more worried about reduced consumer demand, costs of energy and the cost of labour than firms in other sectors.

11. As last year, businesses felt pressured to pass NLW increases onto consumers. More are worried this year that they are reaching a limit in what they can pass through without undermining demand. And there remain large low-paying sectors – social care and childcare in particular – where employers' ability to pass costs on is highly constrained. The pressure from the rising NLW on pay structures continues to be a prime source of concern and a challenge for affordability: employers face a choice between allowing differentials to narrow or large across-the-board pay increases.

12. However, the overall labour market appears resilient. Despite falling slowly since spring 2022, the vacancy rate is still above pre-pandemic norms and employers still complain of staff shortages. The headline figures from the LFS are likely understating the labour market's current performance.

13. The low-paying end of the labour market also appears robust. As the NLW moves up the pay scale we expect coverage (the number of jobs paid at or below the rate) to rise. Instead, it fell for the second year in a row. We also still see more NLW workers moving off the wage floor into better pay than before the pandemic – suggesting outside options for low-paid workers.

14. These findings are consistent with a competitive low-paid labour market. Employers need to pay above the minimum to attract and retain workers. If the NLW were too high, we would expect to see reductions in hours of work and jobs in the low-paid labour market. The available evidence does not show these effects.

15. From worker representatives we hear that the large increase in the NLW this April did not keep pace with the cost of living and was not enough to avoid growing hardship. We hear accounts of food bank usage and evidence on rising indebtedness, as targeted support introduced last year began to fall away. Workers in low-paying industries continue to tell us they struggle to secure sufficient regular hours; for many, the unpredictability of their working time exacerbates their financial challenges.

16. We are conscious that the rate necessary to meet the target has risen since we published our projections in the spring, and is slightly above the top of the range we published then. This reflects the strengthening in both measured pay and forecasts of pay since that point. These forecasts, as noted above, are subject to greater uncertainty than usual and as we considered our recommendations the level of uncertainty was increasing.

17. For these reasons, we recommend a rate of £11.44 that should apply to those aged 21 and above. We expect this increase will meet the Government's target of two-thirds of median earnings for those aged 21 and over by 2024. We believe this substantial increase will restore the real value that has been eroded through the recent cost of living crisis. Our judgement is that this increase will not significantly risk employment prospects.

18. Lowering the age of eligibility to the NLW to 21 would complete a recommendation we first made in 2019. If our recommendations are accepted, workers aged 21 and 22 will see their wage floor increase by 12.4 per cent as they move from the temporary rate for 21-22 year olds to the NLW.

Youth rates of the National Minimum Wage

19. In making our recommendations on youth rates, Commissioners were conscious that the gap between the youth rates and the NLW had widened in recent years. There was a consensus that this should be addressed.

20. 16-17 year olds saw a significant boost to their employment in the aftermath of the pandemic. Some of that has now unwound, but their employment remains above pre-pandemic levels. Rapid growth in median pay relative to their minimum wage means the bite of the minimum wage has fallen. Coverage is up a little for this group in 2023, but still below pre-pandemic levels. **For this group we recommend an increase of £1.12 or 21.2 per cent to £6.40.**

21. A range of data sources for 18-20 year olds suggest employment is above pre-pandemic levels (albeit not to the same extent as for 16-17 year olds) and there has been a slight rise in unemployment and inactivity. This may be affected by LFS issues as this group saw the strongest median pay growth of any age group and their coverage fell again, making it the lowest of the youth populations. More than 60 per cent are paid at the NLW or above (in 2019 it was 55 per cent). **For this group we recommend an increase of £1.11 or 14.8 per cent to £8.60.**

22. Commissioners recognise that these are ambitious increases for young people, which carry some risks. But as noted above, the youth labour market appears strong and without a substantial increase the wage floor for young people risks being cut adrift from prevailing wage rates in the labour market.

23. We are currently reviewing the broader framework for minimum wages to inform the Government's decisions after 2024. Our current thinking is that we should move towards an adult rate that begins at age 18, but we will have more to say about how we might approach this and the associated evidence base in our advice to Government on the Post 2024 minimum wage framework.

Apprentices

24. We recently brought the Apprentice Rate in line with that for 16-17 year olds. We see no reason to separate them at this stage so **we recommend an increase of £1.12 or 21.2 per cent to £6.40**. However, as with the youth rates we are considering the long-term need for a separate apprenticeship rate as part of our advice on the post 2024 framework.

Accommodation Offset

25. Last year we reviewed the offset, noting that "*The value of the offset as a proportion of the NLW will not increase significantly until we have some assurance that there are robust minimum standards in place for accommodation quality and that these are enforced.*" We are

waiting for the next steps following the Department for Levelling Up, Housing and Communities consultation on the Decent Homes Standard for the private rented sector. So in the meantime we recommend increasing the offset in line with the NLW, i.e. 9.8 per cent to £9.99.

26. Our remit requires us to recommend minimum wage rates that apply across the whole economy. But we're mindful that there may be particular pressures in some areas, such as social care, childcare and some small businesses. Government may wish to consider how these sectors can be supported in its wider economic policy framework.

27. These recommendations show the value of the Commission's independence and social partnership model in managing economic uncertainty. We are grateful to the employers, workers, their representatives and other experts who gave us invaluable evidence and testimony over the year.

With kind regards,

Bryan K Sanderson

Bryan Sanderson

Chair of the Low Pay Commission

Copied to: the Prime Minister the Rt Hon Rishi Sunak MP and the Minister for Enterprise, Markets and Small Business Kevin Hollinrake MP