National Minimum Wage (Amendment) Regulations 2024: increases in the national minimum wage and national living wage rates

Lead department	Department for Business and Trade
Summary of proposal	An increase in the national living and minimum wage rates in line with the Low Pay Commission's recommendations.
Submission type	Impact assessment (IA) – 10 January 2024
Legislation type	Secondary legislation
Implementation date	1 April 2024
Policy stage	Final
RPC reference	RPC-DBT-5324(1)
Opinion type	Formal
Date of issue	26 January 2024

RPC opinion

Rating[1]	**RPC opinion**
Fit for purpose	The evidence and analysis supporting the EANDCB and the SaMBA are sufficient. The Department has updated its analysis to take account of current economic circumstances and latest evidence. The IA provides a particularly good sensitivity analysis and useful discussion of rationale and wider impacts.

Business impact target assessment

	Department assessment	**RPC validated**
Classification	Qualifying regulatory provision (IN)	Qualifying regulatory provision (IN)
Equivalent annual net direct cost to business (EANDCB)	£217.7 million	£217.7 million *(2019 prices, 2020 pv)*
Business impact target (BIT) score	£1,088.5 million	£1,088.5 million
Business net present value	-£2,160.2 million	
Overall net present value	-£4.2 million	

[1] The RPC opinion rating is based only on the robustness of the EANDCB and quality of the SaMBA, as set out in the Better Regulation Framework. RPC ratings are fit for purpose or not fit for purpose.

RPC summary

Category	Quality[2]	RPC comments
EANDCB	**Green**	The EANDCB appears to be based upon good evidence and reasonable assumptions, taking account of current labour market developments and a broad range of economic forecasts. The IA's classification of impacts into direct and indirect is appropriate.
Small and micro business assessment (SaMBA)	**Green**	The IA provides a good description of impacts on micro, small and medium-sized businesses, and addresses disproportionality of impact, exemption and mitigation.
Rationale and options	**Good**	The IA provides a good discussion of the different rationales for the national living, and national minimum, wages. The consideration of options is sufficient for a final stage IA given the detailed consideration of different potential upratings by the Low Pay Commission (LPC).
Cost-benefit analysis	**Good**	The Department continues to update its evidence base and provides good discussion of risk and uncertainty, including a detailed sensitivity analysis.
Wider impacts	**Good**	The IA includes a good assessment of impacts on areas such as employment, prices and productivity.
Monitoring and evaluation plan	**Satisfactory**	The IA explains how the LPC will continue to monitor, evaluate and review the levels of the national minimum, and living, wage rates.

[2] The RPC quality ratings are used to indicate the quality and robustness of the evidence used to support different analytical areas. Please find the definitions of the RPC quality ratings here.

Summary of proposal

Description of proposal

The national minimum wage (NMW) was introduced in April 1999. The national living wage (NLW) was introduced in April 2016. These measures set minimum hourly wage levels, protecting low-paid workers while providing incentives to work. The Low Pay Commission (LPC) reviews these rates and makes recommendations to government annually.

The proposal would increase the NLW (from April 2024 applying to those aged 21 years and older) and the NMW rates for development (18-20 years), youth (16-17 years) and apprentices. All proposed increases are in line with the LPC's recommendations.

The proposal meets the Government's target for the NLW to reach two-thirds of median earnings (providing economic conditions allow) and for the NLW to apply to workers aged 21 years and over by 2024.

LPC NMW/NLW rate recommendations for April 2024 (Table 3, p. 13 of the IA)

	LPC recommendation	Current rate	Annual percentage increase
National Living Wage rate (21 years+)	£11.44	£10.42	9.8%
21-22 year old rate	£11.44	£10.18	12.4%
18-20 year old rate	£8.60	£7.49	14.8%
16-17 year old rate	£6.40	£5.28	21.2%
Apprentice rate	£6.40	£5.28	21.2%
Accommodation offset (per day)	£9.99	£9.10	9.8%

It is proposed that the new rates should come into force on 1 April 2024. NMW and NLW rates were last increased in April 2023.

Impacts of the proposal

Coverage

The IA estimates that around 2.925 million employees would be covered by the proposals, of whom around 2.693 million are accounted for by the national living wage. Based upon the 2023 Business Population Estimates, the Department estimates between 910,000 and 1,060,000 employers will be affected by the changes to the minimum wage.

Costs

The main impact on employers is increased labour costs, estimated at £3,087 million (undiscounted, 2023 prices-based figures), around £0.5 billion higher than last year's increase, reflecting the larger increases this year and the extension of the NLW to 21-year-olds and above. The main component of this is the cost to employers of paying more to employees currently earning less than the proposed relevant minimum wage, which is estimated at £1,700 million. The next highest cost is to employers of having to raise the wages of employees, currently earning above the new NLW/NMW rates, to maintain wage differentials, estimated at £1,386 million. Finally, the Department estimates transitional costs to employers of familiarising themselves with the new rates at £5.5 million.

Benefits

The £3,087 million increased labour costs to employers would provide an equivalent benefit to employees (£2,618 million) and the Exchequer (£469 million).

Overall impact

As the costs and benefits are primarily a transfer between employers and employees, the net present value figure consists of the transitional costs to employers. The EANDCB figure consists primarily of the cost to private sector employers of having to pay more to employees currently earning less than the proposed relevant minimum wage.

EANDCB

<u>Counterfactual</u>

The IA uses the same approach as recent IAs in using forecast growth in median earnings to construct counterfactual wage growth. As with the IA for last year's regulations, the present IA uses the average of independent forecasts for median earnings growth, as monitored by the Treasury. In the present IA, it takes six years for earnings in the counterfactual to 'catch-up' with the new minimum rates. This is significantly longer than in previous IAs and reflects the larger increases in the rates. The IA provides a good explanation for continuing to use the former approach. The Department's updated assumptions for counterfactual wage growth appear to reflect economic and labour market circumstances and prospects reasonably. IAs on future upratings should continue to review the appropriateness of the approach and assumptions used.

The IA would benefit from discussing further why, and how, the independent and other forecasts differ significantly, ideally separating the underlying assumptions and potentially adjusting for accompanying GDP growth forecasts etc. The IA could discuss the feasibility of constructing a central estimate for counterfactual earnings growth around a central set of underlying assumptions.

Direct/indirect impacts

The cost to private sector employers from having to pay employees more than they would otherwise have been paid and the transitional costs are correctly assessed as direct costs to business. The cost to employers of maintaining wage differentials is assessed as an indirect impact because the only regulatory requirement for businesses is to meet the increased pay floor. This assessment is reasonable and in line with previous IAs. The IA assumes that such 'spillover' effects extend to the 25^{th} percentile of the wage distribution, as in recent IAs.

SaMBA

The SaMBA is sufficient. Small and micro businesses are estimated to employ 40 per cent of employees and incur approximately 38 per cent of the total cost of the proposals. The IA explains clearly why they should not be exempt from the proposal. On mitigation, the IA refers to employer-targeted communications and guidance and an announcement before the legislation has passed through Parliament to facilitate business adjustment. The Department also refers to assistance to small businesses more generally, as announced in the Autumn budget, such as Help to Grow and a further extension of small business multiplier business rates relief for the retail, hospitality and leisure sectors, although these do not appear to be designed to mitigate specifically an increase in the NMW/NLW.

Medium-sized businesses considerations

The IA usefully includes consideration of impacts on medium-sized businesses in line with the Government's widening, to businesses with fewer than 500 employees, presumed regulatory exemptions. Medium-sized businesses are estimated to employ 13 per cent of employees and incur approximately 16 per cent of the total cost of the proposals.

Rationale and options

Rationale

As in previous years' IAs, the Department sets out the rationale for continued intervention for both the NMW and NLW. The rationale for the NMW is based on maintaining a wage rate for younger workers that is aimed at being close to what a competitive market equilibrium would be. The Government have sought to achieve this by asking the LPC to recommend an NMW rate that does not damage the employment prospects of low-paid workers. The rationale for the NLW is more equity-based, aiming to reduce wage inequality and ensure that low-paid workers benefit from economic growth. The IA could usefully discuss the role of the NMW and NLW increases in terms of the resilience of the labour market, and the economy more broadly, to cost-of-living and other shocks that might otherwise spread through the economy.

Options

The IA looks at two options: do nothing or implement the LPC recommendations in full. The IA explains how the LPC collects evidence and data, including through stakeholder consultation and external research, to inform its assessment of the impacts of minimum wage policy. The evidence, research and data collected and produced by the LPC have been used to inform the IA. On this basis, the options presented in the IA are reasonable.

Cost-benefit analysis

Evidence and data

The IA describes how the LPC recommendations for NLW and NMW rates are underpinned by extensive consultation, analysis, and evidence-gathering. The LPC received responses from over 100 various organisations either through written consultation, oral evidence sessions or visits across the UK. The Department has continued to engage with leading labour market academics and updated its literature review. The IA would benefit from distinguishing more clearly evidence and studies that have emerged since last year's IA and discussing their significance for the formulation of this policy.

The Department reports differences between its estimates of the number of people in NMW/NLW jobs and ASHE outturn data, and notes LPC work on an alternative approach of forecasting coverage based on historical relationships between coverage and increases in the NMW/NLW. The Department notes that its approach could overstate coverage of the NMW/NLW and, therefore, direct costs to business, while at the same time underestimating restoration of pay differentials and hence indirect costs to business. The Department's has committed to continue to monitor this area and potentially develop its analysis. The RPC considers this to be a priority for future IAs.

Uncertainty, risks and assumptions

The IA appropriately includes low and high estimates (and, for counterfactual wage growth, additionally estimates based upon OBR and Bank of England forecasts) and extensive sensitivity analyses around several key variables (such as the extent of spillovers to higher levels of the pay distribution). These variations are discussed in each relevant section and summarised clearly in the IA. The IA would benefit from further discussion of the relatively low OBR earnings growth forecasts, given that use of these would result in significantly higher cost estimates (as shown in the sensitivity analysis) and that OBR figures have been used in previous IAs (although not since 2022).

The IA provides a useful discussion of the consequences of (post-COVID) declines in labour force participation. This could be enhanced by providing a more direct picture of the combined size of unemployed and inactive people, with some supplementary analysis of the proportion of those inactive likely to seek or accept NMW/NLW jobs and the impact of past NMW/NLW upratings on labour force participation (e.g. as an elasticity). If such estimates are not available, a breakdown of inactivity along demographic or regional lines would be helpful.

The IA would benefit from further assessment or discussion of the impacts of the gig economy (as distinct from zero-hours contracts) and part-time work, where workers are self-employed and not entitled to NMW/NLW protection.

The IA provides some welcome analysis of the nature and impact of inflation during this period and the prospects for the future. This analysis would benefit from taking account of the uneven nature of the UK's recent inflation (and current easing) and, therefore, commenting on real-terms distributional consequences. For example, the ONS statistics show that inflation (CPI adjusted for income decile, housing tenure type and other factors) tends to be highest for those most likely to be affected by the uprating.

Wider impacts

The IA has a section on employment impacts, drawing upon an updated literature review at its annex B. The section on employment impacts is included within a section on macro-economic impacts, which covers possible impacts on areas such as prices and productivity. The IA would benefit from discussing further recent research on the impact of the April 2021 lowering of NLW age threshold to include those aged 23 years and above and the relevance of this research to estimates of the potential employment impacts of the proposed extension of NMW protection to 21-22 year-olds.

The IA also includes useful sections on fiscal, sectoral, regional and international trade impacts. The fiscal section draws upon OBR forecasts in March 2020 and would benefit from updating, or at least referencing when the OBR plans to produce new forecasts. The IA discusses automation briefly (paragraph 158, page 33) and this would benefit from being broadened into a more general discussion of potential innovation impacts. The discussion on trade impacts would benefit from considering potential 'offshoring' of productive activities where labour (especially low-skilled) is an important input. The IA could provide further analysis or discussion of the potential re-allocation of business and employment between regions (and thus the 'levelling up' impact).

Monitoring and evaluation plan

The IA explains how the LPC will continue to monitor, evaluate and review the levels of the various minimum wage rates, and that future recommendations by the LPC will be based on extensive monitoring and evaluation of the current rates. More specifically, the IA states that the LPC will undertake an assessment of the impact of the proposed 2024 minimum wage rates in Autumn 2024.

The IA helpfully contains more information than in previous IAs on the work the LPC will be doing. This usefully includes a focus on the potential impacts on employment, given the relatively high increases in the rates and the lowering of the age threshold for the NLW. Given that the changes taking effect in April 2024 will achieve the Government's stated objectives for the level and coverage of the NLW, the IA would benefit from providing more details on how the NLW as a whole policy, i.e., since its initial implementation in 2016 through to the 2024 changes, will be evaluated and reported on.

Regulatory Policy Committee

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