Evidence on the National Minimum Wage (including the National Living Wage)

Submission to the Low Pay Commission

Chartered Institute of Personnel and Development (CIPD)

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Background

The CIPD is the professional body for HR and people development. The not-for-profit organisation champions better work and working lives and has been setting the benchmark for excellence in people and organisation development for more than 100 years. It has over 145,000 members across the world, provides thought leadership through independent research on the world of work, and offers professional training and accreditation for those working in HR and learning and development.

Our membership base is wide, with 60% of our members working in private sector services and manufacturing, 33% working in the public sector and 7% in the not-for-profit sector. In addition, 76% of the FTSE 100 companies have CIPD members at director level.

Public policy at the CIPD draws on our extensive research and thought leadership, practical advice and guidance, along with the experience and expertise of our diverse membership, to inform and shape debate, government policy and legislation for the benefit of employees and employers, to improve best practice in the workplace, to promote high standards of work and to represent the interests of our members at the highest level.

Introductory comments

This note is an update on our earlier interim submission and draws upon our Labour Market Outlook [LMO] survey (Summer 2017). Please note, at the time of writing, the survey data included in this response has not been published.

Note

The CIPD's Labour Market Outlook summer survey focused on the National Living Wage (NLW) and our note concentrates on the impact of the NLW.

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Our submission

Employment outlook

The employment outlook is positive, with an improvement in employment expectations since Q1 2017. Taking account of expected recruitment and redundancy decisions, the net employment score balancing out employers likely to cut staffing over the next three months against employers likely to increase staffing levels is overall +27 looking to recruit, though there are sharp differences between the private sector (+35) and the public sector (+5). Employers in wholesale and retail are less bullish, but more expected to increase staff than cut them, giving a net positive balance of +21. The hospitality sector, in contrast, is significantly more likely to see a net increase in staffing, with a net balance of +51.

Overall pay trends

The Labour Market Outlook for Summer 2017 finds that basic pay will grow by 1% over the coming 12 months, confirming the prediction made in our interim note.

Brexit and the labour market

Our summer 2017 LMO finds that most organisations (57%) don't think that they have enough information yet to start making decisions about their post-Brexit recruitment strategy, compared with 25% of employers that do (25%).

When asked to speculate how they would respond to in terms of recruitment practices to the UK's decision to exit from the European Union, most said it was too early to say or didn't know (45%). Just 5% thought that they would be forced to increase pay rates. Instead, the most common responses are to upskill the current workforce to fill expected skills gaps (10%) and reduce the headcount (8%). One third of employers (33%) don't think that their staffing needs will be impacted by Brexit, most likely those based on low-waged business models (46%).

As we said in last week's interim note response: we think it unlikely that the Brexit process will have a significant impact on pay over the next 12 months.

National Living Wage and basic pay awards

Most basic pay awards are clustered between 1 and 3 per cent. Among employers making awards of 2 per cent or more, the National Living Wage increase taking effect in June 2017 is one of the more commonly cited reasons at 25 per cent, alongside the organisation's ability to pay, and the influence of "going rate" pay awards made elsewhere. Of those intended to make pay awards of less than 2 per cent, they are most likely to cite pay policy in the public sector, followed by an organisation's inability to pay. The NLW is cited by just under one employer in six as a constraining factor (14 per cent).

The survey data suggests that, not surprisingly, the NLW is a factor behind increasing salaries by 2% (60%) for low-wage firms, although the sample size is small and the findings should be treated with some caution.

Table 1: Influence of the NLW on pay awards

Share of employers citing NLW as a factor in making the award	Awards of 2 per cent or more	Awards below 2 per cent
Summer 2016	17%	16%
Autumn 2016	17%	13%
Winter 2017	21%	17%
Spring 2017	30%	15%
Summer 2017	25%	14%

Source: CIPD Labour Market Outlook

Table 2 lists the factors given by respondents for why they have not been able to increase salaries by more than 2% and how these reasons can vary by sector, for instance, the costs associated with automatic enrolment, the uncertainty about future access to the EU market and the increase in the NLW is more of an issue in the private sector.

Table 2: employer explanations for why their next pay rise will be below 2%

	All	Private	Public	Voluntary
Restraint on public sector pay	42%	10%	72%	23%
Organisation's inability to pay more	24%	21%	22%	49%
Increases to the National Living Wage in April 2017 (including the increase to £7.50 per hour for those aged 25 and above)	14%	23%	6%	18%
Other labour costs (e.g. national insurance contributions, pensions' contributions)	13%	19%	8%	19%
The 'going rate' of pay rises elsewhere	12%	14%	9%	19%
Uncertainty about future access to the EU market	11%	21%	4%	7%
To absorb the cost of the introduction of auto-enrolment pensions scheme	11%	21%	4%	8%
We have no recruitment and retention issues	9%	15%	5%	8%
Movement in market rates	8%	17%	1%	6%
Current official rate of inflation	8%	10%	6%	5%
The introduction of the Apprenticeship Levy in April 2017	7%	11%	3%	10%
Poor employee productivity and performance	6%	9%	4%	3%
Anticipated continuation of current rate of inflation	5%	9%	3%	-
Other	3%	2%	4%	5%
Don't know	4%	4%	4%	3%

Source: Labour Market Outlook Summer 2017

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The National Living Wage, its impact and employer responses

The CIPD's Labour Market Outlook summer 2017 survey of 1,139 employers finds that 43% of organisations report that their pay bills have risen due to April 2017's increase in the National Living Wage (NLW), while the same proportion say that there has been no impact (see table 3).

Table 3: By sector, did the increase in the National Living Wage (adult rate) from £7.20 to £7.50 in April 2017 increase wage bills?

	All	Private	Public	Voluntary
Yes, to a large extent	12%	13%	10%	10%
Yes, to a to some extent	15%	17%	8%	15%
Yes, to a to a small extent	16%	13%	23%	24%
No not at all	43%	45%	39%	38%
Don't know	14%	13%	21%	13%
Net: Yes	43%	43%	41%	49%

Base: all respondents (1,139)

Sectors that have been most likely to report that they have seen their wage bills increase by a large extent are:

- Wholesale, retail and motor trades: 21%
- Human health and social work activities: 18%
- Manufacturing: 15%

In addition, 19% of primary and utilities firms say the same, but caution should be shown, given the low base (27 firms).

While firms in the wholesale, retail and motor trades sector have been most likely to report a large effect, overall, 51% of employers in this part of the economy say that there has been some impact compared with 59% of firms in the accommodation, food service activities and arts, entertainment and recreation sectors. In other words, more accommodation, food service activities and arts, entertainment and recreation sector firms have been impacted by the NLW's rise than wholesale, retail and motor trades companies, it is just that, for them, the impact hasn't been as large.

There is a north-south divide within England, with 18% of organisation in northern England reporting that the NLW increase has pushed up their wage bills by a large extent, while just 8% of employers in southern England say the same. In Scotland, 10% of respondents indicate the NLW has had a large effect on their pay bill while 18% say the same in Wales 18%, although in the case of Wales this is based on a sample of 35 responses.

Large (over 250 workers) employers are impacted more significantly (15%) than small and medium organisations (8%). More than one-in-four respondents (26%) employing between 500 and 999 staff say that pay went up by a large amount because of the NLW.
Low-wage organisations are most likely (23%) to say that the NLW increase has had a large impact on their pay bill than high wage employers (15%). In addition, 23% of organisations that now pay the Apprenticeship Levy also report a large increase in their pay costs due to the recent NLW, indicating a double employment-cost whammy for such employers.

Employer responses

Our poll asked the 43% of employers that have seen payroll costs increase due to the NLW increase how they are responding to this rise. We gave respondents a list of potential responses and asked them to select up to three of the most important things that they had done.

Table 4 shows that the most common responses are to absorb the costs (32%), improve productivity (29%), raise prices (18%) and reduce staffing levels (17%).

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Table 4: By sector, how employers are managing the additional wage costs in the year ahead

	All	Private	Public	Voluntary
Taken lower profits/absorbed costs	32%	34%	24%	25%
Improved efficiency/raised productivity	29%	31%	24%	16%
Raised prices	18%	21%	6%	21%
Reduced number of employees through redundancies and/or recruiting fewer workers	17%	14%	28%	21%
Reduced the amount of overtime/bonuses	14%	14%	17%	8%
Reduced other aspects of the reward package (such as paid breaks or premium pay rates and other benefits and perks e.g. free lunch)	13%	14%	13%	5%
Reduced hours worked by staff	12%	11%	16%	14%
Reduced the rate of basic pay growth for the rest of the workforce	9%	10%	8%	11%
Cancelled/scaled down plans for investing in/expanding the business	8%	7%	9%	7%
Cut back on training expenditure	6%	6%	4%	9%
Recruited more apprentices	3%	2%	6%	-
Increased share of workforce on atypical employment contracts e.g. zero-hour contracts	3%	4%	2%	2%
Hired more workers aged 24 and under (excluding apprentices)	2%	2%	5%	-
Cut back on pension contributions	1%	0%	2%	-
Other	2%	2%	1%	5%
None of these - we are not doing anything to manage these additional wage costs	11%	9%	13%	16%
Don’t know	4%	5%	1%	-

Base: all those whose pay bill increased due to the NLW (486)

Focusing on the wholesale, retail and motor trades; the accommodation, food service activities and arts, entertainment and recreation sectors, we find the following variations in approaches:

- Wholesale, retail and motor trades firms have been most likely to respond through improved efficiency/productivity (47%) than accommodation, food service activities and arts, entertainment and recreation businesses (32%)

- Accommodation, food service activities and arts, entertainment and recreation companies have been most able to increase prices (32%) than wholesale, retail and motor trades firms (13%)

- Wholesale, retail and motor trades enterprises have been most able to cut their headcount (18%) than accommodation, food service activities and arts, entertainment and recreation firms (6%)

- Accommodation, food service activities and arts, entertainment and recreation employers have been most likely to increase the share of workforce on atypical employment contracts (10%) than wholesale, retail and motor trades (0%)

- Similarly, accommodation, food service activities and arts, entertainment and recreation firms have been more able to cut back on training (12%) than wholesale, retail and motor trades organisations (2%)

Those employers most likely to meet the additional cost of the NLW through improved productivity are those that are large (34% compared to 21% of SMEs) and those that are high-wage (47% compared to 25% of low-waged employers).

Effects of possible NLW increases

We questioned respondents to anticipate how they may react to an increase in wage costs caused by a rise in the NLW to £7.80 in April 2018. Again, we asked respondents to select three of the most likely options from a list. Table 5 shows how employers expect they will react. Around three-in-ten (31%) of employers don't anticipate responding to the increase while 17% don't know, possibly because some of these will not be impacted by the increase in the NLW.

Table 5 lists the most common responses to a rise in the NLW, the top four responses are the same as those in table 4. By sector, those in the voluntary sector are most likely to absorb the costs, while the public sector is most likely to reduce its headcount.

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Table 5: how employers would respond if the National Living Wage increased to £7.80 in April 2018

	All	Private	Public	Voluntary
Take lower profits/absorbed costs	15%	16%	9%	20%
Improve efficiency/raised productivity	13%	13%	15%	5%
Reduce number of employees through redundancies and/or recruiting fewer workers	12%	9%	20%	12%
Raise prices	11%	13%	4%	14%
Reduce the amount of overtime/bonuses	9%	8%	10%	7%
Reduce the rate of basic pay growth for the rest of the workforce	7%	7%	4%	11%
Reduce other aspects of the reward package (such as paid breaks or premium pay rates and other benefits and perks e.g. free lunch)	6%	6%	6%	4%
Reduce hours worked by staff	6%	6%	7%	5%
Cancel/scale down plans for investing in/expanding the business	4%	4%	2%	7%
Cut back on training expenditure	4%	3%	7%	10%
Other	4%	4%	3%	5%
Recruit more apprentices	3%	2%	3%	4%
Hire more workers aged 24 and under (excluding apprentices)	2%	2%	3%	-
Increase share of workforce on atypical employment contracts e.g. zero-hour contracts	2%	1%	6%	-
Cut back on pension contributions	1%	1%	3%	1%
None of these - we would not do anything to manage these additional wage costs	31%	32%	29%	30%
Don't know	17%	16%	18%	15%

Base: all respondents (1,139)

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Who should set the minimum wage rate?

The Summer 2017 LMO finds that a bigger proportion of employers think that the Low Pay Commission should set the NLW in line with the arrangements that prevailed before July 2015.

Overview

Findings from our summer 2017 LMO does not lead us to revise our position as stated in our interim submission.

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