



## DEBATE PACK

Number CDP 2016/0085, 15 April 2016

# National living wage and changes to terms and conditions

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## Summary

On **Monday 18 April 2016** Members will debate the introduction of the National Living Wage and changes to employee contracts, following a successful Backbench Business Committee bid from Siobhain McDonagh MP, Labour MP for Mitcham and Morden.

Members will debate the following motion:

That this House agrees with the Chancellor of the Exchequer that Britain deserves a pay rise and commends his introduction of the national living wage; notes, however, that some employers are cutting overall remuneration packages to offset the cost of its introduction, leaving thousands of low-paid employees significantly worse off; and calls, therefore, on the Government to guarantee that no worker will be worse off as a result of the introduction of the national living wage.

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The House of Commons Library prepares a briefing in hard copy and/or online for most non-legislative debates in the Chamber and Westminster Hall other than half-hour debates. Debate Packs are produced quickly after the announcement of parliamentary business. They are intended to provide a summary or overview of the issue being debated and identify relevant briefings and useful documents, including press and parliamentary material. More detailed briefing can be prepared for Members on request to the Library.

# 1. Background

The creation of the National Living Wage (NLW) was announced by the Chancellor of the Exchequer on 8 July 2015 during the Financial Statement:

Let me be clear: Britain deserves a pay rise and Britain is getting a pay rise. I am today introducing a new national living wage. We will set it to reach £9 an hour by 2020. The new national living wage will be compulsory. Working people aged 25 and over will receive it. It will start next April at the rate of £7.20. The Low Pay Commission will recommend future rises that achieve the Government's objective of reaching 60% of median earnings by 2020.<sup>1</sup>

The NLW of £7.20 per hour came into force on 1 April 2016. Workers aged 25 and over must be paid at least the NLW.

The NLW is distinct from the Living Wage. The NLW is a rate of the national minimum wage.<sup>2</sup> The Living Wage is a voluntary rate of pay calculated by reference to the cost of living and set annually by the Living Wage Foundation. The NLW is not set by reference to the cost of living. It is set by Government following recommendations from the Low Pay Commission.

## 1.1 Setting the NLW

The initial rate of the NLW was set by the Government reflecting the Chancellor's announcement and the Government's desire to introduce a premium for workers aged 25 and over. The rate will in future be set by the Government by reference to recommendations made by the Low Pay Commission, which governments have, with rare exceptions, always followed.

The Low Pay Commission provides its recommendations in a report in response to a remit set by the Secretary of State for Business, Innovation and Skills. The current remit provides the following on setting the NLW:

the Government wishes to see a higher wage for more experienced workers and so is introducing a premium for workers aged 25 and over. This will be over and above the NMW which will remain in place. The Government will set the first premium in April at 50p bringing the total National Living Wage to £7.20 in April 2016. The Government asks the LPC to recommend the level of the National Living Wage to apply from April 2017.

The Government estimates that the level of the combined NMW and the premium in April 2016 will be 55% of median earnings and has set out an ambition that this should continue to increase to reach 60% of median earnings by 2020, subject to sustained

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<sup>1</sup> [HC Deb 8 July 2015 c337](#)

<sup>2</sup> Technically, from a legal viewpoint, the NLW is not a new type of NMW. It is the main single hourly rate NMW prescribed under section 1(3) (the basis of the main rate of minimum wage) of the *National Minimum Wage Act 1998*, albeit increased and renamed. This increase coincided with the introduction of a new type of NMW – the 21-24 rate - which was introduced at the same rate as the rate under section 1(3) had been prior to its increase and renaming. Essentially, the Government introduced a new rate at the same level as the old rate, and increased and renamed the old rate.

economic growth. The Government's objective is to have a National Living Wage of over £9 by 2020.

In making recommendations in relation to the premium the LPC is asked to consider the pace of the increase, taking into account the state of the economy, employment and unemployment levels, and relevant policy changes.

Depending on the outcome of the review into bringing forward the NMW cycle, alongside the NMW recommendations in February 2016 the LPC are asked to provide indicative NMW rates for 2017, in order to give more certainty to business. Alongside the premium recommendation in October 2016 the LPC are asked to provide an indicative premium rate for April 2018. Both of these being subject to confirmation in light of economic conditions.<sup>3</sup>

## 1.2 Legal basis

The NMW (and thus the NLW) is based on both primary legislation and secondary legislation. The primary legislation, the [National Minimum Wage Act 1998](#), provides the framework for, and powers to set, the NMW. The detailed operation of the NMW and the applicable rates are set out in the [National Minimum Wage Regulations 2015 \(SI 2015/621\)](#), which are amended when new rates are introduced. The NLW was introduced by the [National Minimum Wage \(Amendment\) Regulations 2016 \(SI 2016/68\)](#) which amended the 2015 regulations.

## 1.3 Low Pay Commission Report 2016

The [Low Pay Commission's Report \(Spring\) 2016](#) provided the following summary of evidence on the potential impact of the NLW, which notes that some employers may cut overall remuneration packages:

The evidence reviewed in this chapter suggests that overall, the NLW is a significant change for the UK labour market. The main beneficiaries are low-paid workers who are set to see large nominal, real and relative pay increases. However, there are also uncertainties in relation to the wider effects.

Respondents to our consultation welcomed higher pay in principle. However, a number of employers were concerned about the introductory rate of £7.20 – notably in sectors including small retail, some small firms, agriculture, food manufacturing, textiles and especially social care. **Respondents told us that firms expect to cope with the initial rate through consolidating the wider reward package, reduced premium payments and squeezing differentials as well as considering raising prices, reducing profits and reducing hours, although few had planned the NLW increases to 2020.**

The introductory rate of £7.20 restores the real value of the minimum wage for workers aged 25 or over to its highest ever even on an RPI basis, surpassing the value lost in the downturn. The relative value will also be at its peak, with the bite rising for this group from 52.1 per cent in 2015 to an estimated 55.1 per cent in 2016. Including the 2015 adult rate increase, the bite for workers aged 25 and over is set to increase by the same amount in the five years to 2020 as it did in the previous sixteen.

<sup>3</sup> BIS, [National Minimum Wage – Low Pay Commission Remit 2016](#), p2

The bite for workers aged 25 and over is set to be lowest for middle-aged workers, those in the South East, and those in bigger firms. It will be highest in 2016 for: those aged 25-30; those aged over 65; those working in Wales, Northern Ireland and northern England; those working in small firms and those in low-paying sectors. By 2020, the bite could reach 90 per cent for workers in retail and 100 per cent in cleaning and hospitality.

Meanwhile, the estimated proportion of minimum wage workers in the workforce is set to rise from 5 per cent (1.4 million) in 2015 to 8 per cent (2.2 million) in 2016 and then to almost 14 per cent (3.7 million) in 2020. Large proportions of jobs in low-paying sectors are set to be paid at the minimum wage including two in five jobs in cleaning, one in three jobs in hospitality and hairdressing and over one in six jobs in micro firms in 2016. These proportions will have increased by 2020, when over a sixth of private sector jobs (18 per cent) could be paid at the minimum wage. Coverage also increases for workers aged 25-30 and 65 and over, workers with no qualifications, workers with disabilities, migrant workers, women and ethnic minorities.

The introduction of the NLW is set to add an estimated £0.7 billion or 0.1 per cent to wage bills in 2016. The increase to 60 per cent of average earnings is set to then add an estimated £2.4 billion or 0.4 per cent of wage bills by 2020. The costs are in addition to forecast average earnings, with marked variation by sector. They rise to approaching 4 per cent in cleaning and 3 per cent in hospitality and hairdressing. The costs will be higher if workers aged under 25 receive the NLW, if there are large spillover effects, or if we factor in total labour costs.

Comparing the minimum wage in the UK with other countries, our analysis suggests that by 2020 the UK is set to move towards the upper end of the league table and, compared on a like-for-like basis, to near the top. The introduction of the NLW in 2016 however makes little difference to our position in the short-run.<sup>4</sup>

## Low Pay Commission Blog

A Low Pay Commission blog article provides a good summary of the impact of the National Living Wage: [The NLW: a sea change for the UK labour market?](#) (30 March 2016).

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<sup>4</sup> [Low Pay Commission's Report \(Spring\) 2016](#), pp52-53

## 2. Parliamentary Questions

### Living Wage: Written question - 33120

**Q**

Asked by [Michelle Donelan](#)  
(Chippenham)

Asked on: 08 April 2016

**Department for Business, Innovation and Skills**

**Living Wage**

33120

To ask the Secretary of State for Business, Innovation and Skills, what assessment his Department has made of the potential effect of the National Living Wage on (a) costs to businesses and (b) employee pay.

**A**

Answered by: [Nick Boles](#)

Answered on: 14 April 2016

The Government's Impact Assessment for the introduction of the National Living Wage estimates the total cost to businesses at around £1.1 billion, consisting of direct wage costs, associated non-wage labour costs, maintaining pay differentials and transition costs.

Direct costs to employers contribute just under £700 million to the total cost to raise employees' wages to the initial rate of £7.20. This will be a direct benefit to employees from receiving higher wages.

On current OBR forecasts, a full-time National Minimum Wage worker will earn over £4,200 more by 2020 from the National Living Wage in cash terms.

### Living Wage: Written question - 31240

**Q**

Asked by [Gloria De Piero](#)  
(Ashfield)

Asked on: 15 March 2016

**Department for Business, Innovation and Skills**

**Living Wage**

31240

To ask the Secretary of State for Business, Innovation and Skills, what steps he is taking to prevent reductions in bonuses, shifts and bank holiday pay for employees before the implementation of the national living wage.

**A**

Answered by: [Nick Boles](#)

Answered on: 21 March 2016

The National Living Wage represents a significant step up for the lowest paid in society. On current forecasts, a full-time minimum wage worker will earn almost £4,200 more per year by 2020 compared to the current minimum wage. It is for individual businesses to decide exactly how to respond to the introduction of the National Living Wage, appropriate to their circumstances. But any changes to contractual pay should be discussed and agreed with workers in advance.

### Living Wage: Written question - 30418

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#### Q

Asked by [Royston Smith](#)

(Southampton, Itchen)

Asked on: 09 March 2016

**Department for Business, Innovation and Skills**

#### Living Wage

30418

To ask the Secretary of State for Business, Innovation and Skills, what estimate he has made of the cost to (a) private and (b) public sector organisations of implementing the National Living Wage in each of the next three years.

#### A

Answered by: [Nick Boles](#)

Answered on: 16 March 2016

The Government's Impact Assessment for the introduction of the National Living Wage estimates that the cost of increasing pay to the £7.20 rate on private sector and public sector employers will be approximately £800m and £36m respectively in 2016/17. The Government has not produced an estimate for each of the next three years.

### Living Wage: Written question - 30320

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#### Q

Asked by [Royston Smith](#)

(Southampton, Itchen)

Asked on: 08 March 2016

**Department for Business, Innovation and Skills**

#### Living Wage

30320

To ask the Secretary of State for Business, Innovation and Skills, what additional training provision and schemes his Department plans to put in place to support job losses arising as a consequence of the national living wage.

#### A

Answered by: [Nick Boles](#)

Answered on: 16 March 2016

The 2015 spending review made provision for a major expansion of adult further education, to increase employment and productivity levels.

The Government has maintained funding for the core adult skills participation budgets in cash terms at £1.5bn and is also increasing opportunities in technical and professional education by doubling the level of spending on apprenticeships by 2019-20 in 2010-11 cash terms, including income from the new apprenticeship levy. It will be almost £900 million higher in 2019-20 than in 2015-16. By 2019-20, spending on apprenticeships in England will be £2.5 billion.

The combination of the levy, the protection of the AEB, the extension of advanced learner loans, and the introduction of the youth obligation means that by the end of the Parliament, the cash value of core adult FE funding to support participation will be at its highest ever. The total spending power of the FE sector to support participation will be £3.41bn by 2019-20, which is a cash terms increase of 40% compared with 2015-16 (real terms 30%).

**Living Wage: Small Businesses: Written question - 30319****Q**

Asked by [Royston Smith](#)

(Southampton, Itchen)

Asked on: 08 March 2016

**Department for Business, Innovation and Skills**

**Living Wage: Small Businesses**

30319

To ask the Secretary of State for Business, Innovation and Skills, if he will estimate the cost to small and medium-sized enterprises of implementing the national living wage.

**A**

Answered by: [Nick Boles](#)

Answered on: 16 March 2016

The Government's Impact Assessment for the introduction of the National Living Wage estimates the cost of the initial £7.20 rate will be just under £530 million in total for small, micro and medium sized businesses.

**Prime Minister's Questions, 9 March 2016**

**Siobhain McDonagh (Mitcham and Morden) (Lab):** A friend of mine works a 39-hour week, including Sundays and bank holidays, on the shop floor at B&Q. Can the Prime Minister imagine my friend's shock when he discovered that he would lose money as a result of the introduction of the living wage? That is because to introduce it, B&Q is cutting allowances. As a result, my friend will take home £50 a week, or £2,600 a year, less after the hourly rate goes up. Will the Prime Minister and his Chancellor ensure in their Budget next week that nobody who works on a shop floor will take home less money?

**The Prime Minister:** We want to see people taking home more money, and that is why we have introduced the national living wage, which will reach £9 an hour by 2010, and we are cutting the taxes of people like the friend to whom the hon. Lady refers, who will be able to earn £11,000 from 1 April before paying any taxes at all.<sup>5</sup>

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<sup>5</sup> [HC Deb 9 March 2016 c276](#)

### 3. Press Articles

- ['B&Q offers to negotiate compensation for changes to staff benefits'](#), *The Guardian*, 12 April 2016
- ['Caffe Nero tells staff they are no longer entitled to a free lunch because of National Living Wage'](#), *Independent*, 1 April 2016
- ['Politicians are taking risks with minimum pay'](#), *Financial Times*, 1 April 2016
- ['Britain's national living wage — economists debate pros and cons'](#), *Financial Times*, 1 April 2016
- ['UK companies look for loopholes around living wage'](#), *Financial Times*, 30 March 2016
- ['Low paid workers to get earnings boost from national living wage'](#), *The Telegraph*, 27 March 2016
- ['Wilko set to axe 'premium' payments for staff working Sundays and Bank Holidays as bosses blame new Living Wage for changes'](#), *This is Money*, 2 February 2016

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