Low Pay Commission

2021 Report
Summary of findings

October 2021

Introduction

The Low Pay Commission

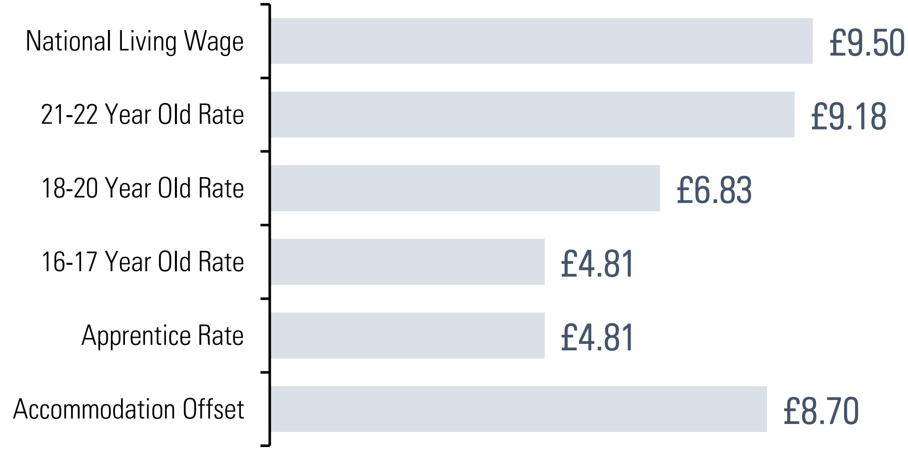
The Low Pay Commission (LPC) is an independent public body that advises the Government each year on the rates of the National Minimum Wage (NMW) including the National Living Wage (NLW). The LPC is a social partnership body, made up of nine Commissioners; three from employer backgrounds, three from employee representative backgrounds, and three independents, including the Chair. Every year since its first report in 1998, Commissioners have unanimously agreed the LPC's recommendations to the Government.

We met in October 2021 to agree rate recommendations for April 2022. We submitted our advice to the Government on Friday 22 October. This short report summarises the main evidence underpinning our advice. It should be read in conjunction with our letter to the Government, which explains the rationale for each rate recommendation. All sources and references for the charts and data can be found at the end of the report. Our full report, which sets out our evidence base in full, will be laid before Parliament and published later this year.

Our recommendations were accepted in full by the Government and will come into effect from 1 April 2022. The NMW and NLW rates effective from April 2022 are shown opposite.

Read our letter to the Government here.

National Minimum Wage rates effective from 1 April 2022



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LPC blog

Our remit for 2021

The National Living Wage

The Government asked us to monitor and evaluate the NLW, and to recommend the rate which should apply from April 2022 to reach two-thirds of median earnings by 2024, taking economic conditions into account. If the economic evidence warranted it, we were asked to advise the Government to review the target or its timeframe, ensuring the lowest paid would continue to see pay rises without significant risks to their employment prospects.

Other National Minimum Wage Rates

For other rates, we were asked to recommend rates as high as possible without damaging the employment prospects of each group.

Groups of workers and geographical impacts

In addition to our standard remit on rates of the minimum wage, we were asked to pay special attention to two areas:

- Groups of low-paid workers with protected characteristics (for example younger, older, disabled, and women workers, and workers of ethnic minorities).
- The differing impact across the UK of increases to the NLW and NMW to improve understanding of what part low-paid work plays in outcomes in different parts of the United Kingdom.

This report summarises our findings in each of these areas. Separating the effects of the minimum wage from those of the pandemic is difficult so we have also used pre-pandemic evidence to answer these questions.

Domestic workers

We were also asked to gather evidence on the existing exemption to the minimum wage for live-in domestic workers. A summary of this work, our conclusions and recommendations, can be found on page 19.

Our evidence base and approach

To arrive at our recommendations, we try to take into account the widest possible range of evidence. This year has been no different, although the effects of the pandemic and lockdowns have continued to make things more complicated.

This year’s recommendations have been informed by:

- A written public consultation exercise, held from March to June.
- Oral evidence sessions with 32 organisations representing workers and employers, as well as workers and employers themselves.
- A range of independent research projects.
- Comprehensive analysis of a range of economic and labour market data.
- Regular meetings with interested stakeholders.

As in 2020, we have not been able to meet in person or to visit locations directly, but have compensated for this with a wider range of online meetings.

Covid-19 has continued to affect the data sources we rely on. Although an extra year has allowed more time for authorities to adapt, our analysis has again had to adapt to account for this.

Economic context

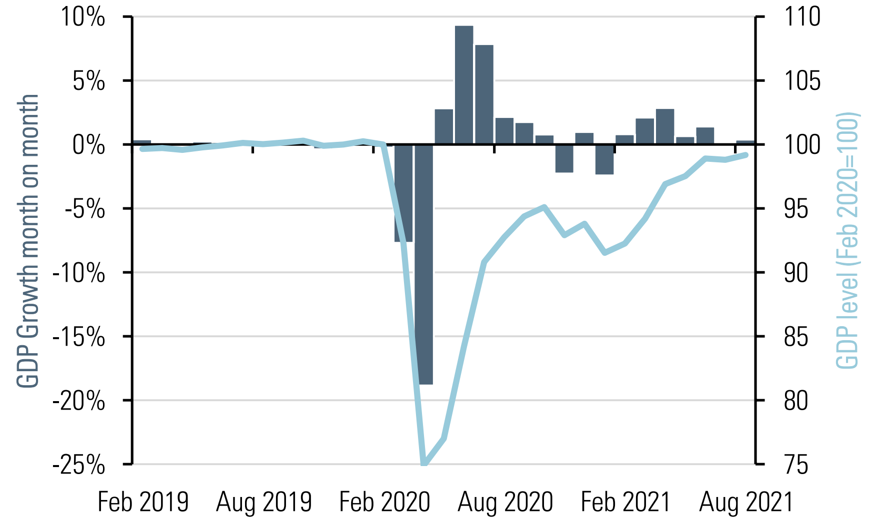
Economic conditions are central to our remit and the story of the last year has been one of recovery. Economic growth collapsed with the onset of the pandemic in spring 2020, recovered rapidly over the summer and then fell again as the second wave led to further lockdowns across the UK. Importantly though, output levels did not fall as much in these later lockdowns.

As the country moved out of lockdown, growth returned. From 19 July 2021, all businesses in England were able to reopen and most Covid-related restrictions were removed, although the devolved administrations adopted a more cautious timetable. Total output in August 2021 was less than 1 per cent lower than in February 2020.

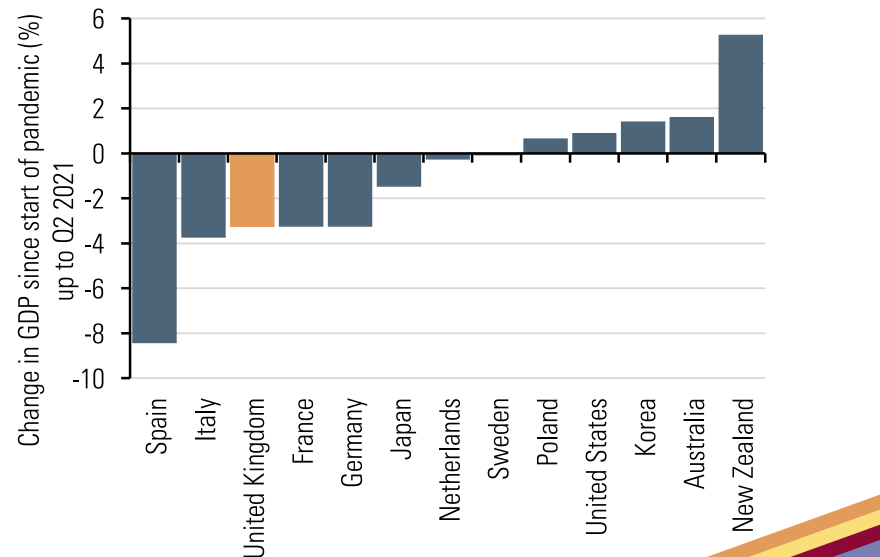
The recovery has been multi-speed with some sectors well behind others. Consumer spending, investment and trade continue to drag on growth. There is still ground to make up in consumer-facing services, particularly international transport. Output in several key low-paying sectors, however, is now above or close to pre-pandemic levels including retail, hospitality and health and social work.

By international standards, the UK was badly hit by the pandemic but has made up some of that ground since the economy reopened. The overall change in UK GDP since the emergence of Covid-19 up to Q2 2021 is on a par with France, Germany and Italy.

Monthly GDP, UK, 2019-21



Change in GDP during the pandemic in selected OECD countries, 2019-21



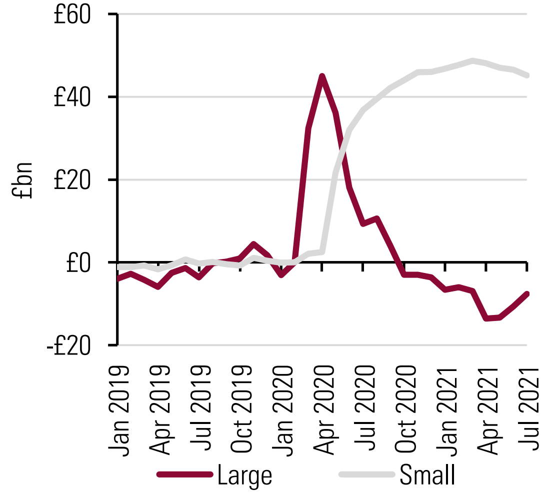
Business conditions

Beyond headline GDP figures, it is important to understand conditions for businesses. As the first lockdown came into force many firms were forced to temporarily close due to loss of demand or direct instruction. Many took on debt to cope with this, including from Government schemes. For SME businesses with turnover below £25m, debt levels jumped by almost £50bn (25 per cent). Debt levels increased by a similar amount for larger businesses but subsequently declined rapidly.

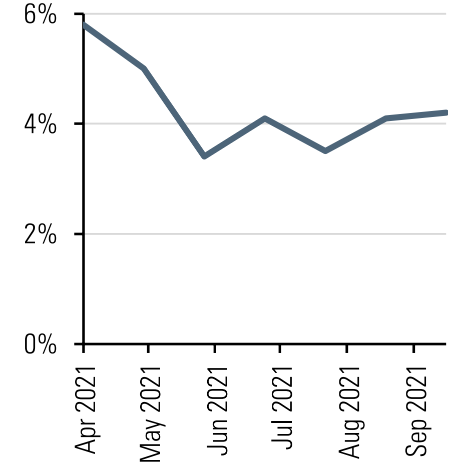
Despite this, just 4.2 per cent of businesses have n or low confidence they will meet their debt obligations. The share with low or no confidence in surviving the next three months has also steadily declined to just over 5 per cent. Likewise, the shar of employers assessing the risk of insolvency as severe or moderate has declined.

These figures are encouraging but they may be flattered by Government policy. During the time this evidence covers, various supportive policy measures were still in place including restrictions on commercial evictions, support with business rates and measures to prevent insolvency. As these measures are withdrawn over the coming months, we will have a clearer picture of the pandemic's impact on the UK's business stock. The Bank of England recently noted: "*Although debt appears affordable in the near term, insolvencies are likely to rise from 2021 Q4 as government support is withdrawn as planned*"[1]

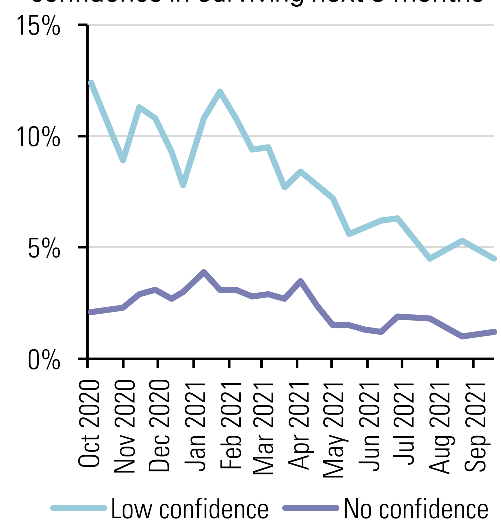
Net change in business debt levels (compared with Feb 2020)



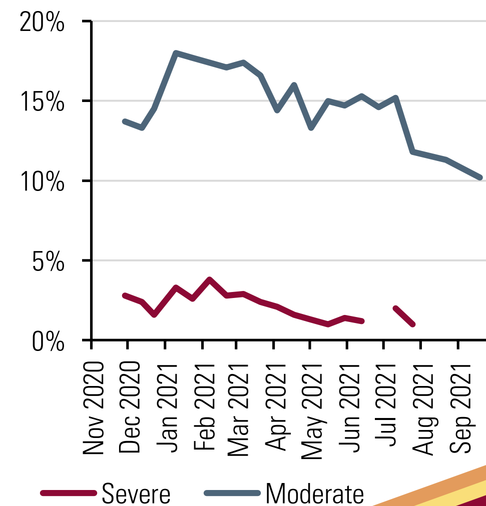
Proportion of companies with low or no confidence in meeting debt obligations



Proportion of companies with low or no confidence in surviving next 3 months



Risk of insolvency



[1]Bank of England | "Financial Stability in Focus: The corporate sector and UK financial stability" (Oct 2021)

Labour market

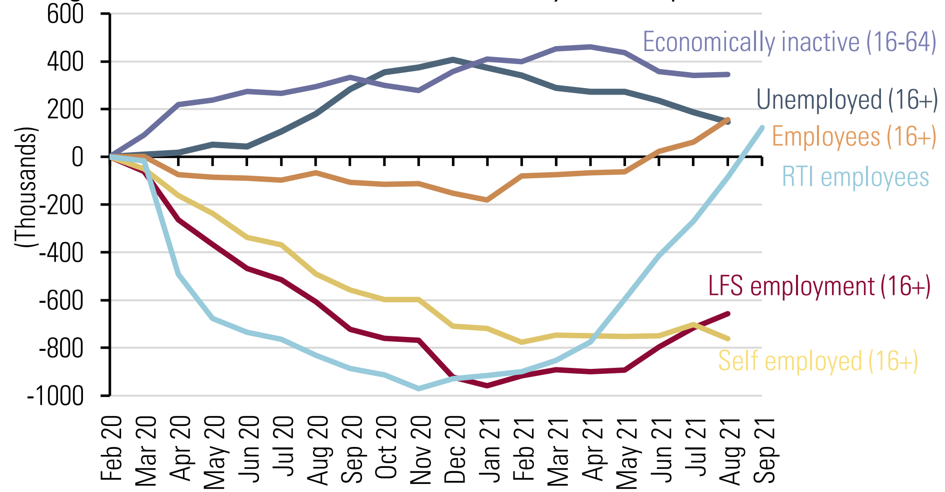
The labour market has recovered rapidly with the number of payroll jobs now above pre-crisis levels. Job growth began to pick up between March and April this year and has continued into September. Levels of unemployment and inactivity had been rising but have now begun to decline.

This improvement has been driven by high levels of demand for workers, illustrated by the volume of job vacancies, which reached a record high of 1.2m in September. In addition, the levels of people moving into work (especially for some low-paying sectors) and between jobs have both improved. The ongoing high levels of vacancies have continued into October, meaning we can expect employment to continue to grow in the short term at least.

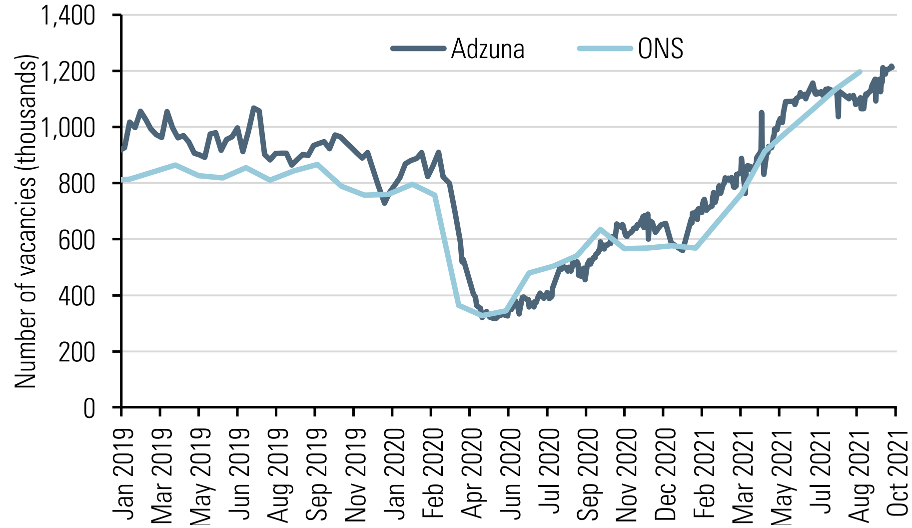
One other factor in the recovery in payroll jobs is the shift from self-employment to employee status. Across 2020 around 1m people moved from self-employed status to employee, greater than the 630-640k who did so in 2019 and 2018. Possible explanations include tax changes and movements to make use of Covid-related financial support.

Alongside the welcome burst of recruitment activity, we have also seen recruitment difficulties increase for certain sectors. Redundancies peaked in autumn 2020, when employers expected the imminent end of the Coronavirus Job Retention Scheme (CJRS). However, since its extension to September 2021 was announced, redundancies have fallen sharply and by summer 2021 were below pre-pandemic levels.

Change in labour market metrics, UK, February 2020-September 2021



Job vacancy levels, UK, 2019-21



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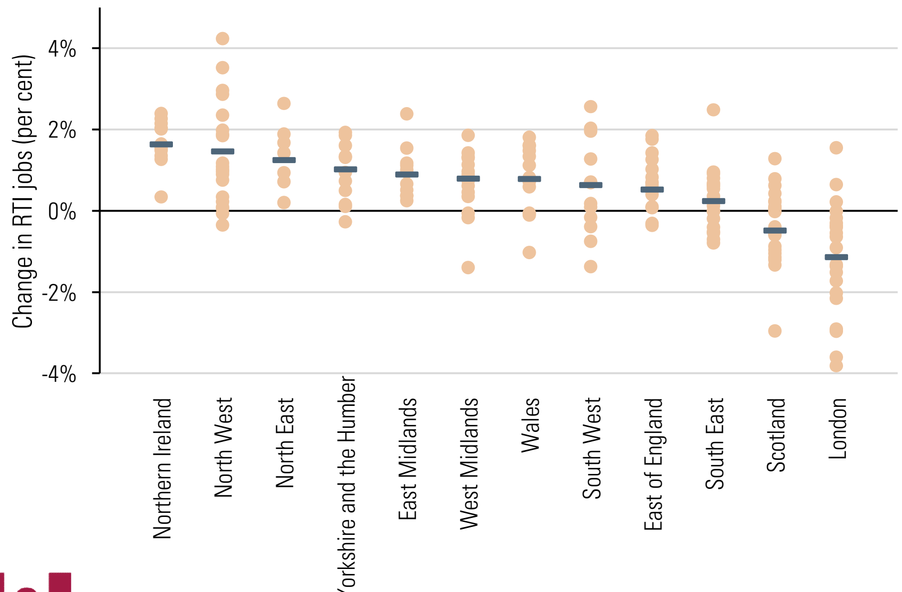
Geography of jobs recovery

For the first time we have timely and accurate local level[1] data on employment, thanks to the ONS's and the Government's efforts to provide monthly publications of HMRC's Real Time Information (RTI) dataset.

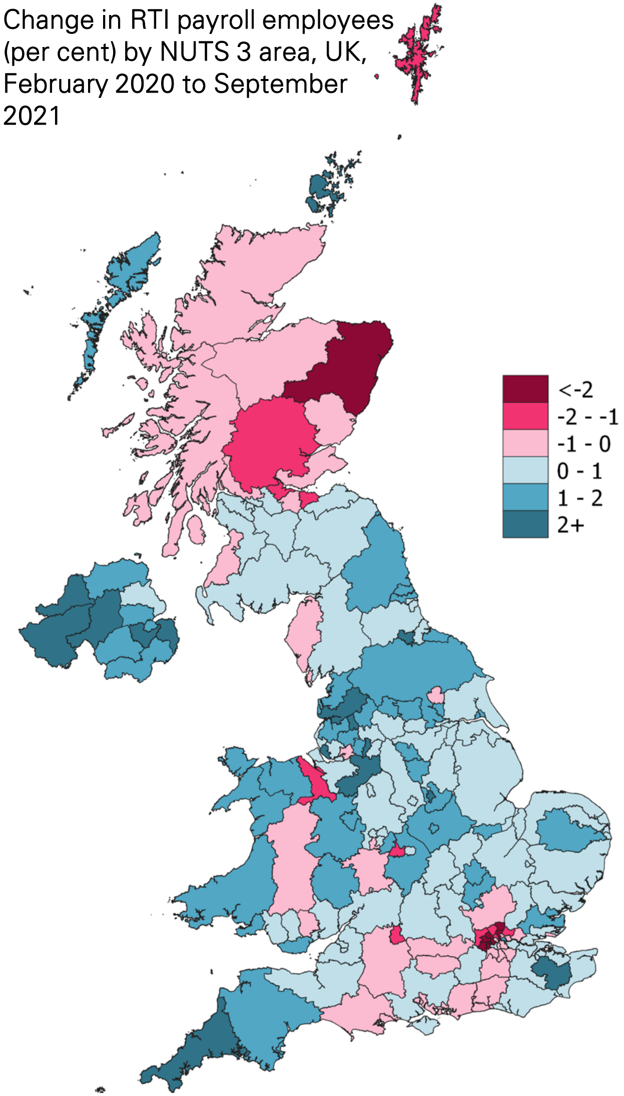
With the exceptions of London and Scotland, all nations and regions of the UK have RTI employment levels back above pre-crisis levels. In Northern Ireland, the North East and the East Midlands, employment is back above pre-crisis levels in all local areas.

In every other part of the country there are at least some areas that are yet to recover. For example, employment levels in the areas close to airports around London are a long way from returning to previous levels – air transport having been particularly hard hit by the pandemic.

Change in RTI payroll employees (per cent) by NUTS 3 area, UK, February 2020 to September 2021



Change in RTI payroll employees (per cent) by NUTS 3 area, UK, February 2020 to September 2021



[1]This analysis uses NUTS3 level data as it is published monthly and therefore timely. Local authority data is available but only published quarterly.

Pay in the recovery

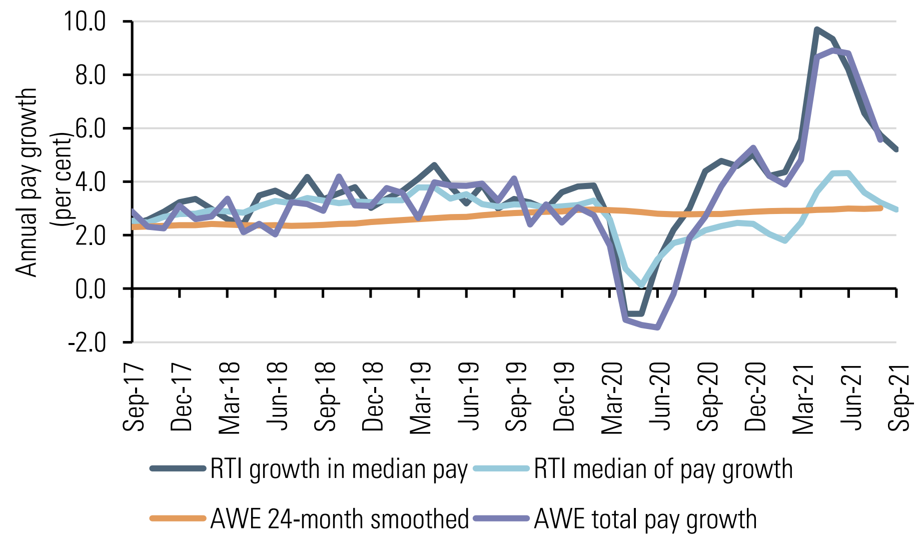
Alongside the recovery in jobs and recruitment, pay growth also returned. The headline measure of total weekly pay, average weekly earnings (AWE), grew at an annual rate of over 8 per cent for several months in the summer of 2021.

However, these very high growth rates were in part the result of base and compositional effects. In the former, growth rates appear higher because pay levels are compared to the height of the pandemic, when pay levels fell sharply as many workers were furloughed. In the latter, the loss of low-paying jobs causes the average level of pay to rise.

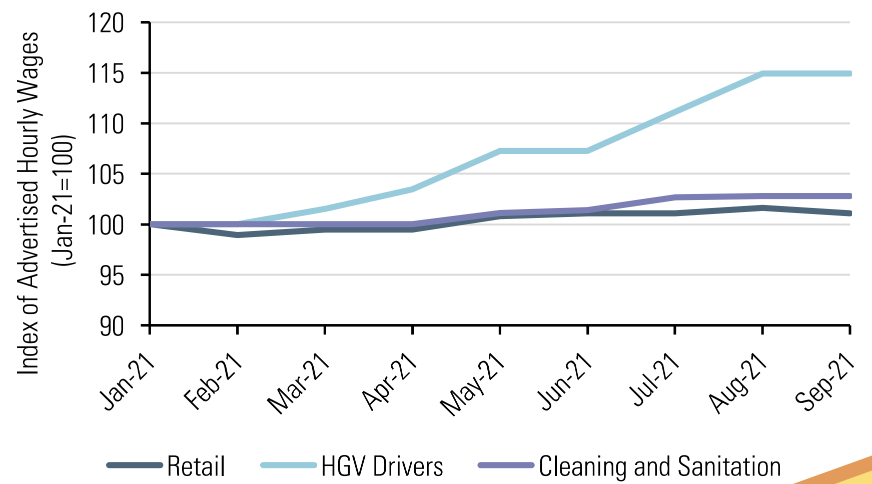
More timely Real Time Information (RTI) measures of pay show a sharp drop in the annual growth rate by September. The spike in pay growth over summer 2021 mirrors the fall in summer 2020, reflecting the base effects. Alternative measures of underlying pay growth suggest it is lower, at around 3-4 per cent. This is the case, for example, if AWE figures are smoothed over a two-year period (to mitigate base effects), or we use the median of pay growth experienced by workers in RTI rather than just growth at the median. The median of pay growth excludes the effects of changes to the composition of the workforce as it tracks the pay of the same workers over time. ONS estimates that underlying pay growth has been lower than its headline growth.

Demand in some areas of the economy has rapidly recovered. Many employers have reported difficulties in finding workers and in some cases this appears to have driven up pay. For example, data from Indeed show that advertised pay in some transport and construction vacancies had risen by over 8 per cent since the beginning of 2021 to September. However, pay for vacancies as a whole on Indeed had risen just 1.4 per cent.

Various measures of annual pay growth, UK, 2017-2021

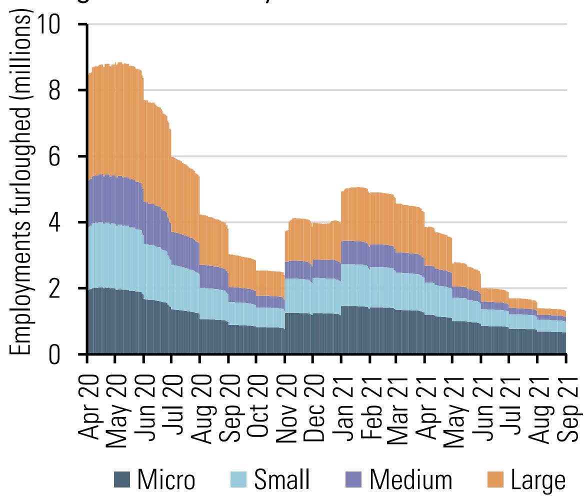


Advertised hourly wages on Indeed, January-September 2021

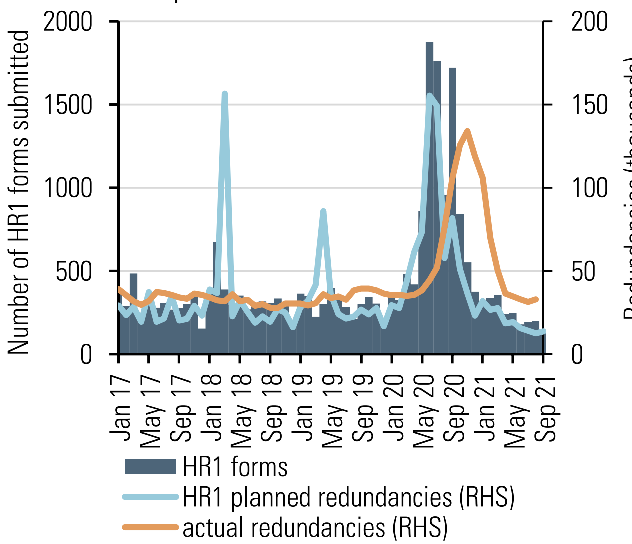


The Coronavirus Job Retention Scheme

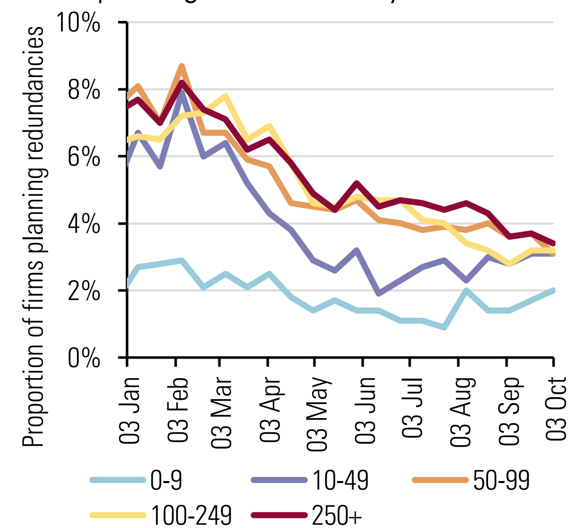
Furloughed workers by firm size



Actual and planned redundancies



Firms planning redundancies by firm size



The CJRS closed at the end of September. The impact of this is an important question, for which there was limited evidence at the time of our recommendations.

At the end of August 2021, there were still 1.3m workers on the scheme, with the majority in small or micro firms. While this is concerning, there are good reasons to believe that the CJRS's end will not lead to a substantial rise in unemployment.

Firstly, there has been no repeat of the large-scale redundancies prior to the scheme's original closing date in September 2020. Most furloughed workers work for the smallest firms, but very few of these firms are planning redundancies.

The number of workers temporarily away from work (a metric closely correlated with furlough numbers) has already returned to pre-crisis norms. This suggests that furlough may also be covering other circumstances, for example maternity leave, or furloughed workers may have already found another job. If a furloughed worker believes they do not have a job to return to they may already appear in unemployment or inactivity figures.

Some of the remaining claims will be fraud or error. In September the Government announced that £1.3bn[1] claimed under the scheme had already been voluntarily returned. The deadline for returning over-claims was 20 October, so it is likely this figure will rise. Further, the Government currently has 23,000 investigations into fraudulent cases and £600m has already been recovered[2].

Finally, as already shown, demand for labour is strong with record vacancies. Any furloughed workers who do find themselves without work as the scheme closes are likely to have other options.

[1] HMT: "Businesses give back £1.3 billion in furlough cash (21 September 2021)
[2] FT.com: "Mystery group took millions in furlough funds" (23 September 2021)

Monitoring the National Living Wage

To monitor the NLW, we depend on the ONS's Annual Survey of Hours and Earnings (ASHE), which takes place in April each year. Last year, the effects of the pandemic and the CJRS on ASHE meant our usual analysis of the minimum wage's impact on employment, working hours and pay was not possible. The 2021 ASHE was again affected by the pandemic, but this year we are better able to account for those effects and more reliably estimate median pay.

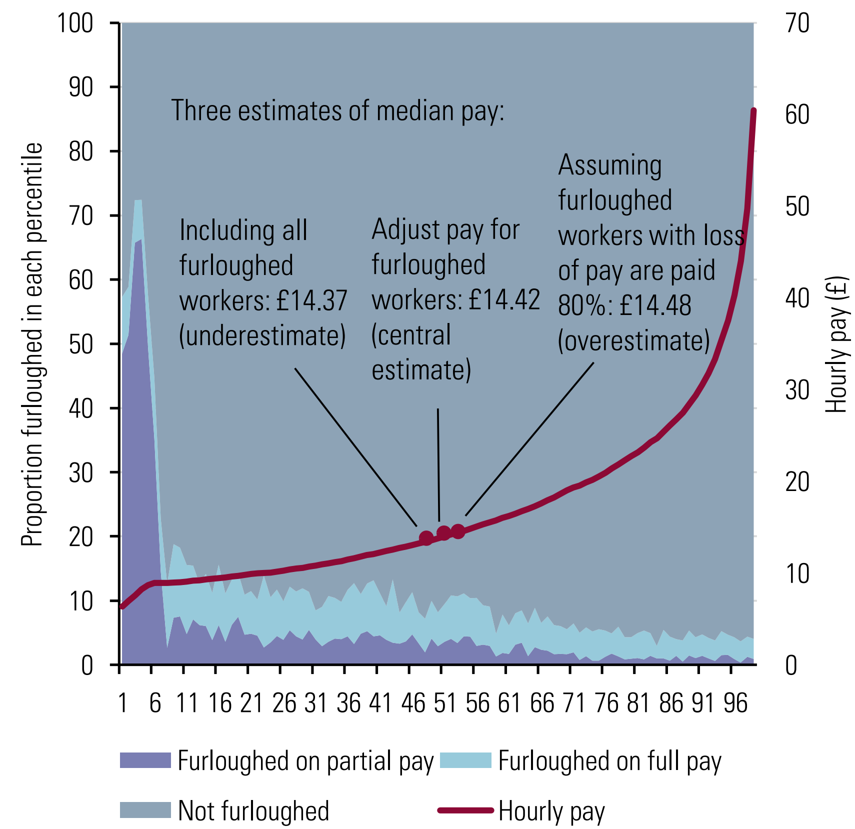
The key issue is the treatment of furloughed workers. Many of this group have lost pay but we cannot easily say how much pay they have lost – they may be paid anywhere from 80-100 per cent of their usual pay.

Excluding them from the data leads to an overestimate of average pay, as a large proportion of those furloughed were low-paid workers. The ONS include these furloughed workers in its statistics. Because this group has artificially lower pay, in our analysis we present a range of estimates with some assumptions about what their usual pay would be:

- A lower estimate of the median (£14.37), including furloughed workers with loss of pay (lower pay than usual due to reduced hours) without adjustment. The ONS use this approach in its statistics.
- An upper estimate of the median (£14.48), assuming all furloughed workers with loss of pay received 80 per cent of their usual pay.
- A central estimate of the median (£14.42), using additional questions on furlough in ASHE 2021 to adjust the pay of furloughed workers.

These estimates are pivotal in our analysis of the coverage of the NLW, the 'bite' of the rate and the path towards the 2024 target. However, different assumptions about the ASHE median make little difference (1-2p) to the 'on-course rate' estimate for 2022 (the smooth path to the two-thirds target). Greater uncertainty comes through other parts of the path calculation, which we discuss on page 13.

Proportion of workers furloughed on full and partial pay, and their derived hourly pay, by hourly pay percentile, UK, 2021



Using these estimates, we calculate that the median pay of workers over 25 (who were eligible for the NLW in 2019 and 2021) grew by between 5.5 and 6.8 per cent between April 2019 and April 2021. The NLW increased by 8.5 per cent over the same period.

Pay growth for low-paid workers

Between 2019 and 2021, median pay grew faster for low-paid workers than for other groups. This was driven by two factors. Firstly, the cumulative 8.5 per cent NLW increase meant it increased faster than median pay for those aged 25 and over, which grew by 5.5 to 6.8 per cent. Hourly pay also grew faster than average for other low-paid workers above the NLW. This suggests the NLW had 'spillover' pay effects, where employers raised pay for non-NLW workers to keep their pay above the minimum rate or to maintain pay differentials.

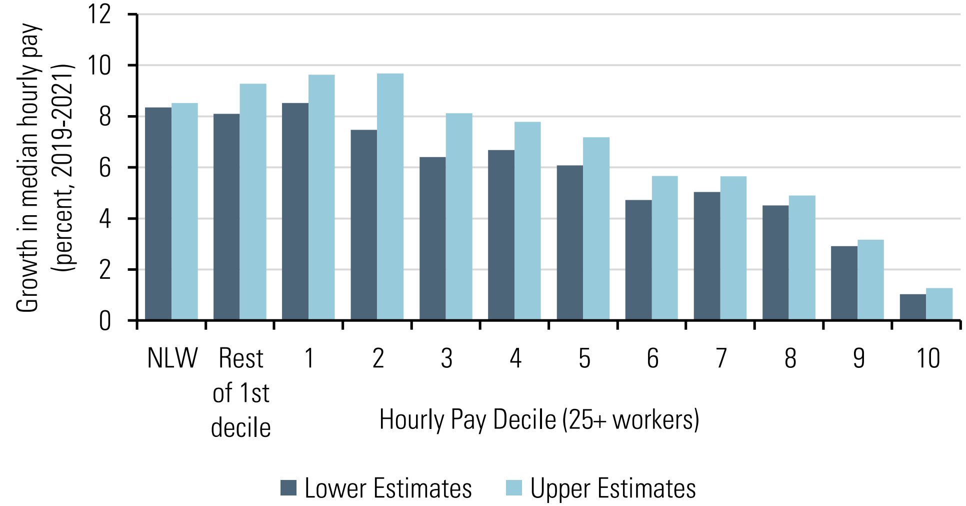
Secondly, median pay for the lower pay deciles could have been driven by changes in the composition of the workforce during the pandemic. Low-paid workers were more likely to leave employment during the pandemic. If these workers earn less than the average worker in their decile, their leaving employment will raise average pay. It is likely these effects are partially driving the strong pay growth in the first to third deciles.

Pay growth has also been stronger in regions where a larger percentage of workers are paid the National Living Wage.

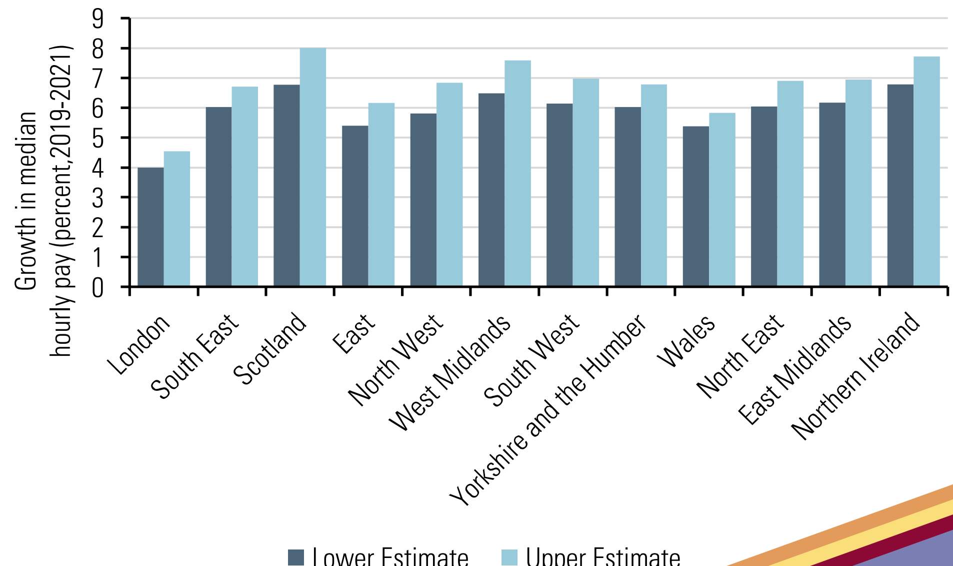
Northern Ireland, which has the highest percentage of workers paid the NLW, saw median pay grow by 6.8 to 7.7 per cent between April 2019 and April 2021. The above average pay increases for NLW workers are likely to be driving this.

London, which has the lowest percentage of workers paid the NLW, has had much slower pay growth. This is driven by two factors. First, the NLW rises have less effect on Londoner's pay. Secondly, the pandemic had particularly strong negative effects on London's labour market.

Growth in median hourly pay by decile, UK, 2019-21



Growth in median hourly pay by region/country, UK, 2019-21



National Living Wage coverage

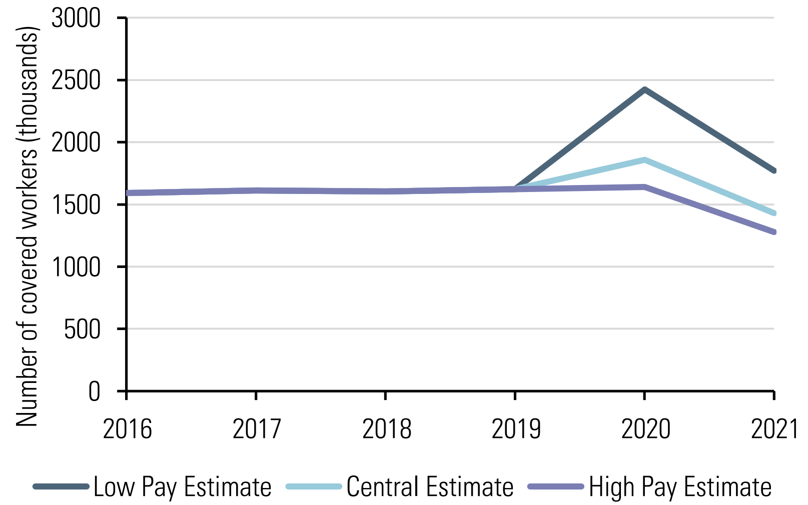
This year we have been able to update estimates of coverage – the number of people paid at or close to the minimum wage – which were impossible to make a year ago.

We were unable to measure coverage accurately in 2020 because so many workers were furloughed. In April 2020, 12.2 per cent of workers were furloughed with loss of pay, whereas in April 2021 it was just 5.7 per cent. Improvements to the 2021 ASHE make it easier to identify these workers and estimate their normal pay. There is still some uncertainty around this, so we present a range.

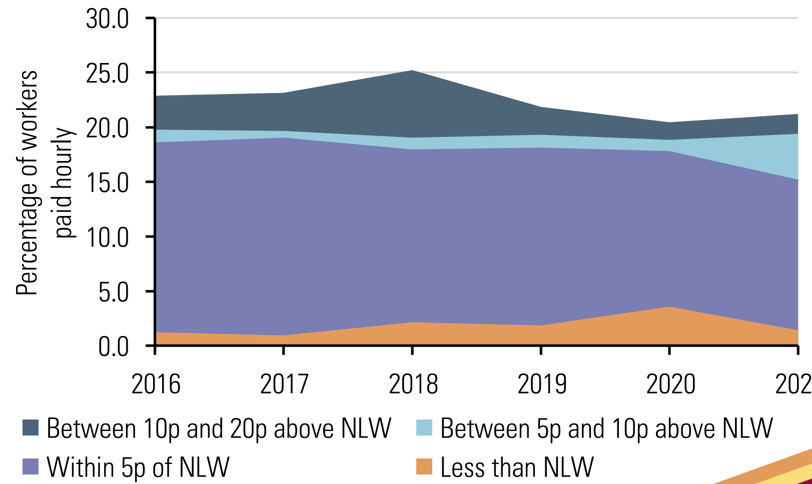
Before the pandemic, coverage for NLW workers (at the time, aged 25 or over) was consistently between 1.59 and 1.64m workers. We estimate NLW coverage in April 2021 (for all workers aged 23 and over, given the change in NLW age threshold) to be 1.42m workers, within a range of 1.26m and 1.77m (4.8% to 6.7% of employees). We estimate coverage for other age groups to be 275,000, within a range of 246,000 and 358,000. That compares with 335,000 in 2019, prior to the change in age threshold.

NLW coverage is lower than the normal range and lower than we would expect, given this was the first year in which 23 and 24 year olds became eligible for the NLW. There are at least two possible explanations. Firstly, employment levels were below pre-pandemic levels in April, when the ASHE took place. Since April, the economy has added just under 900,000 payrolled jobs, many of which are in low-paying sectors. Secondly, some employers appear to have rounded pay rates up to £9 per hour. This takes workers out of our NLW coverage estimate, defined as being paid within 5p of the rate. The light blue band in the lower figure shows the growth in 2021 of workers paid between 5p and 10p above the NLW.

Number of employees covered by National Living Wage, UK, 2016-21



Proportion of workers with stated hourly pay within 20p of the NLW, UK, 2016-21



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The path of the National Living Wage

Last year we encountered particular difficulties in estimating pay, as explained in last year's report. This year, we are better able to use ASHE to produce a path to the 2024 National Living Wage (NLW) target, as explained on page 10. However, there remains higher than normal uncertainty around wage growth.

Our path projection is made up of three components:

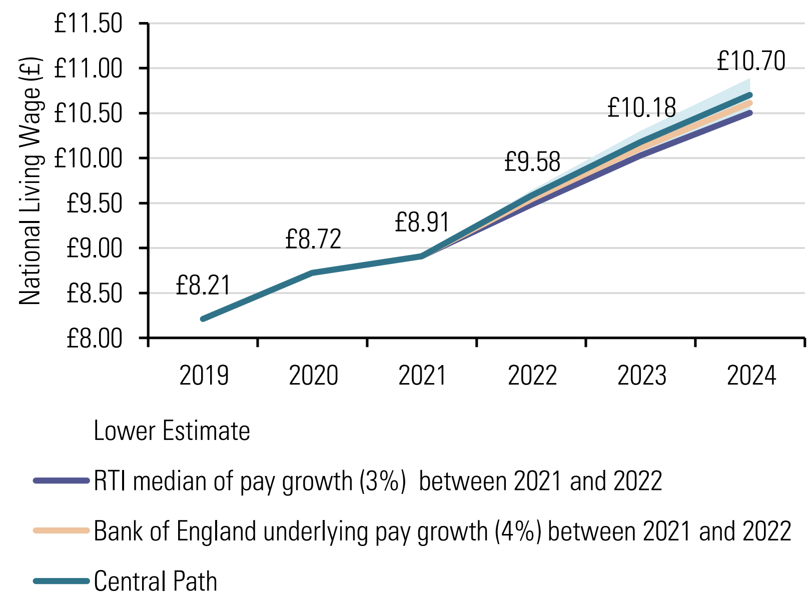
- The baseline is set by our central estimate of median hourly earnings (excluding overtime) for those aged 23 and over, from the 2021 ASHE.
- We then project wage growth from April 2021 to October 2021 using actual AWE wage growth and forecasts for 2021 from the HM Treasury panel and the Bank of England. This component presents greater uncertainty this year (see below)
- From October 2021, we use those same forecasts to project out to October 2024.

The October 2021 projection gives us our estimated bite of the current NLW (£8.91) – 60.1%. We then project an even bite path out to the 2024 target of two thirds of median wages (taking account that the NLW age threshold will change to 21 by then).

Our central projections suggest the NLW would need to be £9.58 in 2022 and £10.70 in 2024 to reach two-thirds of median wages. The figure opposite shows our central path and two alternative paths based on different wage growth figures. The shaded area shows our normal range for path estimates, which reflect the typical level of error in wage growth forecasts.

We recommended a lower rate (£9.50) than our central path (£9.58) for April 2022. This is for several reasons. Wage growth measures between 2021 and 2022 likely overstate underlying wage growth due to the composition and base effects discussed on page 8. Alternative estimates of wage growth which account for these effects put us on a lower path (see the bottom two rows of the table opposite). Also, our central estimates create a very front-loaded path, with a larger increase required in 2022 than in 2023 or 2024. We do not believe this is the right approach in the current economic circumstances. While there are many positives in the current data, inter-related issues affecting global supply chains, rising input costs and staff availability present some near-term risks.

Indicative NLW path forecasts, 2019-2024



	2020	2021	2022	2023	2024
Assumed Eligibility	25+	23+	23+	23+	21+
Central Path	£8.72	£8.91	£9.58	£10.18	£10.70
RTI median of pay growth (3%) in 21/22	£8.72	£8.91	£9.48	£10.03	£10.50
Bank of England underlying pay growth (4%) in 21/22	£8.72	£8.91	£9.54	£10.11	£10.61

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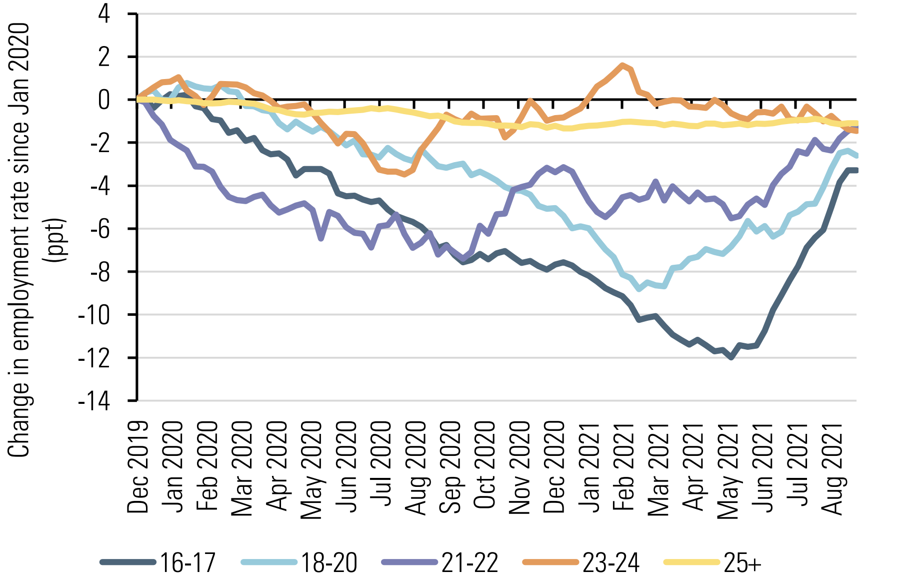
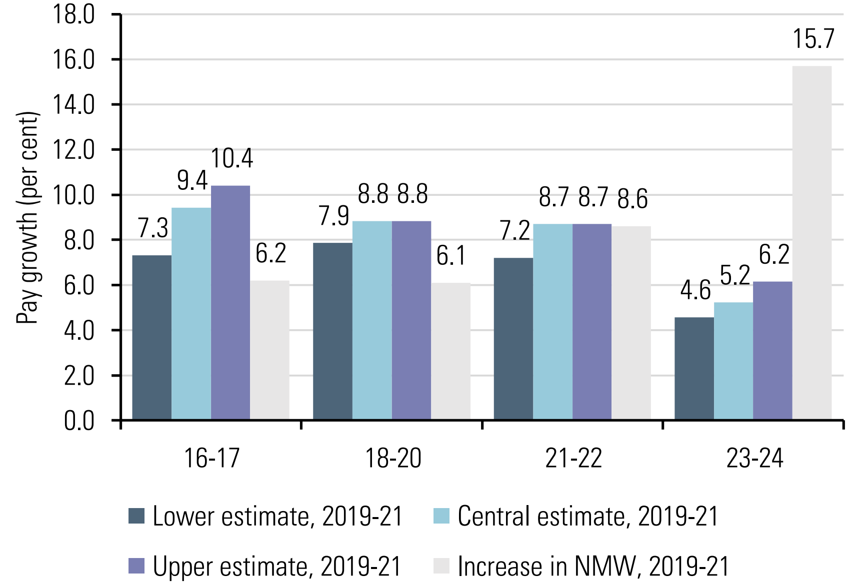
The labour market for young people

Change in employment rates of young people by age since January 2020, weekly data, UK



Growth in median pay and in the minimum wage rate by age, UK, 2019-21



Last year the picture for young workers was bleak. They overwhelmingly worked in the sectors affected by lockdowns, were more likely to have been furloughed and lost pay as a result. The situation now is very different.

Younger workers have been the fastest to move off the furlough scheme, and at the same time, recovery in employment and hours has been strong, suggesting young workers have been able to find job opportunities or return to their old jobs. But some groups are more likely to have lagged behind: certain occupations (leisure, retail, hair and beauty) and certain demographics (school-age workers, and male workers). Overall, those aged 21 and over have employment rates just below their pre-pandemic levels, but those aged 16-20 have further ground to catch up.

Job losses at the lower end of the pay distribution led to strong growth in median hourly pay due to compositional effects. Pay growth for 23-24 year olds was weaker as fewer lost their job and so these effects were lower. While their wage floor increased sharply, as they became eligible for the NLW, many were already paid above it, reducing its effect.

As well as strong pay growth, there is evidence of increased use of the youth rates among 16-20 year olds. Some employer groups told us there had been an increase in use of the youth rates during the pandemic, with these rates helping employers to protect and create jobs during a time of crisis.

But over the summer, labour shortages in key sectors like hospitality could have given young people more bargaining power. Overall, their outlook is relatively strong.

The National Living Wage age threshold

This year, the age of entitlement to the NLW came down from 25 to 23. This threshold is set to be reduced to 21 by 2024 at the latest. This follows recommendations made in [our review of the youth rates](#).

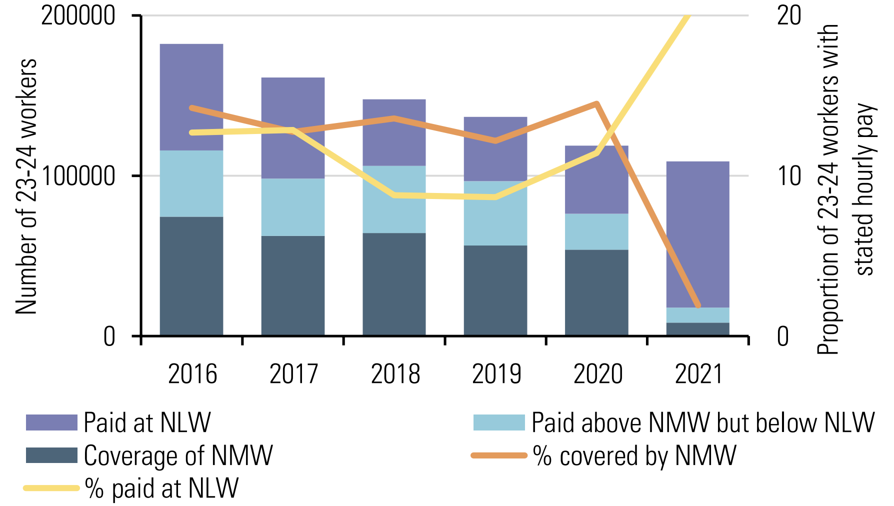
These recommendations were based on a series of arguments:

1. use of the NMW among the affected age group was low;
2. the change would result in reasonable bite levels;
3. the labour market treated 21-24 year olds similarly to 25 year olds;
4. stakeholders supported the change;
5. there had been no significant negative impacts when the eligibility age was last lowered in 2010;
6. the decreasing size of the 21-24 population should help to protect that group;
7. high employment and a tightening labour market were likely to offer protection to young workers.

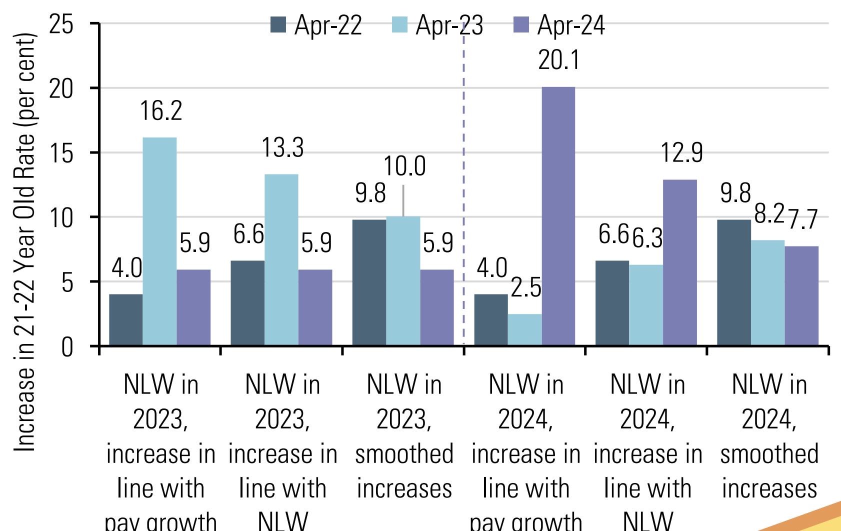
So far, the change in age threshold seems to have gone smoothly. We estimate that an additional 50,000 workers aged 23-24 are paid the NLW, where previously they would have been paid the 21-24 Year Old Rate. We have not seen a spike in underpayment or unemployment among this group. A full evaluation of this change will be possible in next year's report.

The intention is to move 21-22 year olds onto the NLW by 2024 and the majority of stakeholders continue to tell us that this is the right move. We have seen that use of both the NMW and NLW has fallen for this age group. Their employment rates have also recovered rapidly over the summer such that they are now just below pre-pandemic levels. To avoid a large step change in the year they become eligible, we judge it sensible to reduce the gap between the 21-22 Year Old Rate and the NLW next year. The bottom chart shows the options available to 2024. Increases in line with the NLW or pay growth would require a substantial jump in the year that 21-22 year olds become eligible. Each 'smoothed increases' option is based on our 9.8% recommendation for 2022, and avoids this large increase.

Coverage of NMW and NLW for 23-24 year olds using stated hourly pay, UK, 2016-2021



Options for increases in 21-22 Year Old Rate, 2022-24



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Apprentices

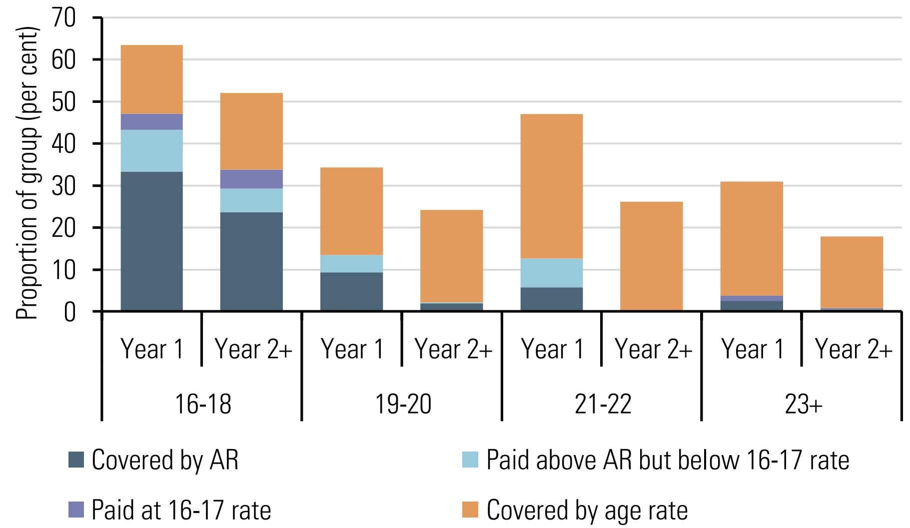
In our 2020 Report, we concluded a review of the Apprentice Rate by proposing to align the rate with the 16-17 Year Old Rate over two years. Our task this year was to assess whether such an increase was appropriate, given the state of the labour market for apprentices.

We have two sources of data on apprentice pay: the usual ASHE and the new Apprenticeship Evaluation Survey (AEvS). There are caveats over both sources: we believe ASHE undercounts apprentices, while the AEvS is not primarily a pay survey and relies on apprentices reporting their own pay levels.

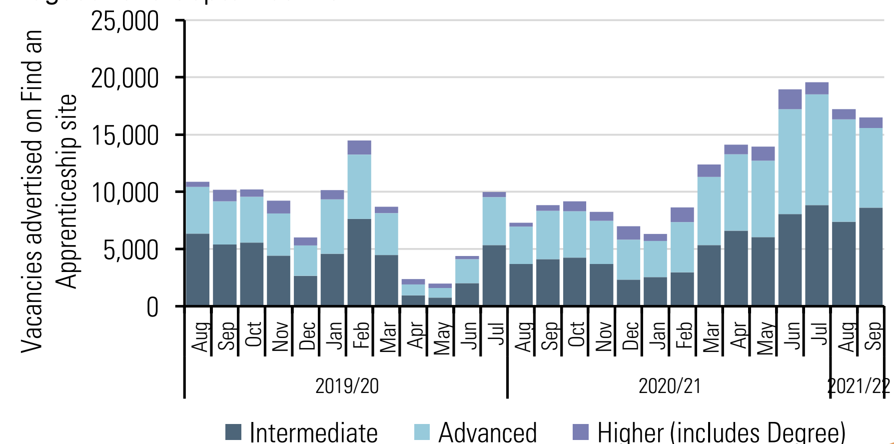
Nevertheless, the picture of minimum wage coverage among apprentices is a familiar one, with just under 30 per cent of 16-18 year old apprentices paid the Apprentice Rate, and a slightly higher proportion paid less than the 16-17 Year Old Rate. This is the group who will be primarily affected by alignment of the rate; far fewer older apprentices are affected. Our full 2021 Report will set out comprehensive analysis of pay data from both ASHE and the AEvS.

Apprenticeship starts have continued to be subdued over the past year – particularly for the under-19 age group – with the key autumn 2020 period overshadowed by the pandemic. Vacancies, however, have picked up in recent months. The great majority of stakeholder evidence continued to tell us that the proposed alignment of the rates was the right thing to do and would be manageable for businesses.

Proportion of apprentices covered by NMW rates, by age, UK, 2021



Vacancies advertised on Find an Apprenticeship service, England, August 2019-September 2021



Stakeholder evidence

Despite still not being able to hold in-person visits around the UK, we continued to hear evidence throughout the year from employers and workers about the continued effects of the pandemic and impact of the National Minimum Wage.

Views on the National Living Wage

We heard diverging views on the 2022 NLW rate and 2024 target.

- Most businesses and employer representatives asked for a cautious increase (in line with inflation or similar to the 2021 uprating). Arguments for caution centred on the hit to low-paying sectors during lockdown, as well as uncertainty over the pace of the post-pandemic recovery.
- Workers' representatives supported a return to the on-course NLW rate as a minimum acceptable step. They argued the 2021 increase was too conservative and failed to protect low-paid workers' incomes at a time when the rest of the economy was recovering. Trade unions continued to argue for a minimum wage of £10 per hour or more for all workers as soon as possible.
- Some employer groups argued for a delay to the 2024 target to allow for greater focus on recovery and future planning.

What we heard from workers

Insecurity was a central theme of the evidence from workers this year – in some cases exacerbated by the pandemic, in others merely a continuation of issues which had pre-existed Covid.

- Workers in several low-paying sectors told us about uncertainty over hours, unpredictable working patterns and the challenges of living on a fluctuating income. Insecure employment was strongly associated with in-work poverty. In some cases, concerns over benefits or childcare costs prevented people from seeking additional hours.
- We heard from furloughed workers about lost income (and surviving for an extended period on less than the minimum wage), incorrect payments, and anxiety over retaining their jobs. Some workers worried about being forced onto inferior terms and conditions.
- Workers told us about the rising cost of living and the NLW's failure to keep pace with it. Unions argued the cost of living should be a key concern for the LPC in its recommendations.

What we heard from employers

Employers told us about the difficulty of surviving repeated enforced closures and the challenges they faced reopening their businesses.

- Many employers – particularly in sectors closed during lockdowns – expected a multi-year recovery as demand returned to normal. Many had taken on debt and were anxious about the withdrawal of Government support measures.
- The tight labour market was a huge concern across almost all sectors, leaving businesses struggling to recruit and retain staff.
- In surveys, lower profits and price increases remained among the most common responses to the rising NLW. Maintaining differentials for those paid above the NLW was a particular source of concern, with narrowing differentials felt to lower staff morale and harm progression.

Prospects for the economy

At the time of our recommendations, forecasts for GDP growth were relatively strong, and output was expected to return to its pre-Covid levels by the end of 2021. The OECD and the IMF forecast the UK economy would grow by just under 7 per cent in 2021 and around 5 per cent in 2022. The Bank of England's projections also show similar rates of recovery despite the emergence of supply constraints and a slowdown in global activity.

The pandemic has led to record levels of savings, as lower consumption was paired with Government schemes that largely protected incomes. Cumulative excess savings since February 2020 were estimated at around £185bn, or 9 per cent of 2020 GDP. Consumer confidence increased following the gradual ending of lockdowns in the spring, although supply constraints over the summer had seen levels fall back slightly.

CPI inflation was projected to rise to 4 per cent by the end of 2024, driven by energy and goods prices, and remain at that elevated level in the first half of 2022. However, these pressures were still considered transitory by the Bank and others, with inflation expected to fall back gradually towards the 2 per cent target over the second half of 2022.

Despite the withdrawal of the CJRS, projections for unemployment were stable at between 4 and 5 per cent, considerably below the projected level a year earlier.

Pay awards looked set to pick up in 2022, but expectations were still centred in a range of 2-3 per cent, with earnings forecasts in a similar range.

Business confidence, having plummeted at the onset of the pandemic, had picked up over the course of 2021 as economies around the world re-opened and restrictions in the UK gradually lifted.

However, much of the support for businesses to cope with the pandemic is being withdrawn over the next six months. The CJRS ended and the lower VAT rate in hospitality ended at the end of September. Other support including business rates relief and protection from eviction will be phased out by March. In addition, National Insurance will increase to support the NHS and social care from April 2022. Businesses, particularly small ones, have taken on large amounts of debt during the pandemic and these will need to be repaid.

Overall, the outlook for 2022 appeared much brighter than the outlook at the time of our 2021 recommendations. However, risks to the downside were noted with uncertainty around the pandemic and our trading relationship with the EU still heightened.

Forecasts for GDP, CPI inflation and wage growth, 2021 and 2022

	GDP growth (%)		CPI price inflation (%)		Average wage growth (%)	
	2021	2022	2021	2022	2021	2022
Bank of England (August 2021)	7.3	6.0	4.0	2.5	2.3	1.8
HM Treasury panel (October 2021)						
Median	7.0	5.1	3.7	2.3	5.1	3.2
Mean	7.0	5.2	3.4	2.6	4.7	3.5
Interquartile range	0.3	1.0	1.5	1.0	1.0	1.5
Lower quartile	6.8	4.8	2.6	2.0	4.5	2.7
Upper quartile	7.1	5.8	4.0	3.0	5.4	4.2

Live-in domestic workers

In this year's remit, the Government asked us to 'gather evidence on the application of the live-in domestic worker exemption to minimum wage entitlement… to present findings on which sectors make use of the exemption, how often is it used and the impact of this on the labour market, with a special focus on equalities impacts.'

Having gathered evidence on the exemption, our conclusion is that it is not fit for purpose. We recommend that the Government should remove the exemption from the NMW regulations, and that live-in workers should be paid the minimum wage as is the case for other workers.

What is the live-in domestic worker exemption?

NMW regulations state that workers do not need to be paid the minimum wage if they live with their employer and are treated as part of the family. The exemption was originally introduced to facilitate au pair programmes, (allowing young people to visit the UK on cultural exchange while learning English). However, there is extensive evidence that since its introduction, the exemption has created a loophole for exploitation of migrant domestic workers. The loophole arises because the law doesn't define the differences between au pairs and migrant domestic workers, and it is hard to prove that someone is not 'treated as a family member'.

How did we approach this work?

We have held evidence sessions with a range of groups representing domestic workers and au pair agencies, as well as speaking to domestic workers and au pairs themselves. In addition, we have sought evidence on whether this exemption might be used and applied in other sectors.

What evidence did we hear on the exemption?

We heard that the group that the exemption was intended to apply to has significantly reduced in scale. Due to immigration changes there is no longer a route for most au pairs to legally enter the country. The industry as a whole is largely unregulated, and many au pairs are treated as cheap labour with no cultural exchange. Some of these are undocumented workers from countries such as Brazil and the Philippines. We heard that workers who have the right to work prefer to seek better paid jobs in nannying or hospitality rather than in au pairing.

Meanwhile, the exemption provides a loophole for exploitation of some migrant domestic workers. Domestic workers are often highly vulnerable migrant women, hidden in private homes without access to their own networks and with language barriers. We have heard several first-hand stories of exploitation. In some cases they may be given a contract that says they will be paid the NMW but then they work longer hours without additional pay, and we have also heard of instances of more serious abuse including physical abuse and being prevented from leaving the house.

Previous concerns about the exemption resulted in changes to the visa regime, but we heard that these had not been sufficient to prevent exploitation. While the terms of the overseas domestic worker visa require employers to state that they will pay the NMW and not use the exemption, this is not stated in the NMW regulations, and so it is not unlawful for these employers to rely on the exemption if they are taken to tribunal. The exemption puts the onus on vulnerable women to prove that they have not been treated as part of the family in order to defend their entitlement to fair pay.

Low-paid workers with protected characteristics – context

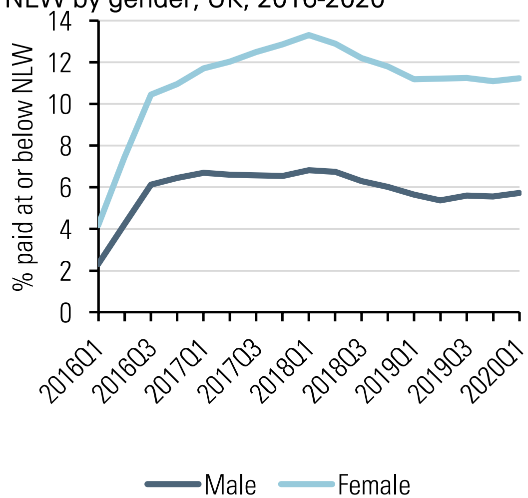
Our remit this year asked us ‘to gather particular evidence on groups of low paid workers with protected characteristics’, including ‘younger, older, disabled, and women workers, and workers of ethnic minorities’. We have restricted our analysis to the pre-2020 period as in more recent data it is not possible to differentiate minimum wage effects from the wider impact of the pandemic.

We know that minimum wage coverage is consistently higher for certain groups, in large part because they are more likely to work in low-paying occupations. This is the case for some nationalities and ethnic groups; for disabled workers; and for women. The charts below show how these differences in coverage have evolved over the NLW period. As with the wider population, coverage increased when the NLW was introduced in 2016. Although since then there has been a narrowing of the gap in coverage for certain groups, there remain considerable disparities.

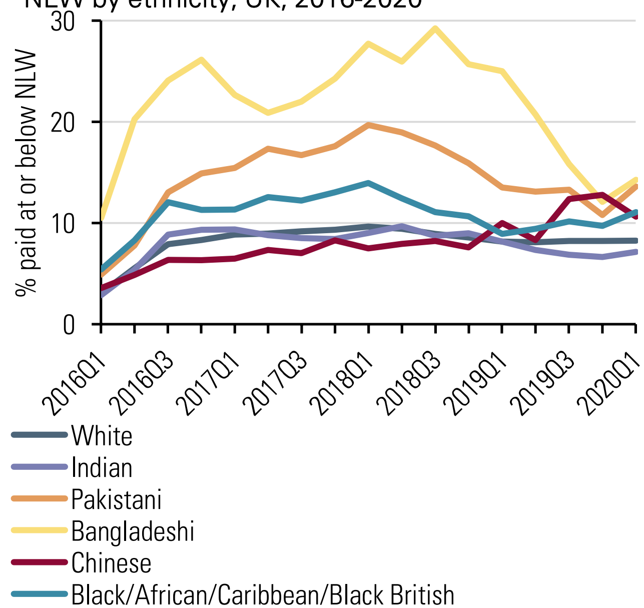
These groups also have persistently lower employment rates than the general population. The overall labour market was strong from 2016-2020, and employment for many groups grew faster than the average; women’s employment rates grew faster than men’s, for example, those of BAME workers faster than their white counterparts, those of disabled workers faster than non-disabled workers.

However, because of their greater concentration in low-paying sectors, these groups will also have been more exposed to the pandemic and be more likely to have seen their hours of work fall over the past eighteen months.

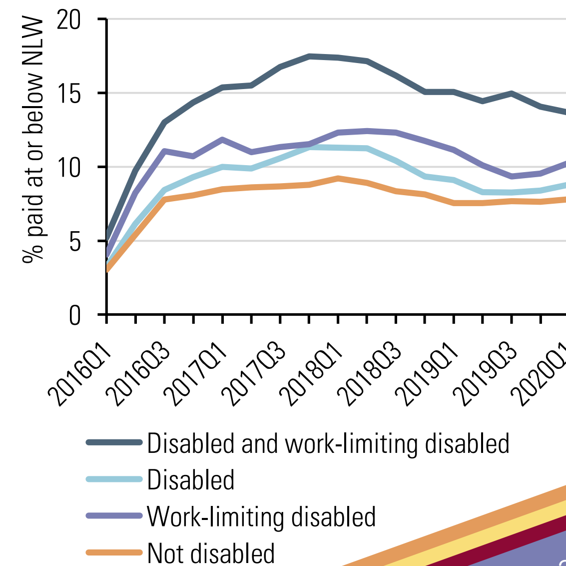
Proportion of workforce paid at or below the NLW by gender, UK, 2016-2020



Proportion of workforce paid at or below the NLW by ethnicity, UK, 2016-2020



Proportion of workforce paid at or below the NLW by disability status, UK, 2016-2020



Low-paid workers with protected characteristics – findings

Stakeholder views

We received a range of responses to this year's consultation, considering the NLW's impact on groups with protected characteristics. One prominent theme was the over-representation of these groups in low-paying occupations. Respondents picked out several sectors, including adult social care, where the United Kingdom Home Care Association told us around 84 per cent of homecare workers are female. The National Hair and Beauty Federation provided data showing 88 per cent of their sector's workforce and 83 per cent of business-owners were women. Respondents noted the importance of the NLW in supporting wages for these groups.

Other responses noted the persistence of pay gaps despite minimum wage increases, and links to wider disadvantage which in some cases had been exacerbated by the pandemic. Unite recognised "the positive role of the level of the NMW in addressing pay inequality gaps" but remained concerned about "the discrimination and lack of progression of BAME workers," who were "on average more likely to be trapped in temporary, low paid and insecure work than their White counterparts". Usdaw shared survey results showing black workers were significantly more likely to be worried about paying monthly bills and future job security.

The Women's Budget Group noted that women were more likely to be in insecure work and that limited opportunities to work longer hours contributed to in-work poverty. Pre-pandemic, women made up 74 per cent of all part-time workers) and there were twice as many women as men in the bottom 10 per cent of earners.

Research findings

We have commissioned research this year to look in greater depth at outcomes for workers with protected characteristics and the effects of the rising minimum wage on them. In particular, we are interested in any impacts on employment retention (*did the rising NLW change how likely individuals were to remain in work*); and on progression (*did the NLW affect their chances of moving into better-paid roles*). Researchers have considered these questions through the prism of ethnicity, disability and gender, and the intersections between these categories.

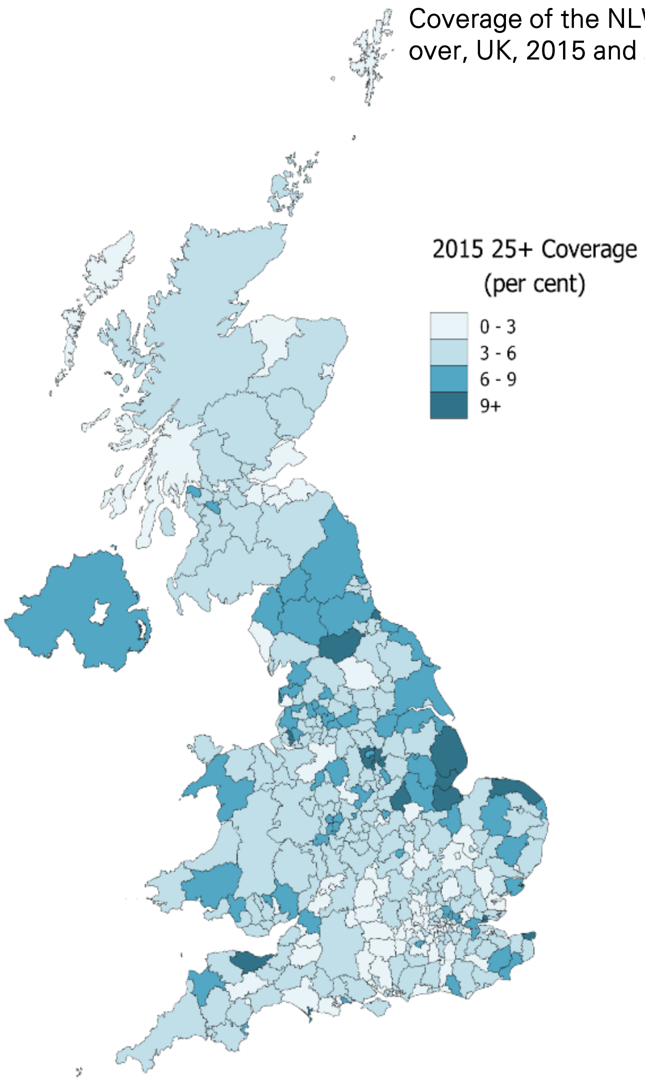
We will publish full research findings later in the year. Initial findings suggest no evidence of any fall in employment retention associated with the NLW. Another part of the study examined the effects of variations in minimum wage levels on a single large firm employing individuals across the UK, using data on the firm's staff to examine the impact by ethnicity and gender. This study found that higher minimum wages helped reduce the BAME pay gap within the firm. This is consistent with separate research published earlier this year which found that the introduction of and increases to the NLW had served to further reduce the ethnic wage gap (Clark, Ken and Nolan, Steve, The Changing Distribution of the Male Ethnic Wage Gap in Great Britain. IZA Discussion Paper No. 14276).

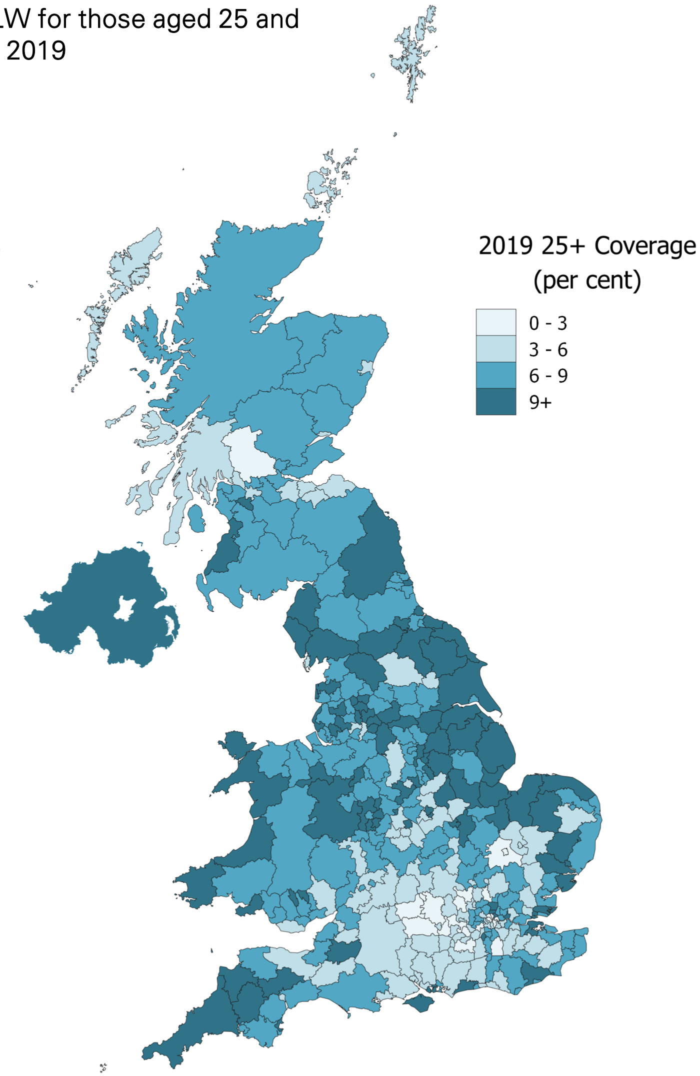
The impact of the NLW across the UK

Our remit this year also asked us 'to gather evidence on the differing impact across the United Kingdom of increases to the minimum wage rates, to improve understanding of what part low-paid work plays in outcomes in different parts of the United Kingdom'. To answer this question we use pre-pandemic evidence, and will address it in more detail in a forthcoming review of the NLW.

When the NLW was introduced in 2016, coverage expanded significantly from under one million to over 1.6 million workers aged 25 and above. The maps here show that increase was concentrated in rural and coastal areas, particularly the east coast of England, but also the west coast of Wales and south west England.

Coverage of the NLW for those aged 25 and over, UK, 2015 and 2019



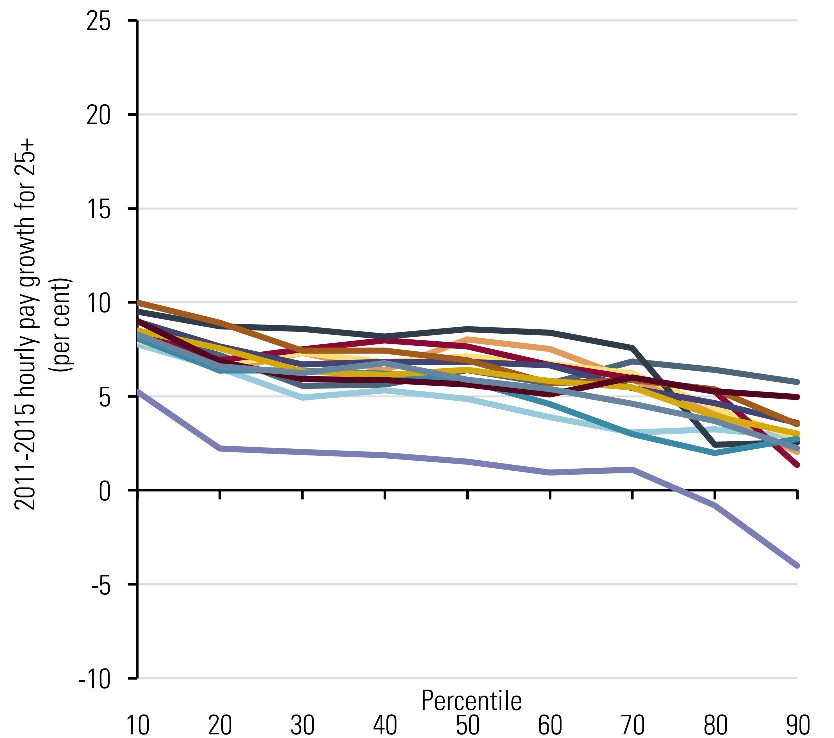


The impact of the NLW across the UK

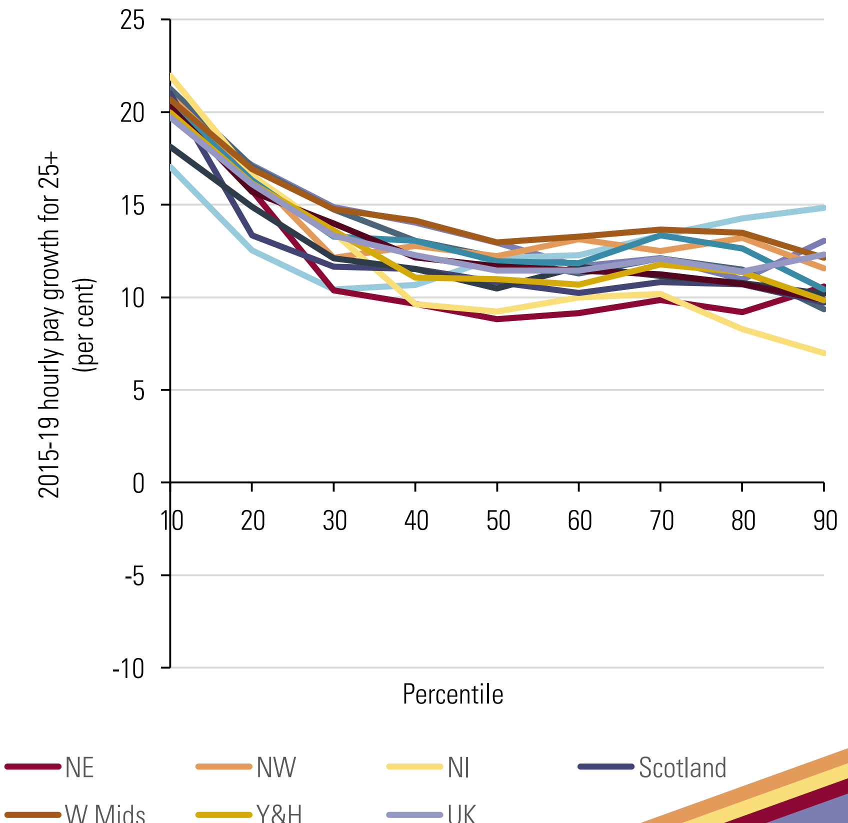
In the four years up to 2015, pay grew much more slowly for all workers and while lower-paid workers saw larger increases than the average, the difference was smaller. However, it is worth remembering the UK economy was recovering from the financial crisis in the four years from 2011. Pay growth was much lower overall and the state of the labour market meant that minimum wage increases were relatively low.

Over the four years after the NLW was introduced, the hourly pay of the lowest-paid workers rose faster than the average in each and every nation and region of the UK. This includes high-paying regions like London and the South East. This means that both within and across each region, hourly pay inequality reduced over the period of the NLW.

Hourly pay growth by decile for region and country of the UK, 2011-15



Hourly pay growth by decile for region and country of the UK, 2015-19



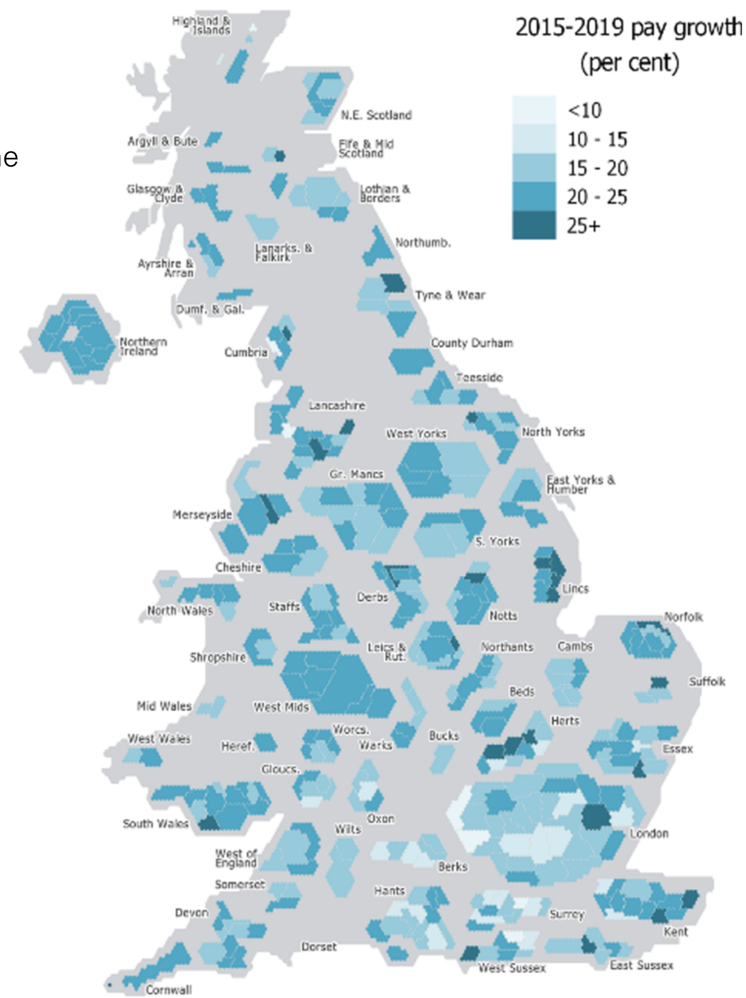
The impact of the NLW across the UK

Pay varies from place to place, but the minimum wage does not, so when the NLW was introduced it pushed up pay more in some areas than in others. Workers in parts of the country where pay is the lowest (the 10th percentile earned around £6.50 in 2015) saw their pay rise by over 25 per cent, more than twice the average increase.

This relationship is shown on the scatter chart below and those areas with the highest growth can also be seen on the map. This varying impact, with the lowest-paid workers in the lowest-paid areas seeing the largest increase, meant that pay inequality between different parts of the country decreased. The map again shows that even in parts of London and the South East low-paid workers have seen substantial increases.

Hourly pay growth between 2015 and 2019 at the lowest decile by hourly pay at the lowest decile for each local authority, UK

Map of hourly pay growth between 2015 and 2019 at the lowest decile for each local authority, UK

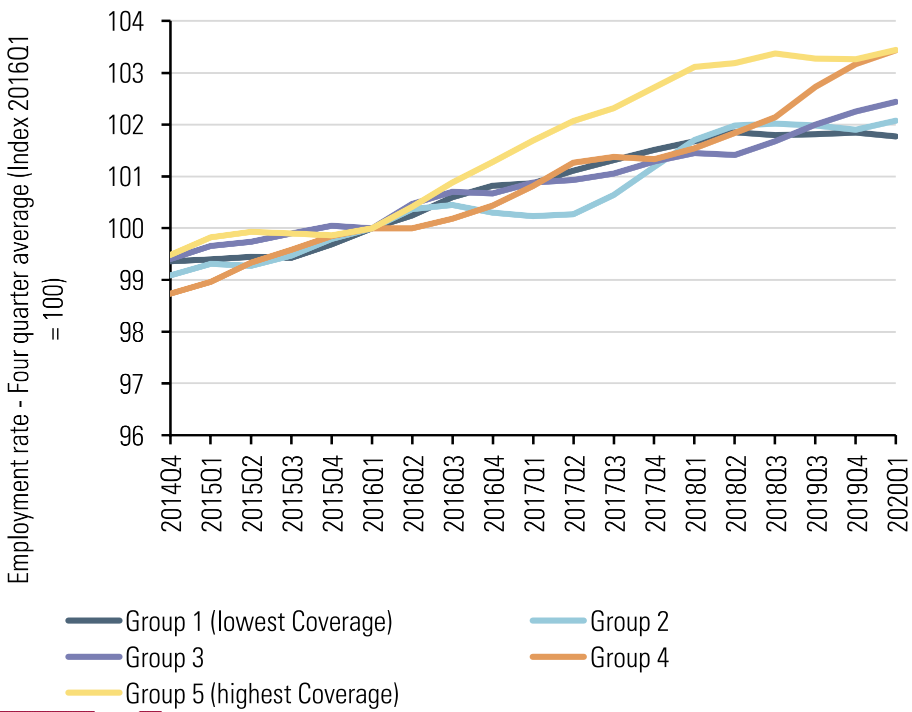


The impact of the NLW across the UK: employment

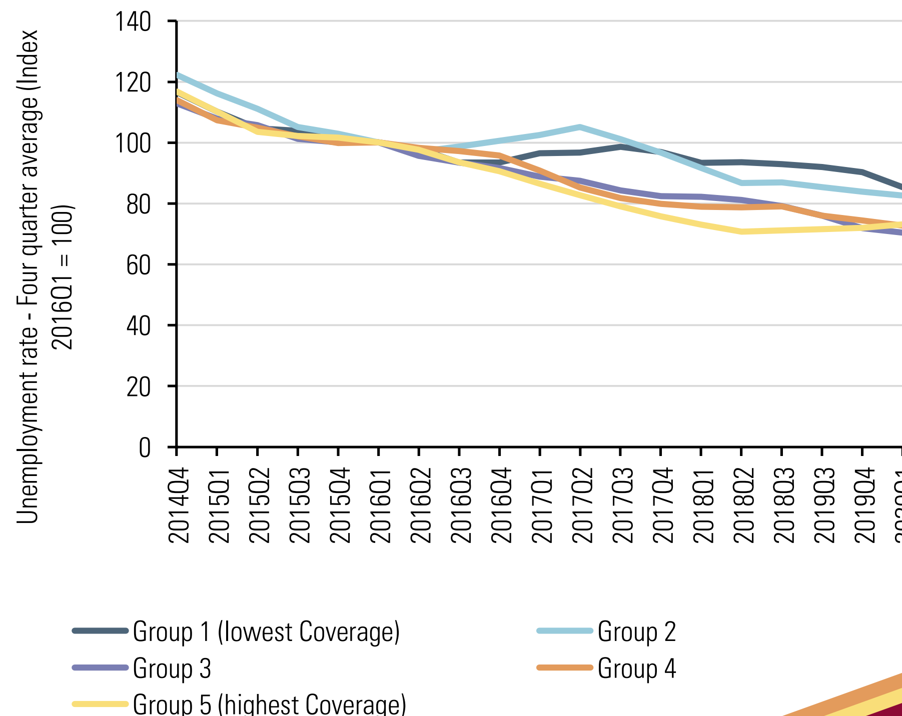
We have used geographic variation to explore the impact of the NLW on employment. Our analysis suggests that areas where more people are on the NLW have had stronger employment growth than other areas. We compared changes in the employment rate and unemployment rates across different local authorities since the NLW was introduced. We put local authorities into five groups based on the percentage of workers paid the minimum wage in each area.

Since the introduction of the NLW, employment grew fastest for those areas with higher minimum wage coverage; and unemployment declined most for the three groups of authorities with highest coverage. This suggests the NLW has not reduced employment, although this analysis can not rule out other factors that are correlated with coverage driving the higher growth in employment in high coverage areas. We have also commissioned multiple formal econometric analysis of the impact of the NLW on employment, as well as carrying out our own. These studies exploit geographic variation in pay and to date are yet to find strong and consistent effects on employment.

Employment rate by local authority coverage group, UK, 2014-2020



Unemployment rate by local authority coverage group, UK, 2014-2020



References

Any enquiries regarding this publication should be sent to us at: lpc@lowpay.gov.uk.

References (all chart sources are listed in the order they appear on the page i.e. left to right and/or top to bottom)

Page 4: LPC estimates using ONS data (ECY2) on real monthly gross domestic product (GDP), UK, February 2019-August 2021.

LPC estimates using OECD data (VIXOBSA), gross domestic product expenditure approach volume index (2015=100), quarterly, seasonally adjusted, selected OECD countries, 2019 Q4-2021 Q2.

Page 5: LPC analysis of Bank of England total loan amounts outstanding by size of business, not seasonally adjusted, September 2021.

LPC analysis of ONS Business Impact of Coronavirus Survey (BICS) up to Wave 39 data.

Page 6: LPC analysis of HMRC RTI data to September 2021 and LFS data to August 2021.

ONS single month vacancy estimates (X06) and UK vacancy count from The Adzuna API, www.adzuna.co.uk

Page 7: LPC analysis of HMRC NUTS3 level RTI data to September 2021.

Page 8: LPC estimates based on data from ONS and HMRC. RTI median of pay growth (Table 27 of Earnings and employment from Pay As You Earn (PAYE) Real Time Information (RTI), seasonally adjusted), RTI growth of median pay (Table 1 of Earnings and employment from Pay As You Earn (PAYE) Real Time Information (RTI), seasonally adjusted), AWE total pay growth (KAC2) (month on same month a year ago) and 24-month average two year AWE total pay growth (derived using KAB9 and annualised). LPC analysis using Indeed median hourly wages in low-paying occupations

Page 9: LPC analysis of HMRC CJRS data to end of August 2021, Insolvency Service HR1 notifications to September 2021, ONS redundancy data to August 2021 and ONS BICS up to Wave 40 redundancy intentions data.

Page 10: LPC analysis of ASHE, standard weights. Note: Upper estimates adjust pay for furloughed workers with loss of pay by factor of 1.25. Lower estimates leave pay unadjusted for furloughed workers with loss of pay. Central pay estimates use additional questions in ASHE 2021 to get more precise estimates of usual pay for furloughed workers. Includes all furloughed workers, excludes first year apprentices.

Page 11: LPC analysis of ASHE, standard weights 2019 and 2021. Data exclude first year apprentices and include all furloughed workers. Pay estimates explained in reference for page 10.

Page 12: LPC analysis of ASHE, low pay weights including furloughed workers. Data exclude first year apprentices and include all furloughed workers. Pay estimates explained in reference for page 10. Second figure only includes workers paid hourly. A higher percentage of workers are paid the NLW in this group than the wider population.

Page 13: LPC estimates using ASHE 2021, standard weights, including furloughed workers, with pay adjusted using furlough information, AWE total pay (KAB9) and HM Treasury Forecasts for the UK economy (August and October 2021) and Bank of England Monetary Policy Report (August 2021). Upper and lower estimates are derived from assuming wage growth is ±0.5 percentage points higher or lower. Alternative wage growth for 2021/22 uses RTI median of pay growth (see reference in Page 8) and private sector underlying pay growth from Bank of England Monetary Policy Committee minutes 23 September 2021.

Page 14: LPC analysis using LFS, weekly data, quarterly rolling average, and LPC analysis of ASHE, standard weights 2019 and 2021. Note: Upper and lower estimates are as above, central estimates adjust pay for furloughed workers based on additional furlough questions in ASHE 2021. Data exclude first year apprentices.

Page 15: LPC analysis of ASHE, stated hourly pay, low pay weights, excluding salaried workers, 2021, and LPC analysis of wage growth using ASHE 2021, AWE and HMT panel of forecasts.

Page 16: LPC analysis of ASHE, low-pay weights, including furloughed apprentices, 2021. DfE statistics, Apprenticeship vacancies reported on the FAA website to September 2021.

Page 18: Source: HM Treasury Forecasts for the UK economy (October 2021) and Bank of England Monetary Policy Report (August 2021). Median and quartiles derived from forecasts made in the last three months.

Page 20: LPC analysis using LFS microdata, imputed hourly pay, 4 quarter rolling average, 2016-2020, UK.

Page 22: LPC analysis of ASHE, low pay weights, 2015 and 2019.

Page 23: LPC analysis of ASHE, standard weights, 2011, 2015 and 2019.

Page 24: LPC analysis of ASHE, standard weights, 2015 and 2019.

Page 25: LPC analysis using LFS microdata and ASHE, population weights, not seasonally adjusted, four quarter rolling average, UK Q1 2014-2020 Note: based on place of residence.