Unite Submission to

The Low Pay Commission Consultation on Increasing the Minimum Wage

June 2022

This has been submitted on behalf of Unite the Union
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Introduction

Unite remains very concerned about the rate of low pay in the UK. We know lower earners were three times as likely to have lost their job or been furloughed as high earners and are more than twice as likely to do jobs exposing them to health risks[1]. In our last year's submission to the LPC Unite highlighted the poverty levels being experienced by low paid workers who struggled through the pandemic, many with 10% less of their wages and many more reliant on Universal credit or in work benefits[2], their struggles have been further compounded by the cost of living crisis. And so for this year's submission Unite commissioned independent research from Landman Economics to look at the economic impact of a bolder increase of the NMW/NLW.

The report from Landman Economics (appended to this submission) includes an analysis of the economic impact of the introduction of a £15 per hour NMW/NLW using the data from the UK Family Resources Survey [FRS] to identify the numbers of people in the UK who would be directly affected by an increase in the current rates of the NMW and their characteristics. This latest Landman Economics report analyses three years of FRS data (2017/18, 2018/19 and 2019/20) pooled together; this enables detailed analysis of the impact of increasing the NMW according to gender, ethnicity, industrial sector, migrant workers and temporary jobs.

The report from Landman Economics finds that a £15 per hour increase to NMW/NLW as soon as possible would be distributionally progressive without impacting on jobs and the wider economy. Furthermore, this increase would significantly benefit women, BAEM, young and migrant workers as well as those in temporary jobs where it would have a greater distributional impact across these households. Increasing the earning potential of these people would enable them to save more and invest money in training and progression which in turn would allow them greater competitiveness in the labour market.

[1] Resolution Foundation: ***A new settlement for the low paid;*** *Beyond the minimum wage to dignity and respect. 2020. Link:* https://www.resolutionfoundation.org/publications/a-new-settlement-for-the-low-paid/

[2] Unite Submission to the LPC 2021

Executive Summary and key points

Unite continues to support of the Low Pay Commission's role in advising the Government on the rate of the National Minimum Wage/National Living Wage. In addition to submitting this written response, Unite has supported the LPC's evidence gathering sessions through organising workers in typically low paying sectors to participate in virtual evidence sessions with Low Pay Commissioners.

Unite raises the following priorities as vital to addressing low pay:

- **Increasing the minimum wage:** The COVID-19 pandemic exposed wage inequality and its impact on the wider economy, society and public health. The lowest paid workers have been more likely to have been made redundant, had their hours reduced, missed out on government support during the pandemic and when furloughed they were more likely to have received 80% of their wages[3]. Since 2018 Unite has been calling for the NMW/NLW rate to be set at £10 per hour as soon as possible. This rate was supported by research conducted by Landman Economics at the time which found the rate would positively impact the economy and would result in increased employment and productivity for low paid workers and would have greater distributional impact in households with women and BAEM workers, increasing their earning potential allowing for greater competitiveness in the labour market. This year Unite commissioned another report from Landman Economics (appended to this submission) to ask if it would be economically viable under the current economic circumstances to raise the NMW/NLW to £13 or £15 per hour. The findings of this year's report supports a £15 per hour rate of NMW/NLW as soon as possible, and at least an immediate increase to £13 per hour without loss of jobs and an increase to the Treasury through increased income tax and National Insurance Contributions receipts, increased receipts from expenditure tax (due to higher consumer spending by workers with higher net wages) and lower Universal Credit spending. Based on this, as well feedback from our members and a range of stakeholders, this year Unite is calling for £15 per hour as soon as possible. Unite maintains that low paid workers, many of whom were working in critical roles during the pandemic, should **not** suffer the burden of this crisis.

- **Closing the gender pay and pension gap:** Unite recognises that more women are in employment than ever before, but is also aware that women (as well as BAEM and disabled workers) are more likely to be trapped in lower paid work and to suffer unequal pay gaps, poverty and income loss from austerity. It is commonly cited that women 'choose' these jobs because of flexibility which allows them to fulfil caring responsibilities that they just can't find in better paid roles. But women should not be financially penalised for having children, they should be supported so that they and their families can progress out of low pay. The report from Landman Economics which accompanies our 2022 submission found that an and £15 increase as soon as possible

[3] Institute of Employment Studies: Laid low; The impacts of the Covid-19 crisis on low-paid and insecure workers. 22nd January 2021. Link: https://www.employment-studies.co.uk/system/files/resources/files/The%20impacts%20of%20Covid-19%20on%20the%20low%20paid.pdf

would greatly benefit women and have a greater distributional impact in households with female workers and increase their earning potential to save more and invest money in training and progression which in turn would allow them greater competitiveness in the labour market.

- **Tackling the equality pay gap:** Unite is concerned about the patterns of wage inequality which disproportionately impact BAEM workers. Black and Asian ethnic minority workers are disproportionately represented in low paid and insecure work, they face higher levels of unemployment and racism at work. The coronavirus pandemic further exacerbated and exposed these inequalities. Unite recognises the positive role of the level of the NMW in addressing pay inequality gaps, but remains concerned about the discrimination and lack of progression of BAEM workers and calls on the Government to legislate to tackle ethnic disparities in the workplace by introducing mandatory ethnicity pay gap reporting for all employers and a requirement to take action to close it. Unite has also campaigned for and supported the TUC's action to highlight the disability pay gap which also requires equivalent reporting and action to close it[4]. Unite is inspired by the results of the Landman Economics report which identified the distributional impacts of a £15 per hour rate of NLM/NMW by ethnicity are particularly progressive for Asian, black migrant workers as these groups currently have higher-than-average incidence of low pay[5].

- **An average wage families can live on:** Work should be a route out of poverty, yet in-work poverty has been increasing year on year, which particularly impacts minimum wage earners, BAEM workers and lone parents, who are mostly women working in elementary occupations[6]. The rise of in-work poverty betrays the positive developments brought in by the NLW/NMW and increased levels of employment. Continued reports of in-work poverty must be addressed and serious consideration must be given to a significant increase in the NMW/NLW. Unite understands that living costs are rising but we are also aware that average wages are falling at the fastest rate for more than two decades[7], leaving many workers in in-work poverty, as working people's incomes fail to keep up with soaring inflation[8]. Unite believes increasing the minimum wage to £15 as quickly as possible will help to ensure that workers and their families are able to achieve the secure foundations needed to flourish. With rising inflation, energy and food costs, Unite fears poverty will continue to increase to unprecedented levels without a significant policy to raise the lowest pay levels and end pay stagnation.

[4] TUC: Disability pay and employment gaps 2020. Link; https://www.tuc.org.uk/research-analysis/reports/disability-pay-and-employment-gaps

[5] ONS: *Ethnicity pay gaps: 2019.* Link; https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/articles/ethnicitypaygapsingreatbritain/2019

[6] Joseph Rowntree Foundation: UK Poverty report 2022.Link: https://www.jrf.org.uk/report/uk-poverty-2022

[7] ONS: Average weekly earnings in Great Britain: June 2022. Link; https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/averageweeklyearningsingreatbritain/latest

[8] Unite Investigates: *Corporate profiteering and the cost of living crisis.* June 2022. Link: https://www.unitetheunion.org/news-events/news/2022/june/new-unite-investigation-exposes-how-corporate-profiteering-is-driving-inflation-not-workers-wages/

- **A ban on zero hour contracts:** The proliferation of zero-hour contracts, bad jobs and economic insecurity has left a large segment of the population struggling, living hand to mouth and not knowing if they will have enough money to pay their rent and utilities or even have food to eat. Unite calls for an end to the one-sided flexibility of zero hour contracts. All workers should have an employment contract that reflects an individual's normal hours of work, a statutory minimum contract of at least 16 hours, and a day-one right to a written statement setting out pay and conditions. There should also be a right to reasonable notice of shifts, and payment if shifts are cancelled. This would make flexible working arrangements fairer and protect workers from one-sided and exploitative practices.

- **Ending wage inequality for younger workers:** Unite welcomes the Low Pay Commission's recommendation to lower the age threshold for the NLW to 21 and over by 2024. However we believe that the UK should move towards a position where workers are not discriminated against on the basis of age, but are paid the rate for the job. Unite calls for the rate of pay for all workers to be set at £15 as soon as possible. The Landman Economic report also looks at extending this rate to younger age groups (18-22), the report found increasing the NMW to £15 per hour would for workers aged 18-22 would result in an average gain in net income per worker of just over £5,100 per year.

- **Quality apprenticeships and quality pay rates:** Unite supports apprenticeships as a positive route into employment**.** Unite calls for proper terms and conditions which include a minimum rate of pay in line with the NMW**.** Unite is concerned that the apprenticeship scheme is still being used by some unscrupulous employers as a way to save on their wage bill rather than providing quality apprenticeships. Unite calls on the Government to end a loophole in the apprenticeship levy which has allowed some employment agencies and other unscrupulous operators to pass the levy onto its workforce. Many apprentices are being left with non-transferable qualifications. Unite strongly believes that as part of overall quality control and auditing of an apprenticeship, there should be a statutory obligation upon the Training Provider to check that apprentices are fully receiving at least remuneration to the statutory minimums. Unite again calls for the apprentice rate to be set at the NMW commensurate with their age as a bare minimum.

- **Rights of access for trade unions:** Trade unions are at forefront in the fight for better wages, parental rights, holidays, sickness pay and stopping discrimination. With nearly 6.4 million members[9] in the UK, trade unions are our largest voluntary and democratic organisations. Trade unions are on the frontline every day, fighting poverty, inequality and injustice, and negotiating a better deal for working people. The UK has the most restrictive trade union laws in Western Europe[10]. A barrage of anti-trade union legislation over the past decade has meant that workers have found their ability to organise and take industrial action to challenge these injustices greatly restricted.

[9] BEIS: *Trade Union Membership, UK 1995-2021: Statistical Bulletin*

[10] Unite press release: *Unite vows to confront head-on any further attacks on the right to strike.* 22 May 2022. Link: https://www.unitetheunion.org/news-events/news/2022/may/unite-vows-to-confront-head-on-any-further-attacks-on-the-right-to-strike/

Both the law and the employment culture in this country place little emphasis on workplace protection and do little to support or respect it. In the hospitality sector our union representatives are routinely thrown out of workplaces. This is a violation of Article 11 of the European Convention of Human Rights which provides that everyone has the right to form or to join a trade union for the protection of their interests. The current trade union laws allow employers to infringe workers' freedom of association. Unite demands that the Government take action to strengthen trade unions' access to workplaces.

- **Sectorial collective bargaining:** In 1975, 84 per cent of workers were covered by collective bargaining and 64 per cent of the national income went to workers. It's no coincidence that while union strength and collective bargaining fell, inequality rose sharply. Unions are central to recalibrating our economy to ensure it delivers for the majority. We see a union premium in all our pay deals. Workplaces with strong trade unions based on the power of the collective are safer, more equal workplaces. Unite calls for sector wide collective bargaining along with proper employment protection to help address undercutting and exploitation in labour markets and the unfair treatment of migrant workers and agency workers. If we are to transition away from a low-wage, precarious economy, increasing the collective bargaining power of our workers is critical. Additionally, modern wages councils for low paid sectors should be part of the Government's Industrial Strategy (or whatever replaces it following the abolition of the Industrial Strategy Council) and the LPC should have a role in bringing sectors together.

- **Trade union facilities**: All workers should have access to a trade union and the right to full trade union representation at work. This access should be free from employer surveillance, and the fear of intimidation should not prevent workers from speaking to a union. Unite calls for a revision in the legislation for dealing with trade union facilities, so that trade union representatives in the workplace have the time, space, resources and powers to carry out their duties rights which Unite is calling to be extended to union equality representatives. The right of workers to be accompanied by a trade union representative must be enforced and maintained.

- **Collective grievances**: The law as it stands runs contrary to the fundamental right to Freedom of Association as it seems to suggest that workers can only effectively freely associate in order to pursue minimum wage or employment law matters directly with their employer if there is a collective bargaining agreement in place. Without this they are left in the vulnerable position of being forced to individualise every complaint. Unite would like to see a situation whereby a trade union can make a representative action on behalf of a group of workers to an employment tribunal. Unite believes this can be addressed by means of an amendment to the primary legislation and the accompanying ACAS Code of Practice to allow for collective grievances and representation to recognised in law.

- **Enforcing the minimum wage:** Enforcing the minimum wage requires collaboration between the relevant enforcement bodies, HMRC and GLAA, and trade unions. Enforcement agencies alone cannot effectively 'police' against labour abuses.

Improving trade union access to workplaces will ensure that unions will be able to inform individuals of their rights and, critically, ensure that those rights are enforced. Trade union representatives save both time and money by improving workplace relations and enforcing best practice. Unite calls for the reinstatement of the important tri-partite nature of the GLAA. Unite recommends reinstating trade union representatives on the governing body of GLAA and other enforcement agencies to ensure a direct worker voice and good governance. Unite believes this would also restore the ability for workers to report concerns about compliance with NLW and NMW directly to other stakeholders and to the GLAA staff and managers responsible for enforcement and operations, and, as such, disrupt exploitative practices. In relation to the introduction of a single enforcement body Unite is concerned joint working between labour inspectorates and immigration enforcement will undermine the efficacy of UK labour market enforcement with regard to migrant workers, who are more vulnerable to being exploited at work.

- **Increasing the resources of enforcement agencies:** While Unite supports the coordinating role of the DLME, we oppose the creation of a single enforcement body made up of already under resourced GLAA, HMRC NMW enforcement, and the Employment Agency Standard Inspectorate. Unite is concerned the focus of the body will be diverted away from enforcing labour rights to the service of an anti-immigration agenda, with no firewall or 'safe reporting' mechanisms to prevent workers who report labour abuses from becoming criminalised due to their immigration status. Two years on from the proposal of changes to enforcement, there is no clear time frame to the implementation of the new system of enforcement. Neither has there been any announcement of extra funds to better resource enforcement. Unite recommends that the Government commits to making substantial increases to current funding for monitoring and enforcement of the NMW, especially needed now that a single enforcement body is being introduced. Unite also recognises the urgency of enforcement in high risk sectors such as the hospitality, warehousing/logistics, cleaning, agriculture and food production industry.

- **Extend the remit of LPC:** The gender pay gap reports have demonstrated the concentrations of women in lower paid areas. Unite again repeats its call for the LPC to have its remit widened beyond advising on the rate of the NMW and look at the causes and consequences of low pay and making recommendations to the Government. Areas of investigation should include the impact of the NLW/NMW on closing the gender pay gap and other equality gaps. The remit of the LPC should be extended to include a long term role – investigating the causes and consequences of low pay.

About you

Unite is the UK and Ireland's largest trade union with over 1.2 million members across all sectors of the economy including manufacturing, financial services, transport, food and agriculture, construction, energy and utilities, retail, information technology, service industries, health, local government and the not for profit sector. Unite also organises in the community, enabling those who are not in employment to be part of our union.

Unite is pleased to submit evidence to the LPC on its further review of the 2023 rate of NMW (including NLW). Unite considers the establishment of the NMW to be one of the most important successes of the former Labour Government. Its introduction and subsequent increases have not had any adverse effects on the labour market, whilst it has benefited millions of low paid workers.

Economic outlook

1. What are your views on the economic outlook and business conditions in the UK over the next 12-24 months? We are particularly interested in:

• The conditions in the specific sector(s) in which you operate.

Post Brexit and post Covid labour shortages have had significant impact in the hospitality, food production, road transport, warehousing, distribution and agricultural sectors driving up pay while creating challenges for working conditions.

According to the latest AWE (Average Weekly Earnings) data available in wholesaling, retailing, hotels and restaurants, the largest and lowest paying sector of the economy, average earnings grew by 8.5% in the year to March and 8.4% year to April when the NLW/NMW went up[11].

In the food production sector Unite is aware that one of Europe's largest meat processing companies who were historically hostile to the union have now, as a result of labour and skills shortages, introduced bonus and company sick pay and agreed to an above inflation pay offer (for 2021 when inflation was at 2.9%) of 3% which was exceptional for that company. In addition to this the campaign has introduced generous signing on bonuses of up to £1000 for each new worker with conditions attached to skill set. Unite is concerned the increasing use of bonuses for introducing workers throws up risks of hidden labour exploitation where job applicants or workers are introduced by third party individuals or gangs including rogue individuals working within businesses without knowledge of management who receive payment for work-finding services and work related exploitation such as finding accommodation or use of bank account.

Overall the food production sector made huge profits during the pandemic while its workers numbered among the highest in terms of Covid mortality rates by occupation[12], largely due to Covid violations such as lack of provision of PPE, improper implementation of social distancing guidelines and chronic low pay with many workers in the sector reporting they couldn't afford to isolate and

[11] ONS: **Average weekly earnings in Great Britain: June 2022. Link** https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/averageweeklyearningsingreatbritain/latest

[12] https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/causesofdeath/bulletins/coronaviruscovid19relateddeathsbyoccupationenglandandwales/deathsregisteredbetween9marchand28december2020

avoided taking lateral flow tests for fear of not being able to survive on statutory sick pay. Anglo Beef Processors (ABP) which is owned by the second richest man in Ireland earned 4 billion Euros in turnover in 2021. Because it is registered offshore the company pays very little tax on declared income, yet despite this it took the threat of industrial action from Unite members working in Lurgan site for the company to agree a pay increase of 7.2%**.**

In the hospitality sector Unite has seen many examples of employers bringing in the minimum wage increase a few months ahead of the official uplift to attract workers, but then there has also been a huge increase of excessive hours to fill the labour shortages. In this sector we have also seen increasing casualization of work where there is a growing shift towards agency work with chefs of all grades and waiting staff now moving to casual employment which is often cash in hand or one off tax forms where they may work for 3 to 4 different employers. Under such conditions workers are able to set their rates and are thus earning double the rate they would have earned pre-pandemic. This is pushing up pay in the hospitality sector where hourly rates are now hitting double figures where typically there would have been wage suppression and age wage discrimination.

Unite is also aware of a workplace in the manufacturing sector which set up a site in Kingspan Newry specifically as a low wage site where wages were 10% lower than their sister site in Luton. Following the April 2021 increase in NMW/NLW workers at the Uri site began looking at the wage differentials between the minimum wage and other pay rates and demanded and later settled for 7% pay increase.

• The effects of Government interventions to support the economy and labour market.

Agriculture – Seasonal workers pilot

The Seasonal Workers Pilot (SWP) for the agriculture sector was introduced in 2019 to allow for two licensed operators to recruit 2,500 temporary migrant workers from non-EU countries to work in UK fresh produce for up to six months. In December 2021 Defra and the Home Office released the review of the seasonal workers pilot. The review found evidence of widespread exploitation of workers.

Unions have long warned that a combination of factors make seasonal migrant workers vulnerable to exploitation. The review confirms that this pilot scheme, in its current form, facilitated the exploitation of a group of vulnerable workers, the review found:

- 16% seasonal migrant workers were not being paid in full and 4% not paid on time;
- Almost 20% said operators were not sticking to contractual agreements;
- Nearly half had not received their employment contract in their native language, which was a requirement for the pilot';
- 15% said their accommodation was unsafe, uncomfortable, unhygienic or cold;
- 10% said their accommodation had no bathroom, no running water and no kitchen;
- More than a fifth of workers said farm managers had treated them unfairly, with reports of racism, discrimination or mistreatment on grounds of workers' nationality leading to disrespectful language or poorer quality work or accommodation;
- Workers reported not being provided with appropriate health and safety equipment by their employers who are legally required to do so.

In March 2021 FLEX (Focus on Labour Exploitation) launched a more detailed, geographically specific, and worker-focussed report on the Seasonal Workers Pilot with the Fife Migrants Forum. This report identified the risks of temporary migration programmes, such as the SWP, are associated with increased risks of labour abuse and exploitation. They include:

- Debt bondage due to upfront migration costs and illegal recruitment fees;
- Deception in recruitment;
- Barriers to changing jobs or sectors;
- Discrimination;
- Temporariness and lack of pathways to permanent residence;
- Multiple dependencies;
- No recourse to public funds;
- Barriers to accessing justice;
- Lack of guaranteed working hours;

The report included interviews with agricultural workers, 100 of which were on the SWP, and it found:

1. **Risk of unfree recruitment** based on a discrepancy between information workers received about the nature of the work and the reality upon arrival, the lack of translation of documentation, and pressure to sign contracts. In addition, 62% of workers reported incurring debts to travel to the UK to work, which places workers in a more vulnerable position and at risk of accepting work they might otherwise not have accepted.

2. **Risk of work and life under duress**, with workers reporting threats of penalties, unsafe housing in caravan accommodation, and excessive dependence on employers due to the use of zero hour contracts coupled with payment by piece rates. 66% of Seasonal Worker Visa (SWV) workers reported receiving threats of loss of work and 17% reported threats of deportation from their employer.

3. **Risk of impossibility of leaving an employer** with 62% of those interviewed reporting being refused transfers to alternative employment. Coupled with the high debts workers reported having to repay as well as risks of homelessness or deportation, this resulted in workers having reduced freedom to terminate their employment contract.

Hospitality - Furlough pay during the pandemic

In addition to the points raised in our 2021 on the impact of tips not being included in calculations for furlough pay is Unite is aware of many cases during the pandemic where hotels were not giving work which meant agencies were not paying furlough. Unite supported a housekeeper who worked for a global hotel chain under a sub agency and between October 2020 to March 2021 she was not paid any wages or received furlough. Unite took this to employment tribunal and she received redundancy plus 4 months wages.

Unite also received reports from agency workers who worked as housekeepers and were told to change status to zero hours and, as such, they didn't receive furlough, when restrictions eased these workers were not returned to contracted hours.

Naming and shaming?

Unite is critical of the *naming and shaming* scheme. We believe the scheme has been ineffective in stopping employers from underpaying or exploiting workers, rather we see many employers pleading ignorance when called out claiming that if *they don't know they can't be blamed and therefore we shouldn't be held libel.* We need remove loopholes from HRMC guidance and hold companies accountable.

• The state of the labour market, recruitment, and retention.

Recruitment crisis in the hospitality sector

Following the mass of job losses suffered during the pandemic, the hospitality sector now faces an unprecedented recruitment crisis which had already started following the huge number of migrant workers who left the sector after the Brexit referendum and the toughening migration rules introduced in the years which followed. A 2021 survey conducted by UK Hospitality identified a vacancy rate across the sector of 9% - which implies a shortage of 188,000 workers[13]. According to more recent (April 2022) figures from the ONS there are now 400,000 hospitality vacancies across the UK[14].

This has meant the remaining workforce or those who were brought back into the industry (via fire and rehire) are having to do a huge amount of overtime which they aren't being paid for because they are salaried workers. It is commonplace for a supervisor or junior kitchen worker to be salaried on say £20k per year, based on a 40 hour contract where they will regularly go over that without extra recompense. As more and more salaried workers are expected to fill the gaps in labour left by the pandemic and Brexit, the hours needed from these workers has grown exponentially to 60+ hours per week becoming the norm in kitchens.

Social care – poverty wages equal high turnover

The estimated average earnings in the adult social care sector range from £16,400 to £18,400 across the four countries and over 3 in 5 (62%) (440,000) carers earn under £10 an hour[15]. Although the introduction of the NLW has increased care worker pay by an average of 30 pence per year (3.9%) compared to 1.9% per year prior to the NLW, sales and retail assistants now, on average, earn 24p per hour more than care workers. Low pay and insecure work are rife in the sector, contributing to a turnover rate of 30.4% and a vacancy rate of over 112,000[16].

Underfunding of public services has caused the NLW to catch up with both the NHS (England) and local authority pay spines again. This is before the impact of soaring inflation is taken into account. Both sub-sectors have a high degree of women and BAEM staff and the erosion of pay is therefore having a disproportionate impact on gender and ethnicity pay gaps. In these sectors pay is essentially determined by funding commissioners (local government) based on what funding they in turn get from central government.

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[13] https://www.ukhospitality.org.uk/news/567435/UKHospitality-warns-sector-faces-staffing-crisis-and-calls-on-Government-to-stick-to-roadmap.htm

[14] https://beertoday.co.uk/2022/02/16/hospitality-staff-shortage/

[15] TUC: *1 in 3 key workers earn less than £10 an hour.* 31st March 2021. Link; https://www.tuc.org.uk/news/tuc-1-3-key-workers-earn-less-ps10-hour

[16] Skills for Care: *Social care needs to fill more than 100,000 vacancies.* Link https://www.skillsforcare.org.uk/news-and-events/news/social-care-needs-to-fill-more-than-100000-vacancies

Unite understands that companies like Nottingham Community Housing Association would like to pay more but service viability is highly dependent on those two tiers of government plus the financial policies imposed by Homes England, its governing body. Here also policy such as Value for Money essentially means squeezing more service for less cost. Unite has seen this occurring with social care, refuse workers, low paid hospital staff and community health employees.

Post Brexit supply of labour

Unite is aware of employers in meat production companies pre-empting labour and skill shortages following the end of freedom of movement by actively recruiting workers in East Timor making the workers aware they can enter as Portuguese (EEA nationals) before end of transition period as the Brexit debate was taking place.

Amongst groups of migrant workers one community will come in to work for a new employer for 6 months, get their wages and bonuses then move on to another company. We are now seeing workers becoming less afraid of the consequences in terms of taking industrial action when faced with attacks on their pay and working conditions because they are aware of these chronic these labour shortages.

Other and more recent recruitment tactics being applied by employers in meat production include taking advantage of age wage differentials in the NMW by sending recruitment managers to local schools where they encourage young people who don't want to go to further education to consider a career in meat production. In Northern Ireland Unite is aware of employers in this sector putting on 'open days' in shopping centres to recruit young workers with offers of signing on bonuses.

• Wage growth and inflation in the last year, and expectations for the next couple of years.

According to the latest figures from Income Data Research (IDR) the median pay rise across the UK has risen to 3.5%[17]. Further analysis by IDR found the upper quartile of awards has risen from 4.2% in March to 5.0%. The rise in both metrics has been influenced by the growing proportion of higher-end pay awards worth 4% or more in this latest period[18]. The highest rate of growth was in finance and business services where the annual rate of growth in the year to April 2022 was 10.6%[19]. According to the ONS the brief rise in June to November 2020 can be largely attributed to the fact that low-paid workers were more likely to lose their jobs than high-paid workers during the pandemic with 21% of low paid workers no longer working or having to reduce their hours from the first pandemic through to March 2021, fewer low-paid workers in the workforce meant the average earnings of the remaining workers increased[20].

Data from LRD (Labour Research Department) on union negotiated pay deals show the median standard increase for March 2021 - February 2022 was 2.0%, for lowest pay rates the median increase was 2.25%. For December 2021-February 2022 the median was 3.3% for the standard increase with a 4% increase on the lowest pay rates.

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[17] IDR: More higher end pay rises push up the median pay rise. 9th May 2022. Link; https://www.incomesdataresearch.co.uk/resources/news/more-higher-end-rises-push-up-median-pay-rise?utm_medium=email&utm_campaign=More%20higher-end%20rises%20push%20up%20median%20pay%20rise&utm_content=More%20higher-end%20rises%20push%20up%20median%20pay%20rise+CID_a24c54bbdb3c6046c45ca5c75e90f753&utm_source=Email%20marketing%20software&utm_term=Read%20full%20article

[18] Ibid

[19] ONS: **Average weekly earnings in Great Britain: June 2022. Link** **https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/averageweeklyearningsingreatbritain/latest**

[20] Ibid.

Table 1: LRD's Payline Database increases on lowest basic rates (by agreements covered)

For the three months up to and including:	2021										2022		This pay round, Aug-Feb
	Mar	Apr	May	Jun	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	
All agreements	1.8	2.1	2.2	2.2	2.5	2.5	2.0	2.2	4.0	4.8	4.0	4.0	3.2
Private sector	2.0	2.2	2.2	2.2	2.5	2.5	2.9	3.3	3.8	4.8	4.0	4.0	3.9
Public sector	1.0	2.0	2.0	2.0	1.4	1.4	1.4	1.4	4.8	4.8	2.5	2.0	1.8
Manual	2.0	2.2	2.2	2.2	2.5	2.3	2.6	3.6	4.5	4.8	4.0	4.0	4.0
Non-manual	1.5	2.0	2.0	2.0	2.2	1.8	1.8	1.8	2.6	4.8	3.3	3.3	2.2
All industries	2.0	2.0	2.0	2.2	2.5	2.5	2.3	3.0	3.3	4.0	3.2	3.0	3.0
All services	1.6	2.2	2.2	2.2	2.4	2.0	2.0	2.0	4.5	4.8	4.7	4.5	3.3

It must be noted that *the annual uplift in the National Living Wage by 6.6% is a key influence for the increases, especially for lower-paying employers* and is likely to be a significant factor in the clustering of awards at the 6%-plus level. In addition, labour market pressures and the rising level of inflation since last summer have influenced workers to demand more which prompted employers to respond with relatively higher pay rises than last year. Indeed Unite as well as other unions are demanding inflation plus pay increases[21] .

Table 2: Pay awards in the 3 months to the end of April 2022

	Whole economy	Private sector	Manufacturing and production	Private services	Not-for-profit
Lower quartile	3.0%	2.5%	2.0%	3.0%	3.0%
Median	3.5%	3.1%	3.0%	3.5%	3.8%
Upper quartile	5.0%	5.3%	4.9%	5.3%	5.0%
Based on 70 pay awards covering 802,643 employees in total.					

IDR Pay Climate, March 2022

We must also note the impact of lockdown restrictions where average wages fell during the first lockdown (March to May 2020), rose between June and November 2020 and then stagnated from November 2020 to December 2021, with total real weekly wages staying between £593 and £600 between November 2020 and December 2021[22]. Overall more than 800,000 minimum wage workers were employed in sectors which were shut down during the height of the pandemic[23].

However, pay stagnation over the past decade has resulted in median wages currently £3 an hour below where they should be based on pre-crisis trends. Had they continued to grow at pre-2010 rates

[21] Public Finance: *Unions demand 'inflation-busting' local government pay rise*. 7th June 2022. Link https://www.publicfinance.co.uk/2022/06/unions-demand-inflation-busting-local-government-pay-rise

[22] Commons Library: *What happened to wages in the coronavirus pandemic?* 8th March 2022. Link https://commonslibrary.parliament.uk/what-happened-to-wages-in-the-coronavirus-pandemic/#:~:text=Since%20November%202020%2C%20wages%20have,inflation%20started%20to%20increase%20slightly.

[23] House of Commons Library: National Minimum Wage Statistics. 21st November 2021. Link https://commonslibrary.parliament.uk/research-briefings/cbp-7735/#:~:text=The%20Low%20Pay%20Commission%20estimates,of%20the%20National%20Living%20Wage .

they would be £17.83 in 2022 rather than £14.85 and at this trajectory they would have exceeded £20 by 2026.

With inflation rising at unprecedented levels it is hard to estimate what will happen in the next 2 years, but what we do know as a trade union is that workers are demanding better pay and conditions. According to ONS analysis changing prices have different effects on the inflation rates faced by people on low and high incomes because of variations in the goods and services they buy[24]. Consequently people living in poverty spend a much higher proportion of their income on food, energy and housing and therefore the poorest fifth of the population are now experiencing a higher rate of inflation than the rest of the country in most of the last two decades. So with respect to the NMW/NLW our collective voice is firm that we cannot continue to expect the lowest paid workers to exist on poverty wages, our members have resolute in their call for an increase of NMW/NLW to £15 per hour[25].

68.5% of workers in the food manufacturing sector, 73% of workers in the care sector and just over 78% of workers in the cleaning and agriculture sectors and almost 88% of workers in the hospitality sector are paid at below £15 per hour/ at or just above the NMW/NLW[26].

Consideration must also be given to the rise in National Insurance Contributions by 1.25% in April 2022 which will also reduce take-home pay.

2. To what extent have employers been affected by other major trends in the economy and labour market: for example, rising energy costs, Brexit, the shift to homeworking or changes in the numbers of migrant workers in the UK.

See section above.

3. What is your experience over the past year in the following areas?

As per our previous submissions, in relation to profits Unite remains concerned that the lowest paid workers are paid less than their marginal productivity,[27] resulting in company directors and shareholders pocketing businesses' profits[28] while their lowest paid workers struggle to survive on poverty wages and working excessively long hours to top up their pay. A more recent report from the London School of Economics found that between 1981 and 2019 (pre-pandemic), productivity rose by 87% but median employee wages only rose by 62%[29].

Profits & Prices

A recent Unite report which investigates corporate profits found that many firms across different sectors in Britain are benefiting from the cost of living crisis and that it is their profits largely derived from "price gouging" – where businesses hike their prices above supply costs, and not increased wages, that are helping to drive 'second round' inflation[30]. The report demonstrates that in the past 6

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[24] ONS: *Estimates of the inflation rates experienced by different types of household in the UK.* Link https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/expenditure/compendium/variationintheinflationexperienceofukhouseholds/2014-12-15/bexecutivesummary

[25] Unite Policy Conference 2021.

[26] FRS data cited by Howard Reed in Landman Economic National Minimum Wage Report 2022. NB the FRS sample size for workers below 23 years of age in some sectors – especially cleaning, agriculture, food manufacturing and warehousing – is relatively small, and so the results may not be fully representative of the wider UK population.

[27] NewStatesman: *The dark side of the UK's jobs boom.* 30 January 2019 Link

[28] TUC: Pay-outs to shareholders have risen 6.4 times faster than wages. 14 Nov 2019 Link

[29] LSE: *Wages of typical UK employee have become decoupled from productivity.* 3rd November 2021. Link https://www.lse.ac.uk/News/Latest-news-from-LSE/2021/k-November-21/Wages-of-typical-UK-employee-have-become-decoupled-from-productivity

[30] Unite Investigates: *Corporate profiteering and the cost of living crisis.* June 2022. Link: https://www.unitetheunion.org/news-events/news/2022/june/new-unite-investigation-exposes-how-corporate-profiteering-is-driving-inflation-not-workers-wages/

months company profits are responsible for almost 60% of inflation rise[31]. Analysing data from company accounts and the Office for National Statistics, Unite found the cost of living crisis is too a great extent a profiteering crisis where our wages, and what they can buy, are being squeezed by companies pursuing runaway profits[32].

The report found:

- Profit margins for the UK's biggest listed companies (FTSE 350) were 73% higher than pre-pandemic levels in 2019;

- UK-wide company profits jumped 11.74% in the six months from October 2021 to March 2022, according to the most recent ONS data. In the same period, labour income only rose 2.61%; and fell by 0.8% after accounting for inflation;

- The recent profit jump is responsible for 58.7% of inflation in the last half year, as opposed to just 8.3% due to labour costs;

- The UK appears to be following the pattern of inflation profiteering noted in the US, albeit some months behind the curve. This isn't just about oil companies or a few "bad apples". Even excluding energy firms, FTSE 350 company profits increased by 42% between 2019 and 2021.

Pay structures and differentials

According to data from XpertHR pay awards remain at the highest level since December 2008 – when the headline award was at 3.6% – but now lag six percentage points behind the retail prices index (RPI) currently at 9%. The gap between inflation, as expressed by the RPI, and pay awards is the greatest since XpertHR's records began in April 1984.

Based on the outcome of 263 pay settlements with effective dates between 1 January 2022 and 31 March 2022, covering more than 460,000 employees, XpertHR also finds:

- Almost all pay awards are higher than a year ago. An overwhelming 84.5% of the current sample have awarded employees a higher increase than they received at their previous review. Just 3.6% saw a lower increase, while the remaining 11.9% received the same award for the second year in a row.
- The middle half in the spread of pay awards shows the extent of bunching of deals around the median. In the latest analysis, the middle half of pay awards sit between a wide range of 2.5% to 4.8%. These figures are notably higher than recorded a year ago, when the lower quartile stood at nil and the upper quartile at 2%.
- A quarter of employers settle at 3%. Our median pay award is also the most common in the sample, accounting for 22.9% of all basic pay settlements.

Private sector employers push awards higher

The pay awards scene for private sector employers has changed dramatically over the past year. In the three months to the end of March 2022, the median pay award among private sector employers is 3%, up from 1.2% a year ago. But many employers are exceeding this, with the top quarter of deals worth 4.8% or more (**see data from AWE as cited in the 'Economic outlook section above**).

[31] Ibid

[32] Ibid

April 2022 pay award preview

Provisional analysis of April pay awards, the month in which 45.7% of settlements take effect, reveals a notable upturn in pay settlements. Early indications shows that the median pay award rises are up to 4%, with few pay freezes and the majority of deals higher than a year ago. This is an acceleration in settlement levels not seen since the post-recession years of 2010-2011.

The table below shows the latest Unite pay deals across all sectors;

Agreement	Sector	Start	Description
Yellow Buses (Bournemouth Transport) Drivers	Transport	01/04/22	From 1 April 2022, a 6% increase to all rates of pay for Bus Drivers and 6.3% for Coach Drivers. Sick pay remains unchanged
Ardagh Glass	Manufacturing	01/04/22	A 5.7% increase in pay from 1 April 2022. Plus a 1% increase to matched pension contributions from 1 April 2022 and a further 1% to matched contributions in January 2023. An increase in compassionate leave from a discretionary 3 days to contractual 5 days.
Scottish Galvanizers Ltd (Wedge Group)	Manufacturing	01/04/22	From 1 April 2022, a 5% increase to basic rates and bonuses with flow through to shift allowance, overtime and holiday pay.
Anglian Water Services	Utilities	01/04/22	A 4.6% increase for all staff from 1 April 2022.
First Wessex (Weymouth Depot)	Transport	01/04/22 01/11/22	First stage of a two stage one year agreement with a 4.4% increase from 1 April 2022. In the second stage, from 1 November 2022, a further 3.8% increase will be applied.
Radius Systems	Manufacturing	01/04/22	6.6% increase on all production grades from 1 April 2022. The agreement is for 1 additional day for 2022/23 holiday year (on top of statutory holidays). Annual leave varies considerably with Radius Systems as members work a number of different shift and hour patterns over a fortnightly rotation. The company closedown is for 10 days over the Christmas period and there is no July closedown. Plus one additional day of paid annual leave for the 2022/23 holiday year.
DHL (Aberdeen)	Transport	01/04/22	First year of a two stage two year agreement with an 8% increase on all rates of pay from 1 April 2022. Union recognition also secured for Unite. In the second year, from 1 April 2023, a further 5% increase will be applied.
First Manchester (Oldham) Drivers	Transport	13/02/22	A three stage 14 month agreement uplifting Drivers' rate of pay by 8.9% over the course of the deal. In the first stage, from 13 February 2022, Driver's 'A' rate increases from £12.40ph to £13.10ph, a 5.65% increase, with flowthrough to all other rates. Drivers on the YSB rota matched to the 'A' rate and can now undertake overtime on other work. In addition, a one-off, non-consolidated payment of £750 gross to all current drivers employed on 1 December 2021. Introduction of new rota groups and the extension of existing groups. Pay anniversary date moved to April from 2023. In the second stage, from 3 April 2022, a further 1.15% increase will be applied, taking the 'A' rate to £13.25ph. And in the third stage, from 2 October 2022, a final increase of 1.9% will be applied, taking the 'A' rate to £13.50ph.

E.on Generation, CHP & EC&R **and** **E.on UK Field Agreement**	Energy	01/04/22	A 4% increase to base rates and associated allowances from 1 April 2022. Payment of the profit-sharing recognition bonus will now be made in two parts with the first payment made on acceptance of this agreement (as early as February 2022). This will be an advance partial payment of the forecasted November 2022 UK Operational EBIT position and is expected to be in the range of £500 (subject to tax and NI deductions). The second payment will be made in December 2022 based on the actual November EBIT position. Staff eligible for the payments will be those employed between 1 April 2021 and 31 January 2022 who have not resigned and all staff will receive the same flat rate amount. Company extends the commitment to the current discretionary, non-contractual Selective Voluntary Severance (SVS) terms until 31 December 2026.
Sodexo (Scottish Fire & Rescue Service)	Sodexo (Scottish Fire & Rescue Service)	01/03/22	A 4.2% increase from 1 March 2022 taking the basic rate of pay to £9.90ph in line with the Real Living Wage.

Wider benefits available to workers (including premium pay and non-pay benefits across the workforce)

See table above for Unite negotiated pay and benefits.

Quality of work, including contract types, flexibility and work intensification (e.g. greater expectations for workers to work more flexibly, with greater effort, to higher standard etc)

See table above

Progression and job moves

It is Unite's experience of organising workers in accommodation that the sector does not offer its employees much scope for pay progression. An employee in the accommodation sector barely earns more in their thirties and forties than they do in their twenties. This goes against the trend in the rest of the economy. The highest earning age group in the accommodation sector, those in their forties, earns £54 per week less than the average employee across the whole economy between the ages of 22 to 29, yet the while the average hotel sector employee is paid £9.50 per hour, directors in large hotel chains are among the highest paid executives with Travelodge paying its highest paid director directors a combined total of £1.5 million in 2021[33]. Similarly, Whitbread, another industry giant, paid its board and CEO a combined total of over £3 million in 2021.

Training

Unite continues to raise concerns over the lack of progression available to low paid workers, including a high proportion of women and black and Asian ethnic minorities, particularly those in hospitality and outsourced cleaning, catering and facilities jobs. Unite reps and officers in these sectors are challenging the lack of training and progression that has been enabled by two-tier and even multi-tier systems where agency and contract workers have been working for an economic employer for a number of years without any training or progression.

[33] Thame and London Limited annual report and financial statements for the year ended 31st December 2021. Link https://www.travelodge.co.uk/sites/default/files/2021_Thame_London-FINAL_signed.pdf

Unite fears that any benefits gained from the Union Learning Fund will now disappear as the Government announced the end of the annual £12 million grant which has allowed the Union Learning Fund to support around 200,000 workers a year to access education and training opportunities[34]. This, without any consultation and in the midst of a pandemic, when we must support workers to retrain and gain new skills is reckless.

While Unite is pleased the Government has assigned £2.5 billion national skills fund and the £500 million skills recovery package, this should not be funded in part by the loss of money which was previously allocated to the Union Learning Fund. Union learning produces unique outcomes and benefits. A recent independent evaluation of ULF found employees who completed at least three episodes of union learning were[35]:

- *3.6 times more likely to get a new job with their current employer*
- *2.7 times more likely to receive a pay rise*
- *5.7 times more likely to attain promotion*
- *3.4 times more likely to report that they could do their job more effectively.*

Furthermore, the evaluation reported 47% of employers stated their employees were more committed as a result of their engagement in union-led learning and 44% stated ULF led to improved employment relationships in their organisation[36].

Investment

We are not aware of any significant steps taken by employers to invest in their lowest paid workforce. In the hospitality sector Unite is particularly concerned over the safety of women workers who habitually experience sexual harassment and even assault in and outside of the workplace. Last year Unite conducted a survey of its members in the Services sector to investigate the scale of sexual harassment at work. The results were staggering with over 68% of respondents confirming they had either witnessed or experienced sexual harassment at work. In addition to this, we began receiving reports of women working across hospitality and transport who had experienced sexual harassment and assault after leaving work at night. Bus cuts and lack of transport connectivity across the UK results in many workers who work night shifts struggling to find safe transport home. This is particularly felt by women working in hospitality, the majority being young women, who often rely on tips to pay for a taxi home. With changes to the tronc system and customers increasingly paying by cards, hospitality workers are receiving less tips.

Since the murder of Sarah Everard Unite Hospitality activists have raised their concerns over gender based violence which they have witnessed and experienced in and out of the workplace, they feel disproportionately disadvantage due to the pay and conditions in the hospitality sector.

Out of this concern Unite has developed its national *Get Me Home Safely (GMHS)* campaign, a cross sector campaign which calls on employers, local authorities, government, bus operators and law enforcement to support the campaign's demands which primarily include employer supplemented safe home transport.

[34] https://www.unionlearn.org.uk/2016-evaluation

[35] https://www.unionlearn.org.uk/2016-evaluation

[36] https://www.unionlearn.org.uk/2016-evaluation

The GMHS campaign calls for:

1. **An extension to employers' duty of care to embed safe transport home policies for all workers, all risk assessments must include an individual's journey times and hazards once they've left the workplace;**
2. **Free transport home for staff a prerequisite for all new liquor licenses;**
3. **Reverse the cuts to funding for public toilets, every bus worker must have access to clean and accessible toilets;**
4. **Mandatory training for transport workers on gender based violence to include practical guidance on reporting sexual harassment public transport;**
5. **Clear and operational CCTV on all forms of public transport;**
6. **Tougher action and enforcement against sexual assault and harassment on public transport;**
7. **Municipal ownership of buses as a way to tackle the chronic shortage of night services;**
8. **National minimum standards and for taxi and private hire vehicles and an end cross border hiring.**

While the demands are ambitious we firmly believe that hospitality employers can and should invest in the safety of their employees. Unite commissioned IDR to conduct a survey of employers find out the extent of support on offer to help staff get home safely when working late at night. The survey was live for one week during late February/early March 2022 and attracted 46 responses from employers across private, public, and not-for-profit sectors.

Main findings:

- **48%** of respondents said they provide free on-site car parking for all staff;
- **35%** said they provide free staff parking for some staff/sites. The availability of on-site parking appears to have little bearing on organisations' propensity to put additional support measures in place for staff who work late: of those that do so, 56% have free on-site parking at all sites/for all employees, with a further 22% offering this in some cases;
- **78%** of respondents have not implemented any measures to help staff get home safely after working late at night, while one further (public sector) employer has withdrawn such support, largely due to organisational changes, the pandemic and changes to its locations
- **20%** of respondents do provide support to get workers home safe. These are most commonly found in the not-for-profit sector (44% of those with measures) and are least common within the manufacturing and primary sector (one respondent – 11%);
- Support measures largely take the form of fully paid taxis for employees;
- No respondents offer subsidised taxis (i.e. a contribution towards taxi fares instead of paying fares in full), staff buses/coaches, or facilitated car pools. However, one organisation works with local public transport providers to encourage them to put on earlier/later services or re-route services to its site;

- Of those that do have measures in place, **70%** said these apply to all employees working after a certain time of night;

- Five organisations were able to tell us what proportion of eligible staff avail of such support, with take-up ranging from 1% at a not-for-profit employer to 25% in the public sector (10% of staff at the median);

- Staff most commonly become eligible for support at p.m. (three respondents), while measures come into effect at p.m. at a further two organisations and 7.30pm at another. The latest qualifying time for free staff travel is 11pm;

- All respondents who provide support for staff who work late cited concerns over worker safety as a reason for putting their measures in place, while a single respondent also cited retention and a lack of public transport as factors;

- Very few organisations were able to quantify how much such support measures cost them, though they do not appear to be expensive, with one respondent citing a figure of less than £1,000 a year and another stating that the cost was 'minimal';

- One Housing and Social Care respondent has a 'safe working app' that employees have access to via their phones.

The report also confirms that some employers who took part in the survey are now considering adopting safe home policies in their workplace. We can quantifiably argue that the cost for those who provide paid travel, is minimal and fundamentally the human cost to those who experience a sexual assault is far greater than we can count.

More information on the GMHS safely campaign is available here:
https://www.unitetheunion.org/campaigns/get-me-home-safely-campaign/

4. Apart from the minimum wage, what are the key drivers of pay decisions in low-paying sectors and occupations? For example, this could include the cost of living, availability and retention of staff, changes to Universal credit/other benefits or access to transport.

As stated in the section above access to transport or lack thereof has a tremendous impact on the physical, mental and financial wellbeing of workers.

The cost of travel has risen significantly in the past decade with bus and coach fares 72% and rail fares 51% higher now than in 2009, the latest ONS data shows an annual increase in fares and other travel costs by 6.4%, with train fares rising by 3.8% this year (the rise in 9 years)[37] and bus and coach fares which had increased by more than 60% between 2009[38] and 2019 rose again by 8.6% in 2021[39]. The Consumer Price Index for transport services in the United Kingdom show that price of travel since

[37] BBC News: Highest rail fare rise in nine years takes effect. 1st March 2022
[38] Better Transport Campaign: *The future of the bus Policy and fiscal interventions as part of a National Bus Strategy September 2019*. Link https://bettertransport.org.uk/sites/default/files/research-files/The-future-of-the-bus-August-2019.pdf#page=4
[39] ONS dataset: RPI: *Percentage change over 12 months - Bus and coach fares.* Released 18th May 2022. Link https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/czef/mm23

January 2015 have increased by 32.9 percent[40], while the most recent CPHI data from ONS shows the overall increase across all transport has increase by 13.7% by April 2022[41]

Ticketing and the costs of travel significantly impact low pay workers. Transport fares have increased faster than overall price inflation. Working patterns are such that precarious working does not necessarily allow for consistent and affordable use of public transport. Without guaranteed hours or income, many are required to attend work at short notice, and as such are unable to benefit from a weekly/monthly/annual travel card. Journeys made without a weekly or monthly travel-card result in high travel costs for less frequent travellers, ticketing options do not take into account variations in working hours/days from week to week and discounted ticketing is not presently set up in such a way to give value for money for people working on precarious contracts.

Unite believes the lack of affordable and accessible transport options is hindering people on low incomes from accessing essential services or work and putting women at risk. We understand women are more reliant on public transport for caring responsibilities as well as paid work because they are less likely to commute by car or train and more likely to be in part-time work and are disadvantaged by the high cost of season tickets.

Access to reliable and affordable transport can mean the difference between being able to work and being locked into welfare dependency. Indeed transport cost and affordability can either help or hinder people on low income to access and retain jobs. Research from the Institute of Transport Studies (ITS) found 77% of interviewed job seekers do not have regular access to a car, van or motorbike, rising to 87% amongst 18–24-year-olds[42] . Furthermore statistics from DWP reveal two in five jobseekers say lack of affordable transport is a barrier to getting a job[43]. In addition, transport costs can also easily wipe out modest financial gains from entering or returning to work and difficulties in accessing childcare by public transport can present a further barrier for working parents.

Unite welcomes the 2021 National Bus Strategy for England which recognises the need for simple, cheap fares that you can pay with a contactless card, with daily and weekly price capping across operators covering rail and tram travel and the need for affordable bus travel to help ensure that work pays and can be sustained for everyone. However, we are yet to hear from bus operators on how this ambition will be applied.

Currently our transport planning system penalises people who cannot afford a car, who struggle to cover rising public transport fares and who lack access to public or private transport because of age, disability or where they live.

Unite has raised concerns over women's safety in public transport amid widespread reports of sexual harassment in public transport. Unite has raised this with the minister for buses and whilst we were pleased to learn that a new minister for women's safety has been appointed, we remain concerned that the minister has not sought to meet our request for a meeting where we can put forward the concerns of transport workers as well as women workers who rely on public transport.

[40] Statista: CPI for transport services in the UK 1988-2022. 19th May 2022. Link https://www.statista.com/statistics/286582/consumer-price-index-cpi-transport/#:~:text=CPI%20for%20transport%20services%20in%20the%20UK%201988%2D2022&text=The%20Consumer%20Price%20Index%20for,have%20increased%20by%2032.9%20percent.

[41] ONS: Consumer price inflation tables. Release date 18th May 2022. Link https://www.ons.gov.uk/economy/inflationandpriceindices/datasets/consumerpriceinflation

[42] Institute of Transport Studies (2013) Buses and the Economy II: Survey of bus use amongst the unemployed.

[43] Department for Work and Pensions: 21st Century Welfare. 2010

Summary and recommendations:

- Inadequate and expensive public transport and hostile walking and cycling environments are forcing millions of people to choose between debt and social exclusion. Government must tackle transport poverty across all public transport modes, ensuring a fair public transport system must be affordable to all;
- Unite supports comments made by the Joseph Rowntree Foundation which highlight the inter-related issues around poor public transport and how, for some people, being able to access efficient, affordable and integrated transport is key to achieving wider economic success;

Safe transport home is particularly important to shift and night time economy workers, many of whom are in low paid jobs in hospitality, retail, and health and social care. Unite has started the *Get Me Home Safely* campaign for safe transport home, negotiating with local authorities and employers for the provision of safe transport home during unsociable hours.

Gender pension gap

Close the gender pay gap to close the gender pensions gap: The gender pension gap begins to grow in savers' early 30s; after age 32, men will usually contribute up to around £500 a year more compared with women, despite contributing the same percentage in salary.

When salaries rise, the difference becomes more apparent, with men paying up to £1,500 a year more than women. Not only do women have a lower pension pot at retirement but there is also an underlining difference in gender pay gap.

A higher proportion of women than men earn less than the auto-enrolment threshold of £10,000 a year — and in some schemes, there are up to three times more women under this threshold.

The Government has proposed to remove the lower earnings limit and require employers to pay pension contributions on the first penny earned. However, the Government is not proposing to do this until the mid-2020s and Unite activists from across our industrial sectors are pressuring employers to do the right thing now.

Think tank Onward has published a report on levelling up pensions, setting out how pension reform can boost opportunities for poorer workers and regions. The report finds that, since it was introduced in 2012, automatic enrolment has proved incredibly successful at increasing the number saving for retirement, with the proportion of employees in a workplace pension scheme having risen from 46.5 percent in 2012 to 77.6 percent in 2020[44]. However, it also finds that younger workers, part-time workers and those on low pay still miss out, which results in a workplace pension participation rate of just 20% for 16-21 year-olds, 41% for those earning £100-£199 per week, and 58 percent for part-time employees[45].

The report concludes that because lower paid and part-time workers are disproportionately concentrated in less prosperous regions, this contributes to the UK's regional divides. It recommends abolishing the earnings trigger and reducing the age at which people benefit from auto-enrolment to 18 years old. It estimates that abolishing the £10,000 earnings trigger for auto-enrolment and the

[44] Onward: *Levelling up pension to boost savings by £2.8 trillion; How pension reform can boost opportunity for poorer workers and regions. 5th January 2022. Link;*
https://www.ukonward.com/reports/levelling-up-pensions/

[45] ibid.

£6,240 lower earnings limit for pension contributions, alongside reducing the age threshold from 22 to 18 years old, would lead to the following benefits:

- A full-time worker on the National Living Wage would gain an extra £93,989 over a working lifetime, which would be a 60% increase in their workplace pension savings;
- Younger workers would save an extra £20,267 upon retirement, on average, from being enrolled at age 18 rather than age 22;
- A worker with two part-time jobs, each paying £190 a week, could see their pension savings triple to £297,600;
- Over the whole working lifetime of the current workforce, the total additional savings could be as high as £2.77 trillion, creating significant additional resources that could be deployed in the Government's levelling up agenda.

Summary:

- The auto-enrolment pension system as it stands currently proportionally disadvantages women, leaving women who are in lower pay up to 45% less income at retirement than men.
- Women are also more likely to fall behind on pension contributions by 10% if they take a career break and the average woman in her twenties today will retire with £100,000 less in her pension than her male peers.

Recommendations - Unite calls on the Government to:

- Reduce the minimum age for workers to be enrolled into a pension scheme from 22 to 18, to encourage early saving for retirement;

- Remove the current earnings threshold of £10,000, to help low-paid, part-time and multiple job workers, who are predominantly women, to get on the first rung of the savings ladder.

- Remove the lower earnings limit currently £6,396 from 2022/23 and require employers to pay pension contributions on the first penny earned.

- Women cannot afford to wait for the gender pay gap and subsequent pension pay gap to close or for the auto-enrolment pension system to catch up. Additionally the state pension in combination with whatever other occupational pension savings women have, will not be enough. To avoid future pension poverty women would to target now more than the believed 15% pension contribution. An immediate increase in the NLWM/NMW to £13 or £15 per hour would assist in closing the pension gap and prevent women from future pension poverty.

- Increase the current minimum auto enrolment contribution rate total of 8% (employers currently only have to contribute a minimum of 3%)

The National Living Wage

5. What has been the impact of the NLW in the past year? Our critical interest is in its effects on employment, hours and earnings. We are also interested in the effect of the NLW on any of the areas listed in question 3.

Unite is not aware of any negative impact in relation to the NLW last year. The Dube report which reviewed international evidence on the employment impact of minimum wages in a range of different countries found that *"the most up-to-date body of research from US, UK and other developed countries points to a very muted effect of minimum wages on employment, while significantly increasing the earnings of low paid workers. Importantly, this was found to be the case even for the most recent ambitious policies"*[46]. Furthermore, the report found that in the UK the introduction of the NLW raised the quality of jobs. Indeed, as shown in section 1- Economic Outlook, Unite has seen evidence of the NLW increase this past year raising the wage floor and we are continuing to negotiate with employers in low paying sectors to move away from NLW/NMW rates.

The impact of the 6.6% increase in NMW and the extraordinary conditions faced by workers during the pandemic have raised the sights of workers and they are now demanding higher percentage increases in pay and we are seeing this across all sectors. Most recently Unite secured an above average 21.39% pay increase for 200 airport facility workers who were on the NLW rate of £9.50 an hour, as well as this Unite negotiated for the company to pay for airport parking facilities for these workers[47]. Unite views this as a significant step towards dealing with the chronic staff shortages we are seeing in the aviation sector which have caused flight cancellations, forcing up pay and improving working conditions in a sector is a step in the right direction to recruit and retain staff.

6. To what extent has the NLW affected different groups of workers, particularly those with protected characteristics (for example women, ethnic minorities and those with disabilities) and migrant workers?

Women

As per our 2021 submission to the LPC, we continue to see the benefits of having more women in employment are being outweighed by the poor quality and low pay of the jobs they largely occupy. Indeed, according to the latest ONS figures 63% of women workers are paid less than £15 per hour, compared to 50% of men[48].

Women continue to face higher levels of insecurity at work and are therefore less able to assert their rights at work, and experience poorer terms and conditions generally[49]. These are workers who have regularly been denigrated as 'low skilled' and who are told they need to '*work their way out of poverty*' yet are the ones that society as a whole is most reliant upon. This should provide a wake-up call and a recalibration of the jobs we value as a society to ensure that all workers are treated with dignity, respect, security and receive a secure and real living wage.

Unite continues to hear from women members across our low paying sectors about the distinct lack of training provision and job progression and how they are feeling trapped in poverty wages.

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[46] Dube 2019 cited in Landman Economics Landman Economics: *The economic impact of increasing the National Minimum Wage and National Living Wage to £15 per hour.* June 2022. (Appended)
[47] Unite: Unite Gatwick workers win 21% pay increase. June 2022. Link: https://www.unitetheunion.org/news-events/news/2022/june/unite-gatwick-workers-win-21-pay-increase/
[48] ONS: Labour Force Survey 2022 Q1.
[49] Unite response to the Women's & Equality enquiry. June 2020

Unite remains concerned about the high levels of sex discrimination and sexual harassment being reported in the hospitality sector.

Again this year Unite hospitality sector has supported groups of women working for a large pub chain with grievances including sexual misconduct as well as failure to pay wages and health and safety issues[50]. Indeed Unite research has found a disproportionate prevalence of sexual harassment and gender based violence experienced by women working in the hospitality sector[51]

Summary and recommendations:

- Women often 'choose' to work in areas such as hospitality and social care because the jobs provide flexibility which allows them to fulfil caring responsibilities. But women should not be financially penalised for having children, they should be supported so that they and their families can progress out of low pay.

- Unite is calling for a £15 per hour rate of the NMW, a ban on zero hour contracts, an end for one-sided flexibility, better training and progression in low paying jobs and the continued monitoring of the gender pay gap.

- The report from Landman Economics (appended to this submission) found that an increase to £15 per hour would greatly benefit women and have a greater distributional impact in households with female workers and increase their earning potential to save more and invest money in training and progression which in turn would allow them greater competitiveness in the labour market[52].

Black and Asian Ethnic Minorities (BAEM)

Black and Asian Ethnic Minority workers are also over-represented in the low paid and under-valued occupations such as cleaning, social care, childcare, security, hospitality and retail. The 2022 Joseph Rowntree UK Poverty report discuss ethnicity and poverty and as in previous years black, Asian and ethnic minorities (BAEM) continue to be more likely, than their white counterparts to experience higher rates of in-work poverty and child poverty, according to statistical data highlighted in the report this is in part due to these groups being disproportionately working in food, caring, leisure and other service occupations which have an in-work poverty rate of more than 15%, as well as a high share of workers in less secure types of work[53]. Similarly, last year a study by the TUC revealed BAEM working people in the UK are seven times more likely to be working in low paid temporary jobs, and black women are more likely to be working in temporary jobs than black men (82% compared to 37%)[54].

The appended Landman Economic report argues that a £15 per hour NMW/NLW increase would reduce ethnic inequalities in gross earnings, this rate would be distributionally progressive impact on BAEM households, more so than for white households, with especially large gains in the bottom half of the income distributions (see graph below)[55]

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[50] The Courier: *MacMerry: Dundee bar chain appoints external investigator over sexual misconduct claims* 23rd March 2022. Link; *https://www.thecourier.co.uk/fp/news/dundee/3104729/macmerry-dundee-external-investigator/*

[51] Unite: Not on the Menu survey 2021. Link; https://www.unitehospitality.org/notonthemenu/

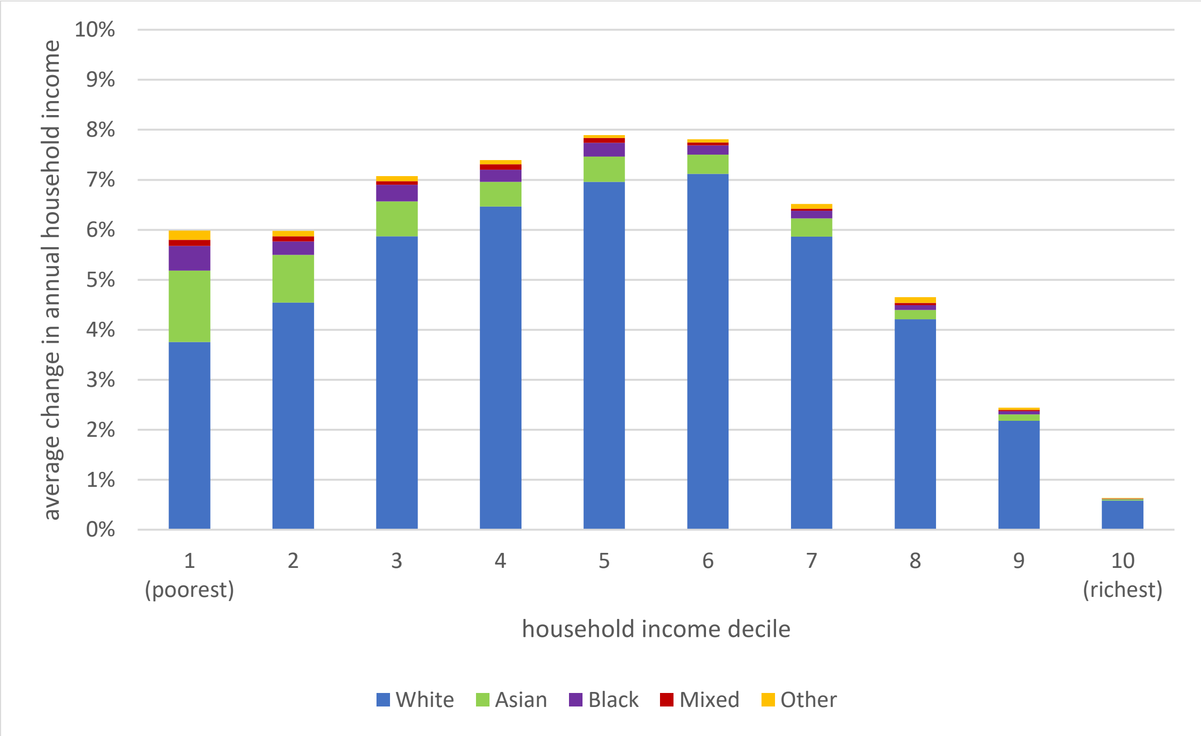
[52] Landman Economics Report; *The economic impact of increasing the National Minimum Wage and National Living Wage to £15 per hour.* June 2022. (Appended)

[53] JRF: UK Poverty 2022; The essential guide to understanding poverty in the UK. 18th January 2022

[54] TUC, 2017. 'BAME workers over a third more likely to be in insecure work, finds TUC'. Link

[55] Landman Economics: *The economic impact of increasing the National Minimum Wage and National Living Wage to £15 per hour.* June 2022

Table 3Average gains as a percentage of net income from increases in NMW to £15ph, by ethnicity and household income decile: workers aged 23 and over



Summary and recommendations:

- Unite remains concerned that BAEM workers are on average more likely to be trapped in temporary, low paid and insecure work than their white counterparts. <u>Unite calls on the Government to legislate to tackle ethnic disparities in the workplace by introducing mandatory ethnicity pay gap reporting for all employers.</u>

- <u>Action to tackle race discrimination in the workplace needs to be strengthened</u>. In addition to the measuring and reporting of ethnicity pay gaps, Unite also recommends that mandatory equality audits and statutory rights for union equality representatives are introduced, including specific requirements on race equality and action to support the progression of BAEM people at work. Unite has developed a "Race Forward" campaign for tackling race discrimination in the workplace, which is overseen by Unite's BAEM structures. It sets out clear practical action needed in ALL workplaces, including:

    - **Close the ethnic minority employment gap**
    - **Tackle the pay gap for black workers**
    - **Fight for equality of opportunity in promotion**
    - **Deal effectively with racial harassment, discrimination and bullying**
    - **Promote fairness for Black women workers**
    - **Negotiate for Union Equality Representatives**

- **Ensure fair treatment of migrant workers**
- **Organise and recruit BAEM workers into the union**
- **What to do if the employer will not monitor or conduct an audit.**

Unite calls for a £15 per hour rate of the minimum wage as soon as possible, the distributional impacts of the increase are progressive across all ethnicities with particularly large net gains per hour worked for BAEM workers[56].

Disabled workers and low pay

Unite is concerned over the latest ONS figures disability pay gaps in the UK which reveal disabled workers earn on average £1.93 per hour less than non-disabled employees[57]. This is of added concern when you consider the latest JRF UK Poverty report (2022) identified a gap of around 12% points in poverty rates between disabled and non-disabled people[58]. The poverty gap between disabled and non-disabled people has been growing over the past 20 years and regional inequalities in the availability of work and accessible transport networks which impact on the ability of disabled people finding and getting to work[59]. Unite represents many disabled workers in workplaces throughout industry and **opposes discrimination against disabled men and women, and support practical action for disability equality**. Therefore Unite supports the calls from the TUC report on disabled workers which call on the government to deliver[60];

- *An emergency budget to boost pay, pensions and universal credit, and cut energy bills through a windfall tax on energy company profits.*
- *Mandatory disability pay gap reporting for all employers with more than 50 employees. This should be accompanied by a duty on bosses to produce targeted action plans identifying the steps they will take to address any gaps identified.*
- *Enforcement of reasonable adjustments: The Equality and Human Rights Commission (EHRC) should get specific funding to enforce disabled workers' rights to reasonable adjustments and should update their statutory code of practice to include more examples of reasonable adjustments, to help disabled workers get the adjustments they need quickly and effectively. This will help lawyers, advisers, union reps and human resources departments apply the law properly.*

[56] Landman Economics: *The economic impact of increasing the National Minimum Wage and National Living Wage to £15 per hour.* June 2022 (appended)
[57] ONS: *Disability pay gaps in the UK: 2021.* Link; *https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/disability/articles/disabilitypaygapsintheuk/2021*
[58] JRF Poverty 2022: *The essential guide to understanding poverty in the UK.* Link; https://www.jrf.org.uk/report/uk-poverty-2022
[59] Ibid.
[60] TUC – *disabled workers face "living standards emergency*". April 2022. Link; https://www.tuc.org.uk/news/tuc-disabled-workers-face-living-standards-emergency

8. The Government's remit for the NLW is based on achieving a target of two-thirds of median earnings by 2024. Based on forecasts, our current central projection for the April 2024 NLW rate is £10.95. What are your views on this target?

For the past 2 years the NMW has been growing faster than inflation and while we commend the LPC on recommending a 6.6% increase for 2022, it is also our view that the LPC has been overly cautious in its previous recommended rates, causing these to be below the on-course estimate and unless the LPC is bolder in its recommendation for 2023, the Government will fail to achieve its minimum wage target by 2024. We note the findings of the Landman Economics report (appended to this submission) which states that in order "*to maintain the real value of the NMW in future years, a new target level of median hourly pay (replacing the existing target of reaching two-thirds of median hourly pay by 2024) looks reasonable. This would imply that the NMW should be around 50 per cent higher than its current long-term target level*"[61].

Unite strongly believes the LPC can be bolder in its recommendation and reset the course for a significant increase to the minimum wage to restore its value and lift the lowest paid out of in work poverty. The Landman Economics report appended to this submission considers minimum wages almost as high as median hourly earnings and acknowledges that there is no current empirical evidence on the impact of minimum wages at this level set as high as median hourly earnings and explores a two-stage approach to introducing the £15 minimum wage; primarily raising the NMW to £13 per hour and monitoring the impacts on employment effects, and after this, if there are no negative impacts on employment, the NMW should be increased to £15 an hour. Unite understand this target is tied to median earnings and as such calls on the government should take action to deliver general wage growth.

We accept there is a great deal of uncertainty and the LPC will monitor the changes in the economy over the coming months, but we also believe low paid workers should not suffer the burden of this crisis.

9. How have employers responded to the lowering of the NLW age threshold to 23?

Reducing the age at which workers receive the full minimum wage rate has undoubtedly had a positive impact on those workers aged 23 & 24 by putting much needed pounds in their pockets and improving their living standards. In our experience, having represented hundreds of workers in this age bracket, the 21-22 rate is very rarely used by employers positively. We know of scores of examples of where hospitality employers have opted for younger workers purely because they are cheaper to employ. This is why Unite is calling for age rates in the minimum wage to be abolished.

Our young members have told us that wage discrimination has had a detrimental impact on their mental health, financial wellbeing, future prospects and working relationships. Unite opposes minimum wage differentials and we would like to see a flat rate of NLW/NMW for all workers to earn equal pay for work of equal value.

10. At what level should the NLW be set from April 2023? Our current central projection for the on-course rate is £10.32.

It is Unite's firm view that workers should not be paid less than the minimum rate needed for them and their families to avoid a life of hardship. **Unite believe the NLW/NMW should increase to £15 an hour as soon as possible**. The rates are distributionally progressive and would benefit the economy as well as improving the living standards of low paid workers. These rates are crucial to economic

[61] Ibid page 5.

recovery and the increase would also improve worker productivity, and reduce employee turnover and absenteeism[62]. The analysis from Landman Economics commissioned as part of this submission (report appended) makes a powerful economic case for an increase in the National Living Wage to £15 per hour as soon as possible. This would improve the public finances, and has the potential to create jobs through stimulating the economy.

The report found:

- An immediate increase in the National Minimum Wage to £15 per hour would result in an average gain in net income per worker of over £3,600 per year for around 13 million workers aged 23 and over;
- A £15 per hour NLW would improve public finances by around £19.3 billion (receipts minus expenditure) if applied only to those aged 23 and over only, if this is extended to 18-22 year olds public finances would improve by an additional £3.5 billion;
- £15 per hour (minimum wage rate) would increase the net incomes for low-paid workers by around £47.3 billion, if the increase applies only to individuals aged 23 an over. If extended to employees aged 18 to 22, net incomes for low-paid workers would increase by an additional £8.8 billion, resulting in a total increase of net income of £56.1 billion across all age groups;
- Extending this rate (£15 per hour) to workers aged 18 to 22 would cover an additional £1.7 million workers;
- While the effects of this rate will be progressive for all workers, the report drills down on the impact for low paid workers across protected characteristics (women and men), finding that at the rate of £13 per hour women workers' net income increases by around £24.5 billion, an increase in net income for male workers of just under £23 billion. Thus increasing the minimum wage to either £13 or £15 would significantly reduce the gender pay gap[63]. The reports also identifies a reduction in ethnic inequalities in gross earnings from the increase totalling 14% of gross earnings for BAEM workers[64]. Migrant worker wages would be boosted by around £17.4 billion where a £15 rate is applied[65];
- The distributional effect of increasing the NLW/NMW to £15 per hour would be more progressive than the effect of income tax and National Insurance contributions;
- In relation to the impact on profits, while this rate cause a relatively minor reduction in profits for shareholders, there would be a considerable time lag between the dividends being paid and the accumulated pension funds being used by the relevant policyholder to purchase an annuity. Additionally a substantial proportion of UK company shares are held by institutions or individuals who are not based in the UK, therefore the reports finds the short-run impact of reduced profits on consumer demand would be zero.
- Existing evidence suggests the employment effects of increasing the NLW to £15 per hour are unlikely to be negative and rather by incorporating multiplier and stimulus effects the overall effects on employment could well be positive.

[62] Landman Economics: *The economic impact of increasing the National Minimum Wage and National Living Wage to £15 per hour.* June 2022

[63] See table 2 of the appended Landman Economics report.

[64] See table 4 of the appended Landman Economics report

[65] See table 5 of the appended Landman Economics report.

The written testimony below from one of our members in the facilities management sub-sector illustrates the first-hand experience of far too many workers earning the minimum wage:

"Somethings need to get moving as right now with prices on the rise how do employers expect us all to live? I can openly say that right now I'm not even living paycheque to paycheque anymore; I'm personally struggling to pay bills, put petrol in my car to get to and from work and pay for food. Borrowing from family to keep my head above water with no idea how I'm meant to pay it back is stressful enough. Meanwhile our workload has almost tripled with the return of staff to the workplace. No one seems to care about us little people anymore. No one. I can see us all going off from work with stress and exhaustion soon enough. The only reason I'm still working there is because barely any companies are giving out full time contracts right now. None of us should feel the way we do. We lost 40+ staff. We know who's going to end up doing it, it's is us mugs adding more stress and pressure to what we're already facing right now. Because if it's not done or not done properly it's going to come back on us anyway. It's either sink or swim right now and I can speak for everyone at work when I say we're sinking." – **Unite member working in cleaning and facilities management**

Young people

11. What do you think has been the effect of the minimum wage on young people and on their employment prospects?

The creation of age rates for the minimum wage has had a systemically negative impact on young people both in terms of their living standards and their right to equal treatment.
Importantly, the primary government justification for the introduction of wage/age rates was to improve the job prospects of younger workers. In Unite's experience this has not occurred. However, in the hospitality sector the effect of age differentials in NMW has seen employers moving to recruit younger and less experienced workers so they can pay lower rate of NLW/NMW where this happens Unite is noticing a reduction in output and increasing pressure on older workers who are having to supervise groups of younger workers.

Paying young workers up to 30% less simply because of their age usually has nothing to do with their skills or indeed experience. Another tangible example we see in the cases where age differentials of NMW/NLW are applied are 19 year old bar managers being paid almost £3 per hour less than the junior colleagues they manage despite the fact that are usually (by necessity of their role) more skilled and experienced.

In those areas where youth rates have been abolished via negotiation there is no evidence that this has led to a decrease in employment. Many companies are prepared to abolish youth rates because it aids recruitment, retention, motivation and productivity. Where Unite is organised, part of our bargaining strategy is for the abolition of youth rates where they apply[66].

12. Last year saw the creation of a new 21-22 Year Old Rate, to remain in place until the NLW age threshold is lowered again to 21.

a. To what extent do employers use the 21-22 Year Old Rate?

Unite is aware of employers targeting workers in the adult rate of NMW for redundancy. Unite can only assume this is with the intention to reduce wage bills.

While the creation of the 21-22 year old rate has gone some way in lowering the wage differentials in NMW/NLW between this group and those over 23, Unite is also aware of many cases where younger workers who have worked for the same employer for a number of years on a younger wage rate being progressed to a supervisory role but on the rate of NMW, for example a worker turns 21 and suddenly is promoted to a supervisor given additional duties and a pay uplift at the NMW rate for 21-22 year olds.

b. When do you think the NLW age threshold should be lowered to 21? What factors should we consider in making this decision?

Unite opposes minimum wage differentials and we would like to see a flat rate of NLW/NMW for all workers to earn equal pay for work of equal value.
Unite continues to call for an end to the unfair age rates. Unite continues to hear of the experiences of our low paid younger workers who work excessively long hours to make enough to 'get by'. Paying workers substantially less for the exact same job based entirely on their age is neither fair nor

[66] Labour Research Department 2018

justifiable. Recent data from Understanding Society shows being young and on low incomes were significant predictors of food insecurity[67].

c. At what level should the rate be set from April 2023?

As above, Unite believes the age rates in the NLW/NMW should be abolished. In those areas where youth rates have been abolished via negotiation there is no evidence that this has led to a decrease in employment. Many companies are prepared to abolish youth rates because it aids recruitment, retention, motivation and productivity. Where Unite is organised, part of our bargaining strategy is for the abolition of youth rates where they apply[68].

Unite commends the LPC for its recommendation to lower the NLW threshold to 23 year olds and the creation of a new 21-22 year old rate. Unite would like to see a more ambitious approach for the NLW. Extending the NLW to younger workers lowers the nominal value of the NLW. This is because younger workers have lower average pay. This scenario implies lower pay for workers aged 23+ and lower overall costs for employers than would otherwise be the case, albeit it raises pay for younger workers. Unite understands extending the NLW to younger workers has implications for both workers and employers but accepts these 'trade-offs' solely in the context of a rising target.

Unite maintains that the LPC can be bolder. Unite is confident that increasing the NMW to £15 per hour for workers aged between 18 and 22 would result in an increase in gross wages of almost £12.4 billion in total. The estimated improvement in the public finances from increasing the NMW to £15 per hour for these younger workers is just over £3.5 billion at £15 per hour.
Increasing the NLW and NMW to £15 per hour is a progressive policy in distributional terms, with the largest percentage increases in net household income for households in the poorest decile, especially households with low-paid workers aged under 23.

13. How widely used are the other NMW youth rates (the 18-20 Year Old Rate and the 1617 Year Old Rate)?

The effect of post Covid labour shortage has meant that in hospitality many workers left the sector, the main reasons for this were redundancy and poor working conditions. As a result hospitality employers are now struggling to fill labour gaps and have begun paying between £12 to £14 to recruit and retain staff to more experienced workers. This is removing age differentials in pay because experience and age have bottomed out.

14. At what level should these rates be set from April 2022?

According to the Landman Economics report (appended), increasing the NMW to £15 per hour to employees aged 18 to 22 would increase their net incomes by an additional £8.8 billion. Furthermore, the percentage impacts on household net incomes of increasing the NMW to £15 per hour for workers aged under 23 are especially large in the retail, hospitality and care industries, both of which contain a particularly large number of low-paid young workers. Therefore Unite calls for £15 as soon as possible and the abolition of age differentials.

[67] Bramley et al 2021 cited in JRF: UK Poverty report 2022. Link https://www.jrf.org.uk/report/uk-poverty-2022
[68] Labour Research Department 2018

Apprentices

15. What is the outlook for the recruitment and employment of apprentices?

The construction industry will require significant investment in more construction apprenticeships to counter the current level of skill shortages. According to the Construction Leadership Council skills plan for 2022-2023, utilising CITB forecasting, we need to recruit 50,000 construction workers per year to meet demand[69].

Prior to the pandemic Unite had continued to press for an increase in the number of skilled apprentices being taken on, notably in manufacturing, engineering, science, etc. This included an increase in the number of young women apprentices and apprentices from a BAEM background. We were also in discussions with one major employer in regard to promoting skilled apprenticeships in manufacturing in schools, including amongst young people who come from a disadvantaged background and also young people who had not considered manufacturing, engineering or science as a career path. The pandemic had a major impact on this work and within a matter of months the number of apprentices being taken on into these reduced by 78%.

There was also concern that apprentices were being laid off and so the Unite representatives on the Sector Skills Councils lobbied the Government to ensure that apprentices who were facing redundancy be kept on and their salaries continued to be paid via the Apprenticeship Levy. Unfortunately the Government did not fully respond but made some changes that protected apprentices in their last months of training.

Unite, the TUC and the CSEU (Confederation of Shipbuilding and Engineering Unions) were instrumental in bringing together sector skills bodies in manufacturing and engineering, chemicals, pharmaceutical and nuclear and food and drink and major employers federations under the banner of the Manufacturing Skills Taskforce which is lobbying hard for the Government to recognise that there needs to be a national skills plan post-Covid recovery. The Taskforce has also considered the future of the Apprenticeship Levy and at the time of writing is still lobbying political parties, including Labour, on all matters relating to the future of skills, apprenticeships and the levy in the UK.

In addition, the Government has introduced proposals for "flexible apprenticeships". Unite has been instrumental in advising the Government it will not accept low quality apprenticeships including "flexible apprenticeships" that are exploitative and do not provide the quality apprenticeships that will be needed for the future. A number of large companies already provide training for smaller companies within their supply chains which are negotiated and supported by unions. However, there is concern that some less reputable employers will see an opportunity to use "flexible apprenticeships" to their own company advantage and divest themselves of employment responsibilities. Through the various bodies, the Sector Skills Councils and the Manufacturing Skills Taskforce, the Government has been warned that any attempt to put into question the employment status of "flexible apprenticeships" will not be accepted. At the time of writing these discussions with the government through the Manufacturing Skills Taskforce, the unions, TUC and CSEU are ongoing.

[69] CITB Skills Plan 2022-2023. Link: https://www.constructionleadershipcouncil.co.uk/wp-content/uploads/2022/04/B07527_CITB_CLC-Skills-Plan-2022-23_v3.pdf

The onset of Covid meant a necessary campaign to defend apprenticeships. Unite challenged government, and worked with Labour, calling for protection of apprenticeships to include:

- Extended and flexible wage support;
- No apprentice redundancies;
- Extend flexibility in use of Apprenticeship Levy funds;
- Furloughed apprentices wage protection at 100%;
- Levy funds to support continued employment;
- For an "apprenticeship continuity guarantee" to ensure every apprenticeship is preserved;
- Procuring authorities utilise every potential placement for construction apprentices, and positive action for apprenticeship diversity, gender and BAEM;
- Campaign on direct employment through procurement identifying link between bogus self-employment and negative impact on training and apprenticeships.

Unite is on a number of Construction Leadership Council (CLC) groups and has campaigned to ensure that the skills plan adopted by CLC addresses solving skills needs, shortages and gaps through high-quality training, apprenticeships. Unite submitted a response to the ILO regarding a global framework for quality apprenticeships. The union is campaigning for a framework delivering high quality apprenticeships and traineeships across all sectors of the economy.

16. How widely used is the Apprentice Rate? What are the characteristics of apprentices paid the rate?

Where Unite collectively bargains it is not used, whether at enterprise level bargaining or at national agreements when the pay and benefit package are taken into account, they are significantly over and above apprentice NLW/NMW.

For instance, a first year plumbing apprentice gets £6.75 per hour rising to up to £10.76 (or £13.50) with Level 3 diploma[70]. Similarly, an apprentice electrician on national standard rates at stage 1 starts at £5.59 rising to £12.15 at the final stage in addition to benefits and allowances (travel allowances)[71]. Electricians' apprenticeships set rates according to progression rather than age. Adult trainee electricians for those undertaking the apprentice route will commence on £13.10 rising to £15.51 in their final year of training (with own transport)[72].

17. How common is it for employers to set the pay of first-year apprentices below the NLW/NMW rates?

Unite notes that the last apprentice pay survey covers 2018/2019 and we appreciate the conditions of the pandemic have made it difficult to gather data for the survey. We also welcome the LPC considering our representations with regards to monitoring compliance of apprentice wages in England and we were pleased to learn that new apprenticeship funding rules put a requirement on providers to have checked whether employers are complying with legislation on the National

[70] Joint Industry Board for Plumbing, mechanical and engineering services in England and Wales (JIB-EMES): National working rule agreement. 2022-20223

[71] JIB for electrical contracting industry: National standard rates. 3rd January 2022

[72] Ibid.

Minimum Wage for Apprentices. However, we are still waiting to see the latest pay survey which is fundamentally important in revealing if new funding rules have had a positive effect and we need to know about measures of enforcement for compliance of apprenticeship rules.

18. The Apprentice Rate increases this year to £4.81, the same level as the 16-17 Year Old Rate. What do you expect the effects of this increase to be?

While that is a step in the right direction for a 16-17 year old apprenticeship, it is absurd that such poverty wages are being offered because there is no age restriction on apprenticeship entry levels so technically you can have a mature apprentice with family responsibilities who has gone into an apprenticeship earning £4.81. Considering the very low rate of pay, Unite doubts the increase of 50 pence per hour has had any significant impact, particularly under the current economic conditions where we are experiencing rapidly increasing energy costs and a looming food crisis.

Unite strongly believes the low wages suffered by many apprentices is tantamount to exploitation, and we have raised these concerns in our previous submissions to the LPC. Good employers, who rightly invest in apprenticeships and training and pay a fair wage to their apprentices, are being undercut by unscrupulous bosses who are exploiting the apprenticeship system and failing to pay the statutory minimum.

Research by the Young Women's Trust found that 49% of apprentices struggle to cover the cost of transport to work as well as basic living costs and 42% were spending more on the role than they earn[73]. Unite is also concerned that women and BAEM workers are less likely to be offered employment following the completion of an apprenticeship programme, Additionally, there remains a serious concern of underpayment with many apprentices not being paid the relevant National Minimum Wage applicable to their age let alone trade union negotiated rates of pay, allowances and benefits.

19. At what level should the Apprentice Rate be set from April 2023?

Unite is of the view that all apprenticeship rates should be at least set to the age rates of NLW/NMW with our continued call for abolition of age differentials.

[73] HR Magazine: Apprenticeship pay too low say MPs. March 2018 Link

Compliance and enforcement

20. What issues are there with compliance with the minimum wage and what could be done to address these?

Hospitality – the tronc system

As a consequence of the pandemic, there has been a surge in card payments in the hospitality sector. Resultantly, food and accommodation employers have implemented a tronc system which is diminishing tips for individual workers. E24 guidance on tips, gratuities and service charge is inadequate and insufficient to deal with the rampant abuse of the tronc system where unscrupulous employers are diverting tips and service charges to boost back of house pay by depriving its minimum wage waiting staff of their hard-earned tips. Additionally, tips and service charges are being used by some employers to backfill pay for kitchen staff to make up the difference in pay to reach the minimum wage, usually wiping out the NLW increase for waiting staff and leaving them financially worse off.

Over the past 4 years, the Government committed to bringing in legislation to ensure workers receive 100% of tips and service charges. Unite has long campaigned for fair tips legislation and for this to include a statutory code to provide access to remedy for workers who believe tronc decisions are being unfairly manipulated to the benefit of their employer. However, despite government promises to tackle employer tip abuses in 2016, 2018 and during the Queen's Speech in 2019, the Government has failed to legislate on this.

Unite calls on the LPC to recommend the Government puts pressure on HMRC to modernise E24 guidance tips because it is failing to address tronc abuses. The Tronc system should be completely independent from the employer as tips are earned by waiting staff through hard work in often stressful working conditions; it is a reward given freely by customers.

We wouldn't accept or expect individual bonuses earned in other, higher paying sectors, to be taken from employees and shared with the rest of the workforce, yet the practice of stealing tips through controlling what is meant to be an independent Tronc system is rife in the hospitality sector.

Hospitality – low pay and the cycle of abuse

Earlier this year, Unite Hospitality supported over 40 women working for a large pub chain in Dundee and Glasgow with a grievance which detailed 7 pages of complaints ranging from alleged sexual misconduct and assault to failure to pay wages, holiday pay and pensions as well as breaches of the Health and Safety at Work Act.

The collective letter, supported by 60% of the workforce across 13 bars, detailed shocking examples of sexual misconduct, assault and rape carried out by senior employees of the company which were reported but not dealt with appropriately. In total, our members were owed over £100k in unpaid wages, holiday pay and pensions which the employer had neglected to pay throughout the pandemic.

Having originally denied the complaints and refusing to meet with the workforce collectively, company Directors eventually agreed to meet with Unite representatives from each of the 13 venues. After a 5 hour meeting, which detailed the shocking mistreatment and failure to act from senior leaders within the business, the company announced immediate action to pay all outstanding wages, holiday pay and pensions. Most importantly they announced an independent investigation into allegations of sexual misconduct and a top-down culture which had allowed it to occur without rebuke[74]. We have won an uplift in wages to above the real living wage of £10 per hour, regardless of age across all venues.

This collective case is unfortunately not exceptional. Indeed, Unite research has found a disproportionate prevalence of sexual harassment and gender based violence experienced by women working in the hospitality sector[75,76] and there is a wealth of research which also evidences the sector with the highest prevalence of sexual harassment is hospitality[77,78]

It is no coincidence that workers that in low wage industries, where women and black and Asian ethnic minorities are overrepresented, have the highest reported incidences of sexual harassment and assault by sector. Here common factors expose workers to abuse and gender based violence. In particular the nature of hospitality in the UK is such that many workplaces are too small to have adequate reporting structures for sexual harassment and many of the large employers in the sector are hostile to trade unions. Even where reporting mechanisms exist, low pay often force hospitality workers to rely on tips which can work to condition them to tolerate harassment or make them fearful of reporting sexual harassment and even assault in order to make ends meet.

Through Unite research and further discussions with hospitality workers, Unite is aware and extremely concerned over the sexualisation of women in this industry where the workplace culture enables a consensus that *'tits mean tips'* and service often takes a on pervasive form which extends to abuse. This is so widely acknowledge that this year the Equality and Human Rights Commission (EHRC) and UKHospitality have jointly produced a practical resource to stop the harassment of hospitality staff being seen as '*just part of the job'*[79], although it is disappointing that the development of this resource did not include hospitality workers or worker representatives.

Unite commend the UK Government for ratifying ILO Convention 190 which calls for an to end violence and harassment in the workplace, this is a positive step to addressing all forms of abuse and violence at work. Unite will be examining how this will be implemented and enforced in workplaces. **Where workers are able to organise and take industrial action they can safely challenge abuse and injustice at work. Unite demands that the Government take action to strengthen trade unions' access to workplaces.**

Freeports: levelling down pay?

Unite is seriously concerned about the impact of the Government's new freeports on pay. Unite members working for several employers within and directly involved in the new freeports have been forced into disputes over attempts to impose pay freezes or real terms pay cuts. This has included workers in docks, manufacturing, construction and refineries.

The case of P&O is the most egregious assault by an employer linked to the freeports to date. P&O's parent company, DP World, operates two freeports (Thames and Solent), while the firing of the 800 P&O workers took place within the Humberside and Liverpool freeports. Such cases do not inspire

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[74] The Courier: *MacMerry: Dundee bar chain appoints external investigator over sexual misconduct claims* 23rd March 2022. Link; *https://www.thecourier.co.uk/fp/news/dundee/3104729/macmerry-dundee-external-investigator/*

[75] https://unitelive.org/14506-2/#:~:text=Unite%20survey,-Her%20experience%20is&text=Preliminary%20findings%20of%20the%20'Not,experienced%20sexual%20harassment%20at%20work.

[76] Unite: Not on the Menu survey 2021. Link; *https://www.unitehospitality.org/notonthemenu/*

[77] *https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1002872/2021-07-15_Literature_Review_of_Sexual_Harassment_in_the_Workplace_FINAL.pdf*

[78] *https://www.equalityhumanrights.com/en/publication-download/turning-tables-ending-sexual-harassment-work*

[79] *https://www.equalityhumanrights.com/en/our-work/news/action-plan-announced-tackle-sexual-harassment-culture-hospitality*

any confidence that employers involved in the freeports are committed to 'levelling up' workers' pay and conditions.

Unite identifies two broader threats to pay:
1) The type of jobs which will be created: According to both central government and the freeport business cases seen by Unite, the aim of freeports is to create jobs, while the customs benefits and tax incentives are supposed to benefit high-end manufacturing.

Unite believes that the majority of jobs which will be created by freeports are in warehousing and logistics - ranging from portside logistics and supply chain hubs to mega warehousing units. Examples include Gateway 14, the largest project of its type in Eastern England at 2.36 million square feet[80], the DP World London Gateway Logistics Park and the East Midlands Intermodal Park.

Low pay and insecure work are rife across the warehouse sector. Unite believes employers are not building these warehouses in low income areas in order to 'level them up,' but because they can get away with paying workers below national averages while taking the tax breaks offered by the freeport.

2) An unlevel playing field: Companies within named freeport zones are eligible for a series of significant financial benefits, from tax relief to simplified customs and the avoidance of tariffs. These benefits are available to employers in strictly defined areas to attract new investment or relocation, but not to existing employers just outside the zones but within the same area. This risks an unlevel playing field, where employers may seek to cut pay to compete with those inside the freeport zones. Similarly, Unite has dealt with cases of employers relocating jobs from one region to another in order to place them within a freeport. Only determined efforts by the trade union has prevented pay being reduced as part of this relocation.

Unite is in ongoing dialogue with the freeports, including the new governing boards, the local authorities and directly with employers. Unite is seeking trade union access to new freeport sites, proper auditing of all such sites for cases of labour exploitation and for the freeport authorities and new employers to sign up to minimum standards agreements as a safety net for pay and conditions.

21. What comments do you have on HMRC's enforcement work?

Construction

In construction the lack of labour market enforcement officers is of growing concern. Unite has no reason to be confident in the resources available to investigate construction. We are not convinced that the number of inspectors necessary to monitor construction workplaces is available from current resources. Enabling effective enforcement means significantly increasing financial resources to fund more inspectors. To highlight this point, it was reported that inspections of employers by HMRC NMW Enforcement, the department responsible for policing minimum wage laws, and the Employment Agency Standards Inspectorate (EASI) fell by 20% and 50%, respectively during 2020 compared with 2019. Resources are a major factor and with 40,000 employment agencies covered by only 19 EASI inspectors it is difficult to imagine this having a major impact in preventing exploitation

22. Further comments concerning compliance and enforcement.

Unite suggests a number of proposals in its submissions to the DLME calls for Evidence, the Taylor Review, and to previous LPC consultations to improve compliance and enforcement in relation to NMW/NLW.

[80] https://gateway14.com/scheme/

Unite notes the interplay between a range of factors behind effective enforcement. These include:

- Trade union access to unrecognised workplaces;
- Fully resourced and strengthened labour market enforcement bodies, and regular monitoring;
- Labour rights compliance under public procurement rules;
- Statutory collective bargaining across sectors, and the reinstatement of statutory pay-setting for agriculture in England, including the reinstatement of statutory rights to holiday pay and sick pay as under the former Agricultural Wage Boards.

Supply chains

Fragmentation of employment relationships (outsourcing, franchising, use of labour market intermediaries) has made it even more difficult for many workers to enforce their rights. Workers can struggle to identify their employer due to complex supply chains. Economic employers are using a range of strategies to transfer accountability to other parties, meaning they have little legal responsibility for the people who work for them. **Unite advocates the strengthening of the Modern Slavery Act to include tougher enforcement and accountability in supply chains.**

Union access

Enforcement of the minimum wage would be greatly improved were trade unions to have access to workplaces. Improved access would allow unions to inform workers of their rights and critically encourage efforts to ensure the enforcement of those rights. Trade union representatives save both time and money for improving workplace relations and enforcing best practice. An important step forward for the role of trade unions would be the reinstatement of trade union representatives on the GLAA Board, amongst other steps.

The role of the public sector

Unite seeks the return of social care to the public sector and as part of this, the social care workforce to be brought under a national collective bargaining agreement.

Better resourcing of enforcement bodies

We need better funding of the state-led enforcement system. Long-term, sustained funding would allow enforcement bodies to recruit and train proper workplace inspectors, inspect more workplaces, and prosecute unscrupulous employers. Currently the UK has insufficient inspectors; there are roughly 40,000 employment agencies operating in the UK, but we only have 19 EAS inspectors**.**

Landman Economics

The economic impact of increasing the National Minimum Wage and National Living Wage to £15 per hour

A report for Unite by Howard Reed (Director, Landman Economics)

June 2022

Acknowledgements

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Data from the Family Resources Survey (2017/18, 2018/19 and 2019/20 survey years) are Crown Copyright and are provided by kind courtesy of the ESRC's Economic and Social Data service (ESDS) and distributed by the UK Data Archive.

Executive Summary

This report looks at the potential economic impact of an immediate increase in the UK National Minimum Wage (NMW) from its current rate of £9.50 per hour for employees aged 23 and over (the "National Living Wage" rate) to £15 per hour. The report also looks at the impact of increasing the NMW for workers aged 18 to 22 from the current rates of £9.18 per hour for 21 and 22 year olds, and £6.83 per hour for 18 to 20 year olds, to £15 per hour. The analysis uses the pooled data from the 2017/18, 2018/19 and 2019/20 Family Resources Survey and the Landman Economics tax-transfer model to estimate the number of workers affected, the distributional impact on household incomes and net wages of the workers affected, the impact of increasing the NMW on the public finances, and the potential employment effects.

The increase is analysed in two stages – an 'intermediate' increase to £13 per hour and then an increase to the full 'target' level of £15 per hour.

The results show that an increase in the NMW to £13 per hour would benefit around 10.3 million workers aged 23 and over, while an increase to £15 per hour would benefit almost 13 million workers, 58 percent of whom are women. 900,000 workers aged 18-20 and 830,000 workers aged 21 or 22 would benefit from a NMW increase to £15 per hour.

The average gain in net income per worker from increasing the NMW to £15 per hour is just under £3,650 per year for workers aged 23 and over, and just over £5,100 per year for workers aged 18-22. The average net increase in income per hour worked (allowing for increases in income tax and employee National Insurance contributions, and reduction in Universal Credit payments) is £2.10 for women who benefit from the NMW increase to £15 per hour, and £1.87 for men who benefit from the increase. Thus, the increased minimum wage reduces inequality in net earnings between men and women.

Increasing the NMW to £15 per hour is a reasonably progressive policy in distributional terms, with much bigger percentage gains in the bottom 60 percent of the income distribution than in the top 40 percent. The impact of the increased minimum wage is markedly progressive for low-paid workers aged under 23. The impact on household income is particularly beneficial for low-income households containing people who work in the hospitality, retail, care and cleaning industries, which have large numbers of workers on very low pay rates. Around four-fifths of workers aged 23 and over in the retail sector, and almost nine-tenths of workers in the hospitality sector, would benefit from a NMW rate of £15 per hour. The distributional impacts by ethnicity are particularly progressive for asian and black workers. Across the age distribution, average net gains per worker from increasing the minimum wage to £15 per hour are largest for workers aged under 35. The effects of increasing the NMW to £15 per hour are especially progressive for migrant and temporary workers aged under 23.

Increasing the NMW to £15 per hour would also benefit the public finances through increased income tax and National Insurance Contributions receipts, increased receipts from expenditure tax (due to higher consumer spending by workers with higher net wages) and lower Universal Credit spending. Overall, this report estimates that the public finances would improve by around £19.3 billion as a result of a NMW increase to £15 per hour for employees aged 23 and over, and by an additional £3.5 billion if the £15 per hour rate also applies to employees aged 18-22.

While increases in the minimum wage are often opposed on the grounds that they would lead to job losses, analyses by the Low Pay Commission and other researchers of the impact of the National Living Wage between its introduction in 2016 and the onset of the Covid-19 pandemic in early 2020 show no adverse employment effects. Similarly, most of the evidence analysing minimum wage increases of similar (or higher) generosity in other countries such as the United States finds no adverse effects of minimum wage increases on employment.

Chapters 4 and 5 of this report show that once the potential stimulus effects of increasing the NMW are taken into account, overall negative effects on employment seem unlikely, and there could in fact be modest *gains* in employment. Increasing the NMW to £15 per hour for all employees aged 18 and over could result in an extra 430,000 full-time equivalent jobs, based on the multiplier estimates used by the UK Office for Budget Responsibility. Furthermore, there is a significant risk of the UK falling into recession in the near future as the Bank of England raises interest rates in response to rapid price inflation. The UK is also suffering from a decline in employment rates over the last two years – particularly for men aged 50 and over – due to early retirement, “long Covid”, and a reduction in the number of workers from EU countries post-Brexit. In this labour market environment, a boost to wages arising from an increase in the NMW might encourage more people over 50 to stay in work rather than retiring early – or in some cases, to re-enter the labour force – increasing employment, and improving the government’s fiscal position as well as household net incomes.

Chapter 6 of this report analyses the relationship between the proportion of workers who would be paid at a NMW rate of £15 per hour and the extent of collective bargaining in each industrial sector of the UK economy. The results suggest that an increased NMW would perform an important function in terms of supporting wages in low-wage sectors which also tend to have low levels of collective bargaining. But recent US evidence showing a positive relationship between increases in the minimum wage at state level and subsequent increases in trade union membership suggests that a rapid rise in the minimum wage may itself help strengthen workplace collective bargaining institutions.

In a high-inflation environment, the precise time at which the NMW is raised to £15 per hour (or £13 per hour) has a significant impact on the proportion of employees paid at the NMW. For example, a NMW of £15 per hour would directly affect 52 per cent of workers aged 23 and over if introduced in April 2022, compared to 44 per cent if introduced in April 2025.

A NMW of £15 per hour would be just above median earnings if introduced in April 2022, and just below median earnings if introduced in April 2023. To maintain the real value of the NMW in future years, a new target level of median hourly pay (replacing the existing target of reaching two-thirds of median hourly pay by 2024) looks reasonable. This would imply that the NMW should be around 50 per cent higher than its current long-term target level.

Although there is an empirical evidence base showing that minimum wages set as high as 80% of median earnings (in the United States) have no adverse employment impact, there is no current empirical evidence on the impact of a minimum wage set as high as median hourly earnings. Bearing this in mind, there is a case for a two-stage approach to introducing the £15 minimum wage. In the first stage the NMW could be raised to £13 per hour. Then, after monitoring by the LPC to assess the employment effects, the NMW could subsequently be increased to £15 an hour. This two-stage approach may be especially important for workers aged 18 to 22, because £15 per hour is much higher, relative to median earnings, for this group than it is for workers aged 23 and over.

Overall, the analysis presented here builds on the previous report by Landman Economics for Unite in 2018[81] and makes a powerful economic case for an increase in the National Minimum Wage to £15 per hour. The policy is distributionally progressive, would improve the public finances, and has the potential to create jobs through stimulating the economy.

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[81] H. Reed (2018), *The Economic Impact of Increasing the National Minimum Wage and National Living Wage to £10 per hour: A report for Unite by Howard Reed (Director, Landman Economics)*.

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Introduction

Unite has commissioned Landman Economics to carry out an economic analysis of the potential impact of an increase in the National Minimum Wage in the UK to £15 per hour. At the time of writing (June 2022) the current rates of the National Minimum Wage (NMW) in the UK are as follows:

- Workers aged 23 and over (the "National Living Wage"[82]): £9.50 per hour
- Workers aged 21 or 22: £9.18 per hour
- Workers aged 18 to 20: £6.83 per hour
- Workers aged 16 to 17: £4.81 per hour
- Apprentices[83]: £4.81 per hour

This report looks in detail at the impact of increasing the National Minimum Wage rate for employees aged 23 and over (the "National Living Wage" rate) to £15 per hour and extending the coverage to all employees aged 18 and over (so that the National Living Wage includes 18 to 22-year-olds as well as workers aged 23 and over). Henceforth in this report we refer to the new minimum wage rate as the National Minimum Wage (NMW), using the term National Living Wage (NLW) to refer specifically to the rate for employees aged 25 and over introduced in 2016 (and extended to 23 and 24-year-olds in 2021). The increase in the NMW is analysed in two stages – an intermediate level of £13 per hour and the target level of £15 per hour.

The effects of increasing the NMW to £13 and £15 per hour are analysed according to the following worker and job characteristics:

- Gender (men and women)[84];
- Age group (18 to 20, 21 to 22, 23 to 24, 25 to 34, 35 to 44, 45 to 54, 55 to 64, 65 and over);
- Ethnicity (white, asian, black, other, mixed);
- The specific impact on migrant workers;
- The specific impact on temporary workers (e.g. agency workers);
- The effects on workers in specific industrial sectors (retail, hospitality, cleaning, agriculture, food manufacturing, warehousing and care workers).

[82] Note that the National Living Wage (NLW) as defined by the UK government is a different concept from the real Living Wage (RLW) as defined by the Living Wage Foundation which is an independent campaigning organisation. The current RLW rates are £11.05 per hour for London and £9.90 per hour outside London – both rates are higher than the current NLW rate.

[83] The apprentice rate applies to apprentices aged 18 or under, plus those aged 19 or over in the first year of their apprenticeship. Apprentices aged 19 or over in the second or subsequent years of their apprenticeship are entitled to the standard hourly rate for their age group (e.g. £6.83 per hour for 19 or 20 year olds).

[84] This research shows the impact of raising the NMW on men and women using FRS data. Further analysis by gender is unfortunately not possible using the data available. The need to understand the experiences of people of all gender identities has been raised with the Department for Work and Pensions, who are responsible for the design and content of the FRS.

The impacts are looked at separately for workers aged 23 and over (those currently entitled to the National Living Wage rate) and workers aged 18 to 22 (those currently entitled to lower rates).

The structure of this report is as follows. Chapter 1 looks at the incidence of low pay in the UK and the number of workers who would benefit from an increase in the NMW to £13 per hour and £15 per hour. Chapter 2 analyses the impact of increasing the NMW on the public finances, arising from higher receipts of income tax, National Insurance Contributions and expenditure taxes, lower spending on Universal Credit, lower corporation tax receipts and a higher public sector wage bill, and the impact on net wages of the workers affected by the increase. Chapter 3 shows the distributional impacts on household incomes of an increased NMW. Chapter 4 details the existing evidence on the employment effects of minimum wages and explains the likely employment effect of an increased NMW in this framework. Chapter 5 looks at the potential for an increased NMW to result in increased overall employment, focusing on the potential multiplier effects of increased demand for goods and services arising from higher spending by workers whose wages have increased. Chapter 6 considers the potential impact of an increased NMW on collective bargaining for pay and conditions across different industrial sectors, while Chapter 7 analyses the potential impact of price and wage inflation over future years on the number of workers who would be covered by a National Minimum Wage of £15 per hour in future years. Chapter 8 discusses the future target level for the NMW, relative to median earnings, based on the findings of this report. Chapter 9 offers conclusions.

This report does not conduct a detailed costing or distributional analysis of the impact of increasing the National Minimum Wage rates for workers aged under 18, or the apprentice rate, because limitations in the UK Family Resources Survey (FRS) data (the data used for the empirical modelling in the main part of this report) make it difficult to model the impacts of increasing hourly rates for these workers. Appendix A of this report discusses the limitations of the FRS for modelling wages for 16-17 year olds and apprentices and provides references to other recent work discussing these groups from the Low Pay Commission to assess what the impacts of minimum wage increases for these groups might be.

Chapter 1. The incidence of low pay in the UK: evidence from the Family Resources Survey

The analysis in this report uses data from the UK Family Resources Survey [FRS] to identify the numbers of people in the UK who would be directly affected by an increase in the current rates of the NMW and their characteristics. The FRS is an annual survey of around 20,000 UK households per year which contains information on employment, earnings and other income. The FRS is a reliable source of information on *weekly* earnings, but the *hourly* wage information is not fully reliable because the survey responses on the number of hours each person works per week, and the survey response on weekly wages, are taken from different weeks in many cases. Because of this, the FRS hourly wage measure is an overestimate of the proportion of workers in the UK working at, or just above, the current National Minimum Wage rates.

To address this problem, the analysis in this report uses data from the Annual Survey of Hours and Earnings – a much bigger survey than the FRS which explicitly collects accurate hourly wage information – to recalibrate the hourly wage measures in the FRS so that the adjusted FRS offers a more accurate representation of the hourly wage distribution in the UK.

The analysis uses three years of FRS data (2017/18, 2018/19 and 2019/20) pooled together; this enables detailed analysis of the impact of increasing the NMW according to gender, ethnicity, industrial sector, migrant workers and temporary jobs. In the pooled FRS data, the sample size is large enough to conduct the analysis separately for workers aged 18-22 and 23 and over. Appendix B gives details of the calibration procedure and the procedure used to uprate the wages in the pooled FRS dataset to current (Spring 2022) levels.

The groups in the various subcategories which the report is specifically looking at are identified as follows:

- For age, sex and ethnicity, the FRS data contain data on these characteristics for each person in the survey.
- Migrants are identified using the FRS variable on country of origin, with a ‘migrant’ being identified as someone whose country of origin is outside the UK[85].
- Temporary workers are identified using the FRS variable TEMPJOB which identifies whether a worker’s main job is an agency job, casual, seasonal, a fixed-term contract or some other kind of temporary job. Note that the

[85] Using the variable CORIGNAN (anonymised country of origin) on the FRS public release dataset.

TEMPJOB variable does not include workers on zero-hours contracts, of whom there are around 900,000 in the UK[86].

- Industry sector is defined using the 2-digit Standard Industrial Classification (SIC2007) variable in the FRS dataset; details of the industrial classifications used are given in Appendix B.

Table 1a below gives details of the estimated number of workers aged 23 and above who would be directly affected by an immediate increase in the NMW to the intermediate level of £13 per hour, and to the target level of £15 per hour. Meanwhile, **Table 1b** shows the number of workers aged 18 to 22 who would be affected by an extension of the coverage of £13 per hour and £15 per hour rates to this age group.

It should be noted that the results in these Tables – and the rest of this report – only show the *direct* effects of the increased NMW; that is, the numbers of employees who would be paid less than £13 per hour or £15 per hour in the absence of the minimum wage. The results do not include any potential *indirect* effects for workers who are paid above £13 or £15 per hour to start with, but whose hourly pay might also increase after the NMW is raised – perhaps because their employer raises their pay as well as those paid below the NMW, to maintain differentials between different pay grades (for example). Differentials and potential indirect effects of the NMW increase are discussed further in Chapter 6 of this report which analyses the potential impact of the NMW on collective bargaining arrangements.

It should also be noted that these results assume that the NMW is introduced immediately at the time of writing, i.e. in the 2022/23 tax year. Chapter 7 discusses the impact of wage inflation over the next three years on the number of employees covered by the NMW if the NMW were raised to £15 per hour in 2023, 2024 or 2025.

[86] This figure is based on Landman Economics analysis of data from the UK Labour Force Survey for autumn 2021.

Table 1a. Number of workers aged 23 and over who would be directly affected by an increase in the National Minimum Wage to £13 per hour and £15 per hour in 2022 – estimates from the Family Resources Survey

Group	Estimated number of workers affected (thousands)		Affected workers as % of workers in group	
	£13/hour	**£15/hour**	**£13/hour**	**£15/hour**
All workers	10,330	12,990	41.1	51.7
Gender:				
Men	4,380	5,800	37.6	45.3
Women	5,950	7,190	48.2	58.3
Age:				
23-24	770	930	66.2	79.3
25-34	2,880	3,670	43.3	55.2
35-44	2,130	2,720	35.1	44.8
45-54	2,360	2,980	37.1	46.9
55-64	1,820	2,270	43.0	53.8
65 and over	370	430	55.0	64.1
Ethnicity:				
White	8,900	11,230	40.7	51.3
Asian	800	980	43.5	53.1
Black	360	440	48.4	58.6
Mixed	110	160	37.6	53.0
Other	150	190	44.1	53.5
Migrants	2,290	2,780	45.6	55.7
Temporary workers	340	400	46.8	55.2
Sector:				
Retail	1,330	1,530	69.8	80.1
Hospitality	1,070	1,130	83.1	87.9
Cleaning	430	470	72.0	78.4
Agriculture	90	110	65.5	78.1
Food manufacturing	220	270	56.5	68.5
Care	1,140	1,310	63.4	73.4
Warehousing	140	180	31.7	42.6

Source: author's calculations using Family Resources Survey data and Annual Survey of Hours and Earnings. See Appendix B for full methodological details.

Note: 'Care' sector comprises approximately 89 per cent social care workers and 11 per cent childcare workers, based on data from the UK Labour Force Survey. See Appendix C for details.

Table 1a shows that around 10.3 million workers in total – 41 per cent of employees aged 23 and over – are likely to be directly affected by an increase in the NMW to £13 per hour in 2022. A further increase to £15 per hour would affect an additional 2.7 million workers, increasing total coverage of the NMW to almost 13 million – just under 52 per cent of all employees. Of those affected, around 58 per cent at the intermediate level (just under 6 million) are women; at £15 per hour, the proportion of women in the affected group is slightly lower, at 55 per cent. We estimate that a £15 per hour NMW would directly affect around 58 per cent of female employees aged 23 and over and 45 per cent of male employees.

In terms of the age breakdown, workers aged 23 or 24 are the most likely age group to be affected by either increase; 79 per cent would be affected by an increase to £15 per hour. Workers aged 65 and over are the next most likely group to be affected, with 55 per cent affected at £13 per hour, and over 64 per cent at £15 per hour. Workers in the 35 to 44 and 45 to 54 age groups are the least likely to be affected by the increases, with 45 per cent of 35-44 year olds and 47 per cent of 45-54 year olds affected by an increase to £15 per hour.

Analysis by ethnicity shows that workers of black, asian, mixed-race and other ethnicities are more likely to be affected by a NMW increase to £15 per hour than white workers, with black and asian workers being the most likely to be affected (just under 59 per cent and just over 53 per cent of workers, respectively).

Migrant workers have a higher-than-average incidence of low pay, with just under 46 per cent affected by an increase in the NMW to £13 per hour, and just under 56 per cent affected at £15 per hour. For temporary workers, the proportions affected are fairly similar to migrant workers: just under 47 per cent at £13 per hour and just under 56 per cent at £15 per hour, respectively.

The incidence of low pay varies markedly by industrial sector for employees aged 23 and over: just under 43 per cent of workers in the warehousing sector are paid at or below £15 per hour, compared with 68.5 per cent in the food manufacturing sector, over 73 per cent in the care sector, just over 78 per cent in the cleaning and agriculture sectors and almost 88 per cent in the hospitality sector. With the exception of warehousing, all of the industries featured in this report have proportions of workers affected by an increase to £15 per hour of the NMW which are higher than the national average of 51.7 per cent. By contrast, the proportion of workers aged 23 and over who would be affected by an increase in the NMW is lower in certain other industries not featured in **Table 1a** (for example, an increase to £15 per hour would affect around 42 per cent of workers in teaching and other education services, 34 per cent of telecommunications workers and 24 per cent of workers in financial services).

Table 1b. Number of workers aged 18 to 22 who would be directly affected by National Minimum Wage rates of £13 per hour and £15 per hour in 2022 – estimates from Family Resources Survey

Group	Estimated number of workers affected (thousands)		Affected workers as % of workers in group	
	£13/hour	£15/hour	£13/hour	£15/hour
All workers	1,600	1,730	83.7	90.4
Gender:				
Men	800	880	82.0	89.4
Women	800	850	85.5	91.5
Age:				
18-20	860	900	88.8	93.1
21-22	740	830	78.5	87.7
Ethnicity:				
White	1,420	1,530	83.9	90.3
Asian	100	110	83.8	95.0
Black	40	40	84.5	89.6
Mixed	30	30	83.7	88.1
Other	10	10	68.8	78.1
Migrants	180	200	81.5	91.2
Temporary workers	170	180	88.2	91.7
Sector:				
Retail	290	310	87.0	92.1
Hospitality	330	340	93.8	96.1
Cleaning	20	20	94.6	95.0
Agriculture	10	10	100.0	100.0
Food manufacturing	20	20	86.8	94.8
Care	130	140	92.2	94.8
Warehousing	20	30	62.4	75.7

Source: author's calculations using Family Resources Survey data and Annual Survey of Hours and Earnings. See Appendix B for full methodological details.

Table 1b shows that around 1.6 million employees aged 18 to 22 would be directly affected if a NMW rate of £13 per hour was introduced for this age group. A further increase to £15 per hour would affect an additional 130,000 workers, increasing total coverage of the NMW in this group to over 1.7 million workers – around 90 per cent of all employees aged 18 to 22. Female employees in this age group are slightly more likely to be affected by the increase to £15 per hour than male employees (91.5 per cent of women affected compared to 89.4 per cent of men).

Looking in more detail at the age breakdown, workers aged 18 to 20 are the most likely to be affected by either increase. After extending coverage to workers aged 18 to 22, an increase in the NMW to £15 per hour affects 93 per cent of 18-20 year olds and 88 per cent of 21-22 year olds. Analysis by ethnicity shows that workers of asian and white ethnicities are more likely to be affected by an NMW increase to either £13/hour or £15/hour than other workers in this age group.

Migrant workers aged 18-22 are slightly less likely than average to be affected by a NMW at £13 per hour (81.5 per cent) but are slightly more likely than average to be affected by a NMW at £15 per hour (just over 91 per cent). For temporary workers, the proportion of young workers affected by a £13 per hour NMW is much higher, at over 88.2 per cent, but the proportion affected at £15 per hour is similar to migrant workers (just under 92 per cent).

When looking at the incidence of low pay for employees aged 18 to 22 by industrial sector, it is important to bear in mind that the FRS sample size for this age group in some sectors – especially cleaning, agriculture, food manufacturing and warehousing – is relatively small, and so the results may not be fully representative of the wider UK population. However, as with the results in **Table 1a** for workers aged 23 and over, the results in **Table 1b** show that there is a higher-than-average incidence of low pay in the retail, hospitality, cleaning, agriculture, food manufacturing and care sectors and a lower-than-average incidence of low pay in the warehousing sector. According to the FRS data, an increase in the NMW to £15 per hour would affect 100 per cent of agricultural workers, 96 per cent of hospitality workers and 95 of workers in the cleaning sector in this age group.

Chapter 2. The impact of increasing the National Minimum Wage on the public finances and net wages for workers

This section of the report estimates the impact of increasing the NMW to the intermediate level of £13 per hour, and the target level of £15 per hour. We present results for both sets of simulated increases. The estimates use calculations from the Landman Economics tax-transfer model (TTM)[87], which is a tax-benefit microsimulation model with equivalent functionality to those used by HM Treasury and the Institute for Fiscal Studies to analyse the costs and distributional impacts of policies. The TTM is set up to run on the three years of pooled FRS data used for this project (2017/18, 2018/19 and 2019/20)[88].

To ensure that the FRS modelling gives an accurate assessment of the impact of increasing wages for the low-paid workforce as it currently stands, the FRS earnings data for the three-year pooled sample are uprated to April 2022 earnings levels using information from the Annual Survey for Hours and Earnings (ASHE) on hourly and weekly wages for workers in the lower part of the earnings distribution, by industrial sector. The FRS is used to calculate the increase in the gross wage bill arising from the increase in the NMW for those employees in the FRS who earn at the current minimum wage levels of hourly wages, up to £13 per hour, and finally up to £15 per hour for all workers aged 23 and over and (separately) for workers aged 18 to 22. The 'grossing factors' in the FRS dataset are then used to scale the increase in the gross wage bill up to the national level, giving an estimate of what the increase in the gross wage bill would be if the NMW were raised to £13 per hour, and then to £15 per hour. A further adjustment is made to the FRS grossing factors based on recent data from the Office for National Statistics on the total number of employees in work in the UK, to ensure that the estimates from the TTM reflect the current size of the labour force. Appendix B gives more details of the methodology used to adjust wages in the FRS.

In addition to the increase in the gross wage bill, this section shows the following impacts of the increase in the NMW on the public finances (estimated using the TTM):

- The increase in income tax paid by employees;
- The increase in employee National Insurance Contributions (NICs);
- The increase in employer NICs;

[87] Full details of the methodology used for the tax-transfer model can be found in Appendix A of Reed and Portes (2018).
[88] The FRS data for 2020/21 had not been released at the time of writing this report (May 2022).

- The decrease in social security payments (mainly Universal Credit) occurring because higher gross wages means that some families on the taper for Universal Credit receive lower payments[89];
- The increase in the public sector wage bill resulting from higher wages for public sector workers;
- The increase in expenditure tax receipts for the government resulting from higher consumer spending as a result of higher net wages. This is calculated using plausible values from recent research for the propensity of workers to consume extra income[90];
- The reduction in corporation tax payments arising from a shift from profits to wages. In line with the most recent available data from the ONS national accounts and HMRC, this report assumes that corporation tax receipts amount to around 12 per cent of total operating surplus in the UK economy.

The overall fiscal impact of increasing the NMW is therefore equal to:

Increased income tax receipts

Plus increased NICs receipts (employee and employer)

Plus reduced spending on social security (UC and other benefits)

Plus increased expenditure tax receipts

Minus reduced corporation tax receipts

Minus increased public sector wages.

Tables 2 to 7 below present these various components of the fiscal impact of increasing the NMW with a plus sign if they have a positive impact on the public finances (i.e. increased tax receipts or reduced spending), and a minus sign if they have a negative impact on the public finances (reduced tax receipts or increased spending). **Table 2**, which gives the overall fiscal impacts across all workers and for men and women separately, shows two sets of results: firstly for the increase in the NMW from current levels to the intermediate level of £13 per hour, and secondly for the increases to £15 per hour, for employees aged 23 and over. **Tables 3 to 6** show the results for an increase to £15 per hour only, for employees aged 23 and over, using breakdowns by age, ethnicity and industrial sector, and for migrant workers and temporary workers. **Table 7** shows the fiscal impact of increasing the NMW to £13 or £15 per hour for employees aged 18 to 22 only, on the assumption that coverage of the £13 or £15 NMW rates is extended to these younger workers.

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[89] The previous version of this report (Reed, 2018) used two different estimates of the change in social security spending, one for a fully rolled-out Universal Credit (UC) system and one for a system where legacy mean-tested benefits and tax credits were still in place. But with the roll-out of UC now much more advanced than in 2018 it makes more sense to assume full roll-out of UC in this research.

[90] Recent survey research by NMG Consulting for the Bank of England suggests that the average marginal propensity to consume for households in the UK is 0.43 (Bank of England, 2017).

The results also show the following statistics relating to the incomes of workers who benefit directly from the NMW:

- The total increase in net wages for workers directly affected by the increase in the NMW;
- The average net wage increase per worker affected by the increase;
- The average net wage increase per hour of work for the workers affected by the increase – this shows how much extra income employees affected by the increase are gaining *per hour worked*;
- The average *marginal deduction rate (MDR)* on the increase in gross earnings for each subgroup – defined as the proportion of gross wages that goes to the Government (via increased income tax and NICs, and/or reduced Universal Credit spending) rather than increasing household net incomes.

Impacts overall and by gender

Table 2 presents results for the overall sample and for men and women separately.

Table 2. Fiscal and household income impacts of increases in National Minimum Wage: overall and by gender

	Current levels to £13 per hour			**Current levels to £15 per hour**		
	Whole sample	Men	Women	Whole sample	Men	Women
Total change in gross wages (£m)	38,360	18,130	20,230	73,280	35,760	37,520
Fiscal impact (£m):						
Increased income tax receipts	+6,860	+3,440	+3,420	+13,780	+7,060	+6,720
Increased employee NICs	+4,180	+2,110	+2,070	+8,420	+4,310	+4,120
Increased employer NICs	+5,400	+2,630	+2,770	+10,540	+5,260	+5,280
Reduction in social security spending	+2,320	+940	+1,390	+3,760	+1,530	+2,230
Increased expenditure taxes	+1,800	+840	+960	+3,410	+1,650	+1,760
Reduced corporation tax	-4,080	-2,080	-2,000	-7,650	-4,040	-3,610
Increased public sector wage bill	-6,190	-1,760	-4,430	-12,920	-3,840	-9,080
Total improvement in public finances (£m):	**+10,300**	**+6,100**	**+4,190**	**+19,340**	**+11,880**	**+7,460**
Household incomes:						
Total change in net incomes (£m)	24,990	11,660	13,330	47,330	22,880	24,450
Average net gain per worker per year	£2,420	£2,663	£2,241	£3,642	£3,941	£3,401
Average net gain per hour worked	£1,34	£1.27	£1.40	£1.98	£1.87	£2.10
Average MDR on additional earnings	34.8%	35.7%	34.1%	35.4%	36.0%	34.8%

Source: author's calculations using Landman Economics tax-transfer model.

Note: in 'fiscal impact' rows, positive numbers show an improvement in the public finances, negative numbers show a deterioration

Table 2 shows that overall, increasing the NMW to £13 per hour improves the public finances by £10.3 billion, while an increase in the NMW to £15 per hour improves the public finances by £19.3 billion – which is around one-quarter of the increase in the gross wage bill (£73.3 billion) from the increase in the NMW.

Workers affected by the increase in the NMW to £13 per hour experience net gains in income of just over £2,400 per worker. Their average MDR on additional earnings is 34.8%. For the increase to £15 per hour, the increase in net income is just under £3,650 per worker and the average MDR is slightly higher at 35.4%, reflecting the fact that larger numbers of workers achieve gross earnings above the income tax personal allowance and the lower earnings limits for employee and employer

National Insurance Contributions when their hourly wage rate is raised to £15 per hour.

Looking separately at men and women, there are two countervailing effects which explain why women gain more per hour from the increase in the NMW than men, but men gain more than women per year (or per week). The net gain per hour worked is higher for women than men because women's hourly wages (before raising the NMW) are lower than men's on average. Also, women have a lower marginal deduction rate on increases in net income than men because women are more likely to be working part-time and hence more likely to be below the income tax personal allowance and the National Insurance thresholds, and hence not paying income tax or NICs on any marginal increase in incomes. Overall, the aggregate change in net incomes arising from the increase in the NMW to £13 per hour or £15 per hour is larger for women than for men, and raising the minimum wage reduces the gender pay gap in hourly pay between men and women, thus reducing gender inequality in pay. However, men workers gain slightly more per worker annually than women workers because men are more likely to be working full-time, and full-time workers gain more from an increase in the hourly wage rate than part-time workers (other things being equal).

Impacts by age group

Table 3 shows the fiscal and household income impacts of increasing the NMW to £15 per hour for employees aged 23 and over, broken down by the age group of the workers affected. (Results for the impact of extending the £15 NMW to workers aged 18 to 22 are presented in **Table 7** at the end of this chapter).

Table 3. Fiscal and household income impacts of increases in National Minimum Wage from current levels to £15 per hour, by age group

	Age group					
	23-24	**25-34**	**35-44**	**45-54**	**55-64**	**65+**
Total change in gross wages (£m)	6,270	22,110	15,270	15,270	11,290	1,600
Fiscal impact (£m):						
Increased income tax receipts	+1,170	+4,210	+2,830	+3,150	+2,110	+320
Increased employee NICs	+750	+2,640	+1,750	+1,960	+1,290	+30
Increased employer NICs	+920	+3,210	+2,190	+2,420	+1,610	+200
Reduction in social security spending	+130	+1,090	+1,310	+890	+300	+30
Increased expenditure taxes	+300	+1,020	+680	+780	+550	+90
Reduced corporation tax	-670	-2,410	-1,600	-1,690	-1,120	-170
Increased public sector wage bill	-990	-3,100	-2,680	-3,440	-2,430	-300
Total improvement in public finances (£m):	+1,610	+6,660	+4,490	+4,070	+2,300	+220
Household incomes:						
Total change in net incomes (£m)	4,220	14,170	9,380	10,760	7,620	1,210
Average net gain per worker per year	£4,560	£3,862	£3,447	£3,615	£3,349	£2,807
Average net gain per hour worked	£2.39	£2.01	£1.87	£1.95	£1.91	£2.12
Average MDR on additional earnings	32.7%	35.9%	38.6%	35.8%	32.7%	24.4%

Source: author's calculations using Landman Economics tax-transfer model.

Note: in 'fiscal impact' rows, positive numbers show an improvement in the public finances, negative numbers show a deterioration

Table 3 shows that the total change in gross wages arising from the increase in the NMW to £15 per hour is greatest for the 25-34 age group and is smaller for older age groups. However, the 23-24 age group covers only two years whereas the 25-34 age group is a ten-year age grouping. The average net gain per worker from the increase in the NMW is £4,560 for the 23-24 age group compared to £3,862 per worker for the 25-34 age group, with lower increases for older workers and the smallest average increase for workers aged 65 and over (£2,807) reflecting the fact that these workers are more likely to be part-time than other age groups. The average MDR on additional income is lowest for the 65-and-older age group (at 24.4%). This is mainly because these groups are less likely to be claiming in-work benefits than other groups, and also because people in the 65-and-older age group do not pay employee National Insurance Contributions. For all the other age groups, the average MDR on additional income is at least 30 per cent; it is highest for the 35-44 age group at 38.6%, reflecting the fact that this age group has a high proportion of minimum wage earners in families with children who claim Universal Credit.

Impacts by ethnicity

Table 4 shows the fiscal and household income impacts of the NMW increase to £15 per hour by ethnic group.

Table 4. Fiscal and household income impacts of increases in National Minimum Wage from current levels to £15 per hour, by ethnicity

	Ethnicity				
	White	**Mixed**	**Asian**	**Black**	**Other**
Total change in gross wages (£m)	63,330	800	5,510	2,500	1,150
Fiscal impact (£m):					
Increased income tax receipts	+11,990	+150	+990	+460	+210
Increased employee NICs	+7,300	+90	+620	+280	+130
Increased employer NICs	+9,110	+120	+790	+360	+160
Reduction in social security spending	+2,840	+50	+490	+270	+100
Increased expenditure taxes	+2,970	+40	+250	+110	+50
Reduced corporation tax	-6,590	-90	-610	-240	-130
Increased public sector wage bill	-11,330	-140	-730	-580	-150
Total improvement in public finances	**+16,290**	**+230**	**+1,790**	**+650**	**+390**
Household incomes:					
Total change in net incomes (£m)	41,220	510	3,410	1,490	700
Average net gain per worker per year	£3,670	£3,131	£3,496	£3,397	£3,762
Average net gain per hour worked	£1.99	£1.75	£1.96	£1.85	£2.05
Average MDR on additional earnings	34.9%	36.7%	38.0%	40.4%	38.7%

Source: author's calculations using Landman Economics tax-transfer model.

Note: in 'fiscal impact' rows, positive numbers show an improvement in the public finances, negative numbers show a deterioration

Table 4 shows that around 14 per cent of the increase in gross wages arising from the increase in the NMW goes to workers from minority ethnic groups (i.e. workers who are black, asian, mixed-race or other ethnicities). This is a higher proportion than the share of BAME workers in the overall UK labour force (12 per cent). Thus, the increase in the NMW reduces ethnic inequalities in gross earnings. However, workers of minority ethnic groups (except from those of "other ethnicities") are more likely to be on Universal Credit than white workers, and so their *net* gain per worker from increasing the NMW is lower than white workers. They also have a higher MDR on their extra earnings than white workers. Average net gain per hour worked is highest for other-ethnicity and white workers at around £2 per hour compared to £1.75 per hour for mixed-race workers.

Impacts for migrant and temporary workers

Table 5 shows the fiscal and household income impacts of the NMW increase to £15 per hour for migrant workers and temporary workers.

Table 5. Fiscal and household income impacts of increases in National Minimum Wage from current levels to £15 per hour, for migrant and temporary workers

	Worker status	
	Migrant	**Temporary**
Total change in gross wages (£m)	17,420	2,240
Fiscal impact (£m):		
Increased income tax receipts	+3,260	+400
Increased employee NICs	+2,040	+240
Increased employer NICs	+2,520	+310
Reduction in social security spending	+1,210	+130
Increased expenditure taxes	+790	+110
Reduced corporation tax	-1,970	-220
Increased public sector wage bill	-1,860	-520
Total improvement in public finances	**+5,990**	**+460**
Household incomes:		
Total change in net incomes (£m)	10,910	1,470
Average net gain per worker per year	£3,918	£3,630
Average net gain per hour worked	£2.06	£2.16
Average MDR on additional earnings	37.4%	34.5%

Source: author's calculations using Landman Economics tax-transfer model.

Note: in 'fiscal impact' rows, positive numbers show an improvement in the public finances, negative numbers show a deterioration

Table 5 shows that increasing the NMW to £15 per hour boosts gross wages by around £17.4 billion for migrant workers – just under one-quarter of the whole of the gross wage increase across the workforce, as shown in **Table 2** earlier. The average MDR on additional income for migrant workers is 37.4%, which is slightly higher than the average MDR across all workers. The public finances improve by just under £6 billion as a result of the NMW increase to £15/hour for migrant workers. The average net gain per affected worker per year for migrant workers is £3,918 which is higher than the average for all affected workers in the UK.

For temporary workers, the boost in gross wages is just over £2.2 billion, with the public finances improving by just under £500 million. The MDR on additional income for temporary workers is 34.5% which is slightly lower than the average MDR across all workers. The average net gain per affected worker per year for temporary workers is £3,630 which is very similar to the average figure for the affected workforce as a whole.

Impacts by industrial sector

Table 6 shows the fiscal impact of the NMW increase to £15 per hour for the industrial sectors highlighted in this report.

Table 6. Fiscal and household income impacts of increases in National Minimum Wage from current levels to £15 per hour, by industrial sector

	Sector						
	Retail	**Hosp.**	**Cleaning**	**Agri.**	**Food**	**Care**	**Ware.**
Total change in gross wages (£m)	8,640	9,000	2,530	780	1,840	7,880	1,060
Fiscal impact (£m):							
Increased income tax receipts	+1,510	+1,650	+400	+170	+360	+1,470	+900
Increased employee NICs	+920	+1,010	+240	+90	+230	+900	+130
Increased employer NICs	+1,220	+1,290	+320	+110	+270	+1,130	+160
Reduction in social security spending	+560	+610	+240	+30	+80	+570	+40
Increased expenditure taxes	+410	+410	+120	+40	+80	+360	+50
Reduced corporation tax	-1,090	-1,080	-260	-100	-230	-870	-130
Increased public sector wage bill	-30	-470	-480	0	0	-1,040	-20
Total improvement in public finances	+3,490	+3,420	+570	+330	+790	+2,530	+440
Household incomes:							
Total change in net incomes (£m)	5,650	5,730	1,660	490	1,170	4,930	680
Average net gain per worker per year	£3,699	£5,088	£3,517	£4,381	£4,428	£3,754	£3,710
Average net gain per hour worked	£2.29	£2.95	£2.48	£1.83	£2.07	£2.16	£1.79
Average MDR on additional earnings	34.6%	36.3%	34.4%	37.0%	36.3%	37.4%	35.9%

Source: author's calculations using Landman Economics tax-transfer model.

Note: in 'fiscal impact' rows, positive numbers show an improvement in the public finances, negative numbers show a deterioration

Table 6 shows that retail, hospitality and care are the sectors with the largest gross increases in wages arising from the increase in the NMW to £15 per hour. As shown in **Table 1a**, this reflects the fact that these sectors have larger numbers of employees in the affected group than the other sectors. The biggest gain per worker arising from the increase in the minimum wage is in the hospitality sector (at £5,088), followed by the food and agriculture sectors. All three of these sectors have a high incidence of low pay according to the ASHE data. The largest net gain per hour worked is also in the hospitality sector, at £2.95 per hour, with the lowest gain being in the warehousing sector, at £1.79 pence per hour. Average MDRs from the NMW increase show some variation, with the lowest MDR (34.4%) for cleaning workers and the highest MDR (37.4%) for care workers.

Impacts of extending coverage to employees aged 18 to 22

Table 7 below presents results for the impact of extending the £13 and £15 NMW rates to employees aged 18 to 22. As with Table 2 above, results are presented for NMW rates of £13 per hour (on the left hand side of the table) and £15 per hour (on the right hand side). As well as the overall results, the table shows disaggregated results for the 18-20 age group and the 21-22 age group.

Table 7. Fiscal and household income impacts of National Minimum Wage rates of £13 per hour and £15 per hour for 18 to 22 year-old employees

	£13 per hour			**£15 per hour**		
	All 18-22	18-20	21-22	All 18-22	18-20	21-22
Total change in gross wages (£m)	7,650	4,260	3,390	12,380	6,580	5,800
Fiscal impact (£m):						
Increased income tax receipts	+1,210	+640	+570	+2,080	+1,050	+1,030
Increased employee NICs	+780	+410	+370	+1,340	+680	+660
Increased employer NICs	+1,020	+550	+470	+1,700	+880	+820
Reduction in social security spending	+90	+50	+40	+120	+50	+60
Increased expenditure taxes	+400	+230	+170	+640	+350	+290
Reduced corporation tax	-900	-500	-400	-1,450	-780	-680
Increased public sector wage bill	-530	-290	-250	-910	-450	-460
Total improvement in public finances (£m):	**+2,060**	**+1,080**	**+980**	**+3,510**	**+1,780**	**+1,730**
Household incomes:						
Total change in net incomes (£m)	5,570	3,170	2,400	8,840	4,790	4,050
Average net gain per worker per year	£3,484	£3,704	£3,231	£5,116	£5,341	£4,874
Average net gain per hour worked	£2.13	£2.37	£1.87	£3.11	£3.40	£2.79
Average MDR on additional earnings	27.2%	25.6%	29.1%	28.6%	27.1%	30.2%

Source: author's calculations using Landman Economics tax-transfer model.

Note: in 'fiscal impact' rows, positive numbers show an improvement in the public finances, negative numbers show a deterioration

Table 7 shows that increasing the NMW to £13 per hour for workers aged between 18 and 22 results in an increase in gross wages of £7.65 billion. If the NMW is increased to £15 per hour, gross wages increase by almost £12.4 billion in total. The estimated improvement in the public finances from increasing the NMW for these younger workers is just over £2 billion at a rate of £13 per hour, and just over £3.5 billion at £15 per hour. The average net gain per worker per year is slightly higher for

18-to-20 year olds than for workers aged 21 or 22. This is due to two factors: firstly, 18-20 year olds are paid less than 21-22 year olds on average, and secondly, 18-20 year olds are less likely to be claiming Universal Credit than 21-22 year olds, so they retain more of any increase in wages on average. This is also reflected in the MDRs, which are lower for 18-20 year olds than for 21-22 year olds. The average MDR for 18-22 year olds as a whole is 30.2%, which is considerably lower than the average MDR for employees aged 23 and over in Table 2 (35.4%).

Chapter 3. The distributional impacts of increasing the National Minimum Wage

This chapter uses the Landman Economics tax-transfer model to look at the distributional impact of increasing the National Minimum Wage to £13 per hour and £15 per hour. As in Chapters 1 and 2, the analysis uses the pooled Family Resources Survey dataset. Households are ranked in terms of their equivalised[91] net income in the FRS, and the distribution is then divided into ten equally sized deciles going from decile 1 (the poorest households) to decile 10 (the richest households). The results in this chapter show results for the current age coverage of the NMW (employees aged 23 and over) plus additional distributional impacts assuming that these increases in the NMW are extended to employees aged 18 to 22 inclusive.

Impacts across all households

Figure 1a shows the average annual impacts on household net income in cash terms of the increases in NMW to £13 per hour and £15 per hour by household income decile for workers aged 23 and over, while **Figure 1b** shows the impact for workers aged 18 to 20 (in blue) and 21 to 22 (in red). Note that the vertical scale of **Figure 1b** is much smaller than Figure 1a because the number of workers in the 18-20 and 21-22 age groups is much smaller than the number aged 23 and over, and hence the average gains from increasing the minimum wage for the younger age groups are much smaller than for the 23-and-over age group. In both Figures, the dotted line shows the impact of the increase from the current National Minimum Wage level to an intermediate level of £13 per hour, while the unbroken line shows the impact of the full increase to £15 per hour.

Figure 1a shows that the average cash impacts of an increase in the NMW for workers aged 23 and over are highest in household net income decile 6. The 'inverse U shaped' relationship between net cash gain and position in the household income distribution is strongest for the increase to £15 per hour, where the increase is worth over £2,300 per year on average to households between deciles 5 and 7, but the average cash gains are lower for the poorest and richest households. The average cash gain for middle-income households is higher than for low-income households for two reasons. Firstly, many households at or near the bottom of the

[91] Equivalisation of income is a process used to adjust income for household size so that it is a better measure of living standards, on the basis that households with more adults and children in them need a higher income to reach a standard of living equivalent to smaller households. The equivalence scale used to adjust net income in this report is the OECD equivalence scale which is the same scale used by the UK Department for Work and Pensions in its Households Below Average Income (HBAI) income distribution publication (DWP, 2022).

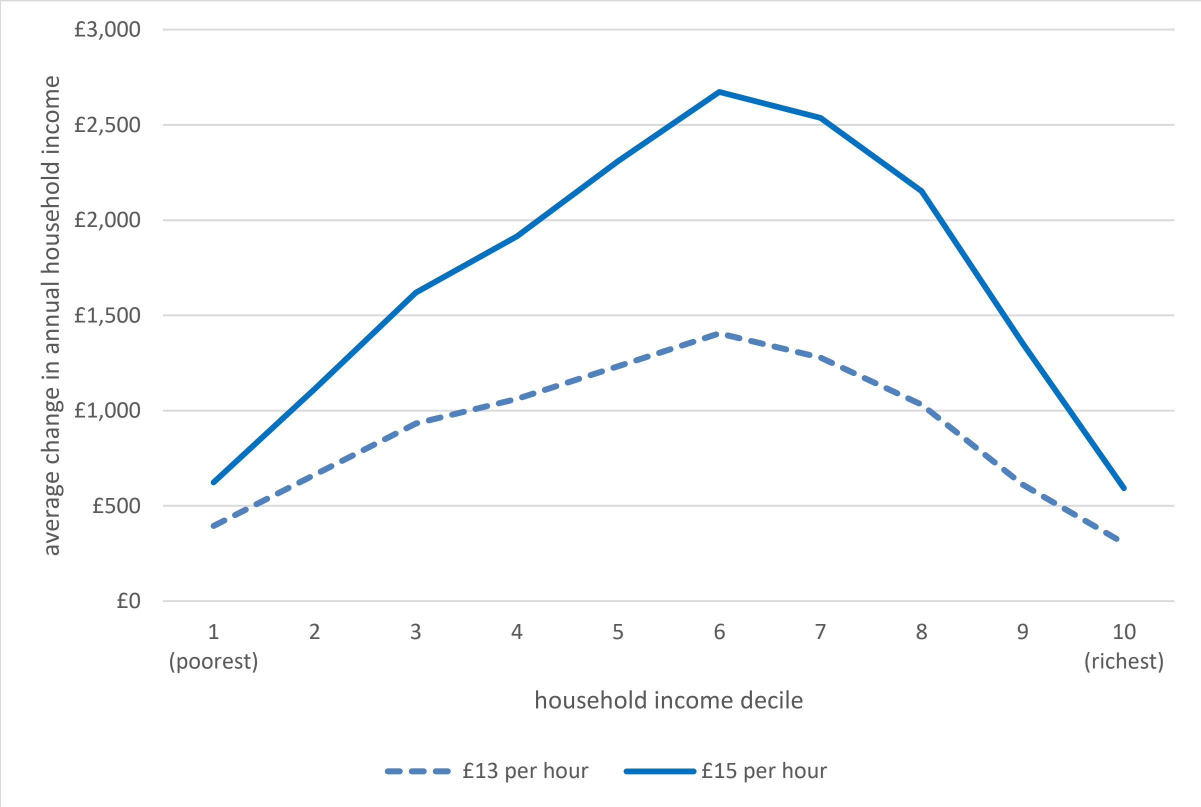
income distribution do not have many adults in work, and so cannot benefit from wage increases. Secondly, some people earning at the level of the NMW or just above it are second earners in households where the primary earner is well-paid, and so household income is in the middle or upper reaches of the income distribution.

The distributional impacts of the increase in the NM for workers aged under 23 (shown in **Figure 1b**) do not have such a clear inverse U-shape. Instead, the gain from the increase to £13 per hour for 21-22 year olds is roughly flat across the lowest eight deciles of the household income distribution, and then is progressively lower in the two highest deciles. This reflects the fact that younger adult workers are more likely to be found in households at the bottom of the net income distribution than workers aged 23 or over. The impact of increasing the NMW to £15 per hour for 21-22 year olds is less flat than for £13 per hour, with a higher average cash increase for households in deciles 4 to 8 than for the bottom three deciles.

The distributional impact of increasing the NMW to £13 per hour and to £15 per hour for 18-20 year olds has more of a 'peak' at decile 6 than the equivalent impact for 21-22 year olds. This reflects the fact that 18-20 year olds are more likely to live with their parents, in households that are further up the income distribution than if they lived on their own.

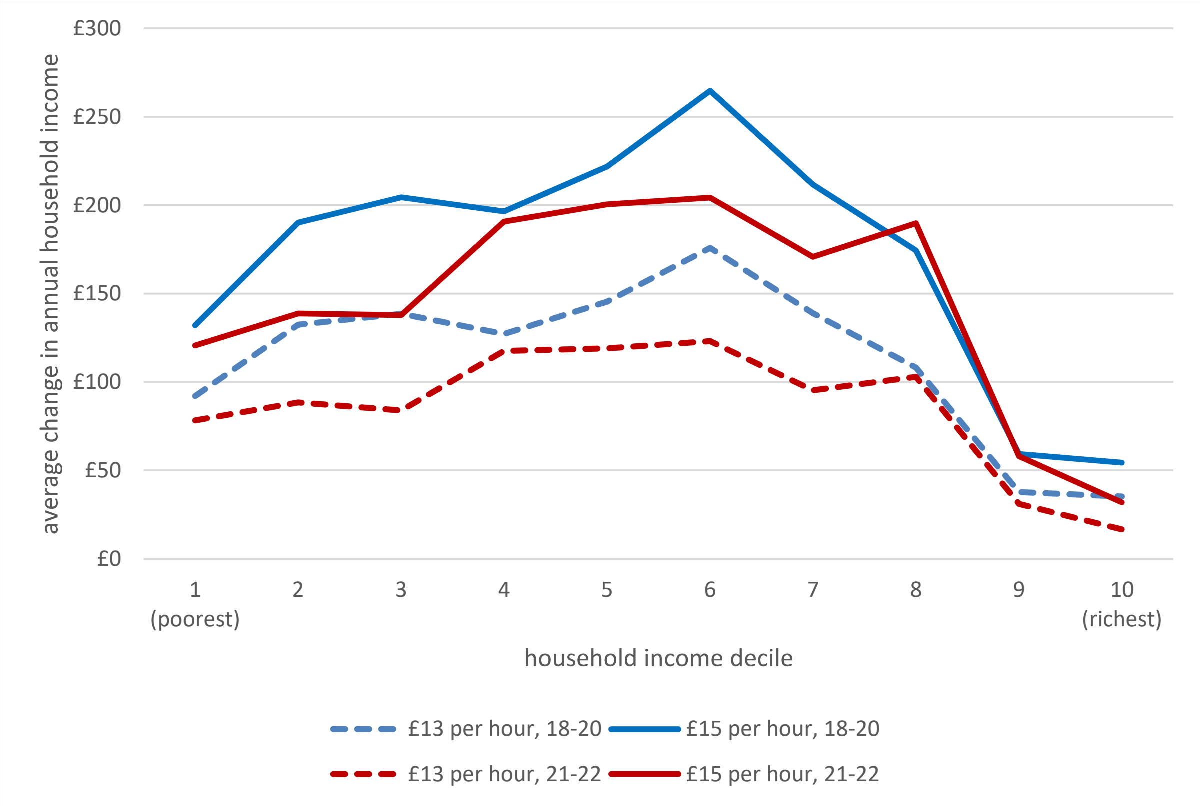
The final point to note here is that the average cash gains from increasing the NMW to £15 per hour are much larger than the gains from an increase to £13 per hour. This reflects the figures in **Table 2** above showing that the aggregate increase in net incomes from the increase to £15 per hour was almost twice as large as the gain from the increase to £13 per hour. This is because an increase to £15 per hour for all workers aged 18 and over 'bites' further up the income distribution and affects a larger number of workers than an increase to £13 per hour.

Figure 1a. Average cash gains from increases in National Minimum Wage for employees aged 23 and over, by household income decile



Source: author's calculations using Landman Economics tax-transfer model

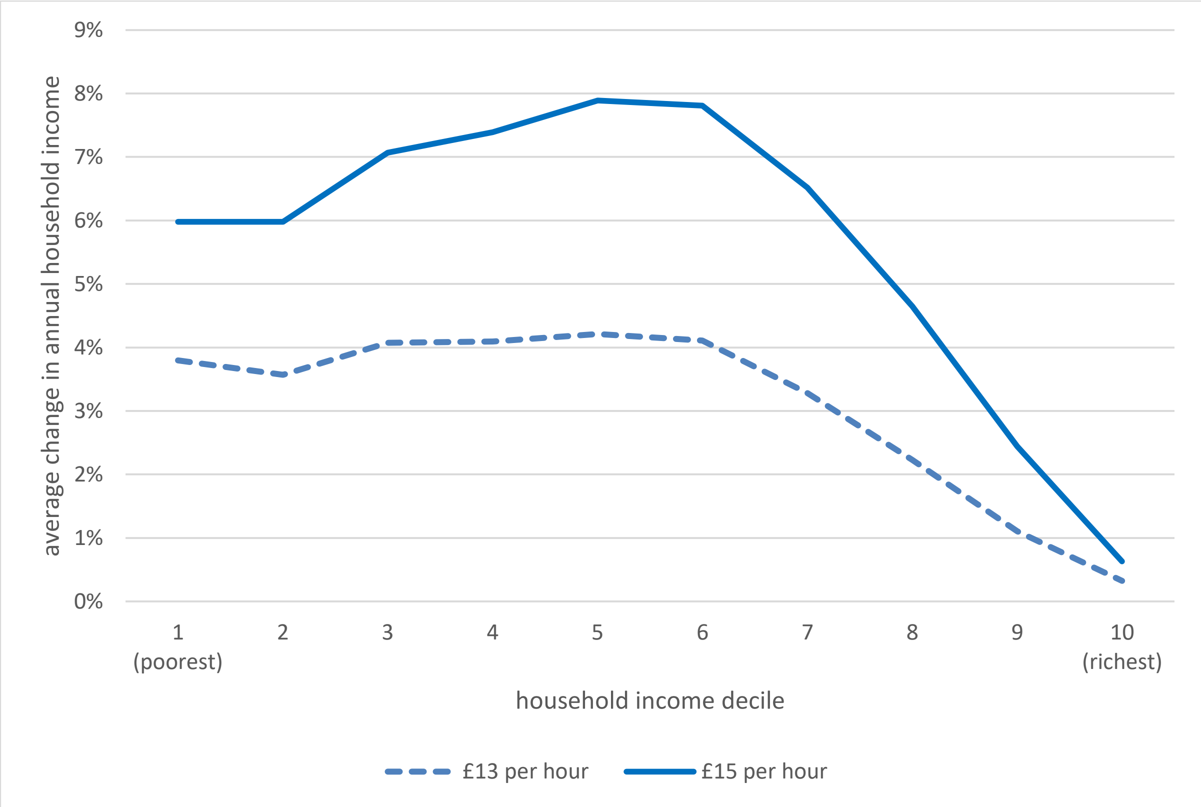
Figure 1b. Average cash gains from increase in National Minimum Wage for employees aged 18 to 22, by household income decile



Source: author's calculations using Landman Economics tax-transfer model

Figures 2a and **2b** show the same average distributional results by household net income decile as **Figures 1a** and **1b** but as a percentage of household net income rather than as an average annual cash increase. This enables us to assess the *progressivity* of the changes in net income arising from the increase in the NMW. An increase in household net incomes is defined as progressive if lower deciles gain more in percentage terms than higher deciles. **Figure 2a** shows that for employees aged 23 and over, the shape of the distributional effects looks somewhat different for the increase in the NMW to £13 per hour compared to the increase to £15 per hour. At £13 per hour the average percentage increase in net incomes is approximately 4 per cent for all of the bottom six deciles, and then is smaller for the top four deciles. By contrast, for the increase to £15 per hour, the percentage gains are larger in deciles 5 and 6 than for deciles 1 to 4, with percentage gains again falling off rapidly above decile 6.

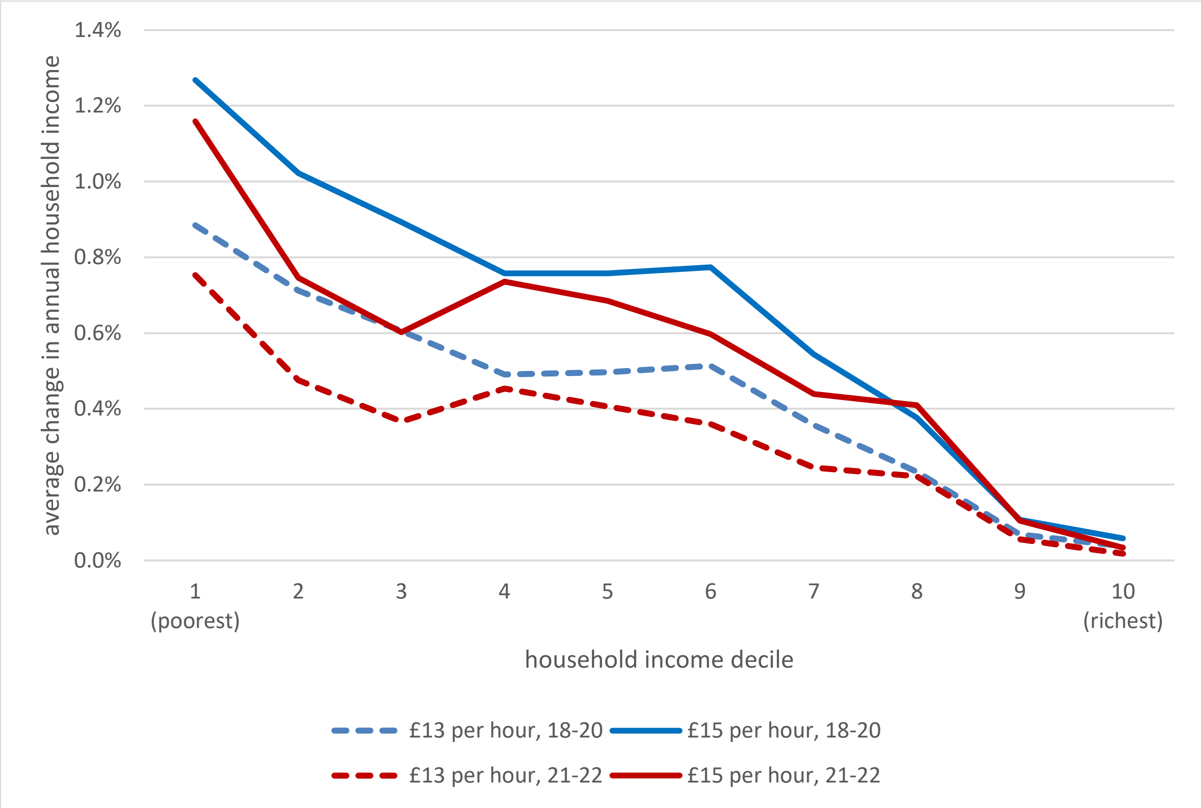
Figure 2a. Average gains as a percentage of net income from increases in National Minimum Wage for employees aged 23 and over, by household income decile



Source: author's calculations using Landman Economics tax-transfer model

Figure 2b shows that the distributional impact of increasing the NMW to £13 or £15 per hour for workers aged 18 to 22 is more straightforwardly progressive for this age group than for workers aged 23 and over. The largest percentage increases for younger workers are in the lowest decile, followed by decile 2. Average percentage gains for employees higher up the income distribution are markedly lower, and negligible in the top two deciles.

Figure 2b. Average gains as a percentage of net income from increases in National Minimum Wage for employees aged 18 to 22, by household income decile

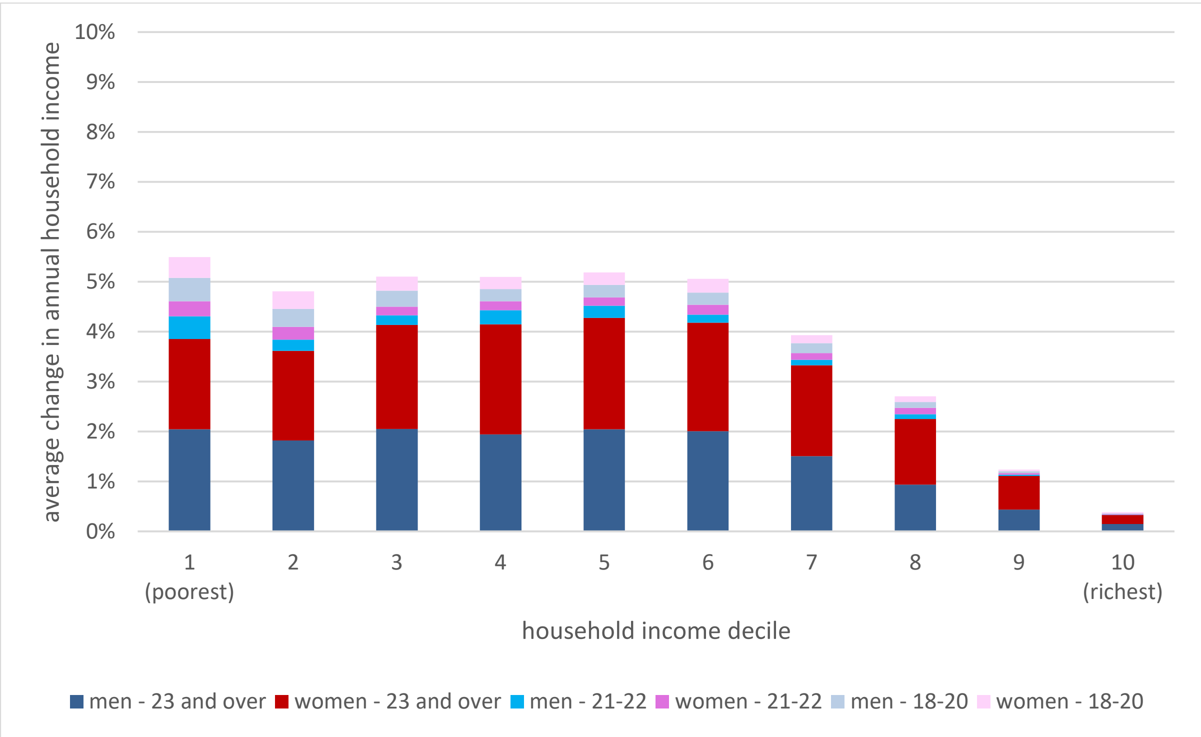


Source: author's calculations using Landman Economics tax-transfer model

Impacts by gender

Figures 3a and 3b show the percentage impacts of the NMW increases for men and women as 'stacked column' charts, meaning that the percentage impacts on household income of the increase in the NMW for men's wages and for women's wages are shown separately, but added together to sum to the total increase in household net incomes by net income decile. **Figure 3a** shows the distributional impacts of the increases in the NMW to £13 per hour, while **Figure 3b** shows the full impact of an increase to £15 per hour. The vertical scale of the graphs is the same, so that the size of the impacts in both graphs can be easily compared. The distributional effects are separated out for men and women aged 23 and over and for the 21-22 and 18-20 age groups.

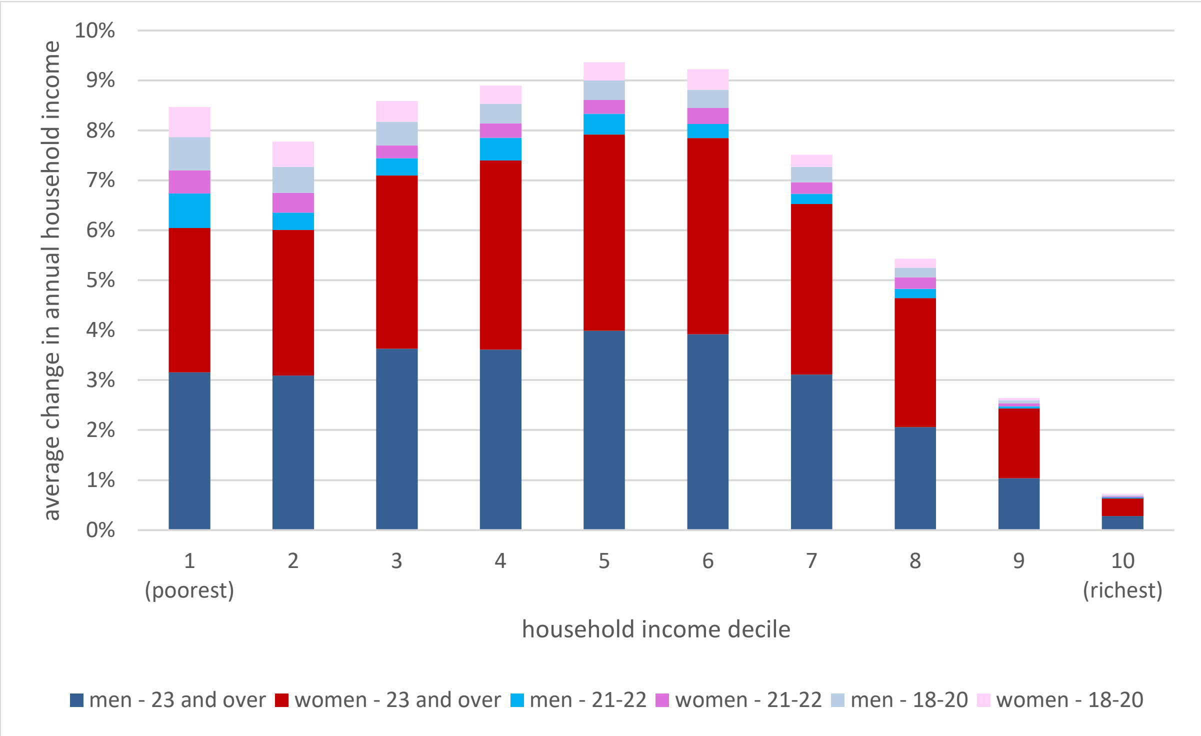
Figure 3a. Average gains as a percentage of net income from increases in National Minimum Wage to £13/hour, by gender and household income decile



Source: author's calculations using Landman Economics tax-transfer model

Figure 3a shows that slightly more of the distributional impact of increasing the NMW to £13 per hour accrues to households with female workers than to households with male workers. This is because, as shown in **Table 2** above, female workers' net income increases by a total of around £24.5 billion as a result of increasing the NMW to £13 per hour, compared to an increase in net income for male workers of just under £23 billion. The effects of the minimum wage increase are progressive for both men and women.

Figure 3b. Average gains as a percentage of net income from increases in National Minimum Wage to £15/hour, by gender and household income decile



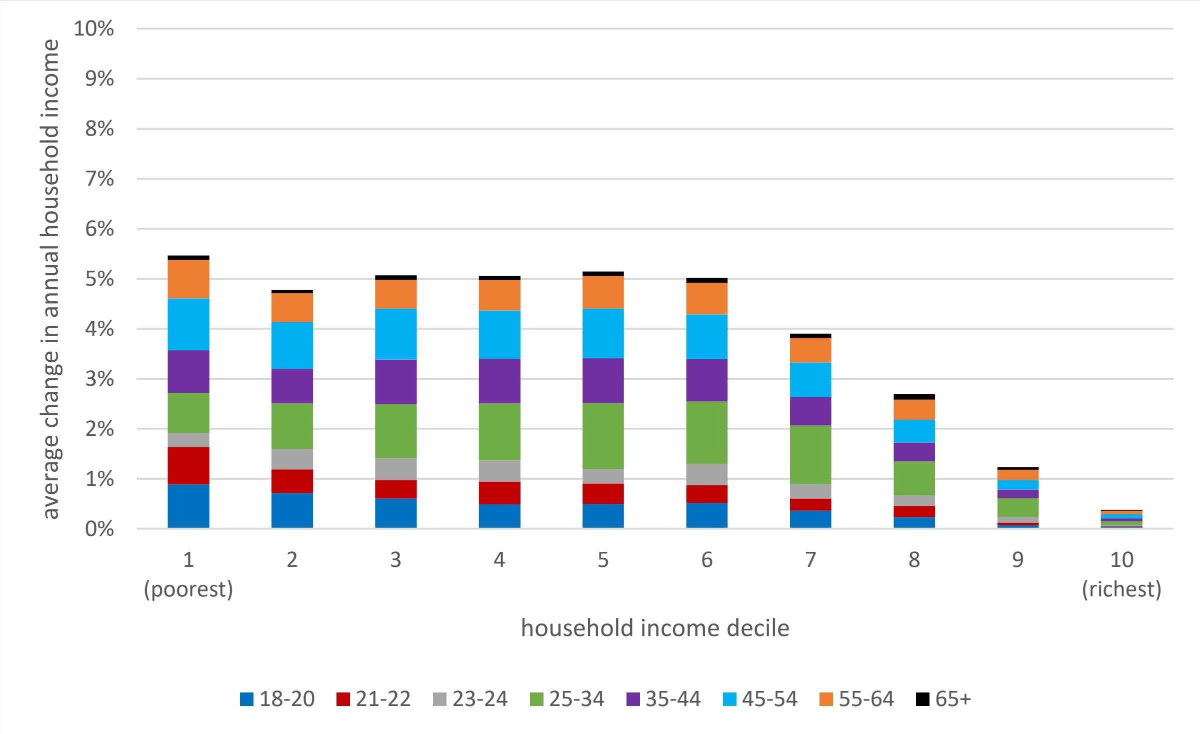
Source: author's calculations using Landman Economics tax-transfer model

Figure 3b shows more clearly that for workers aged 23 and over, women's wages are a particularly large proportion of the household income increase in deciles 7, 8 and 9, reflecting the fact that women are more likely than men to be second earners earning at or just above NMW levels in a household where the primary earner is better paid.

Impacts by age group

Figures 4a and 4b show the impact of the increases in the NMW by the age group of the affected workers, again presenting the average gains from the increase to £13 per hour in **Figure 4a**, and then the average gains from the increase to £15 per hour in **Figure 4b**.

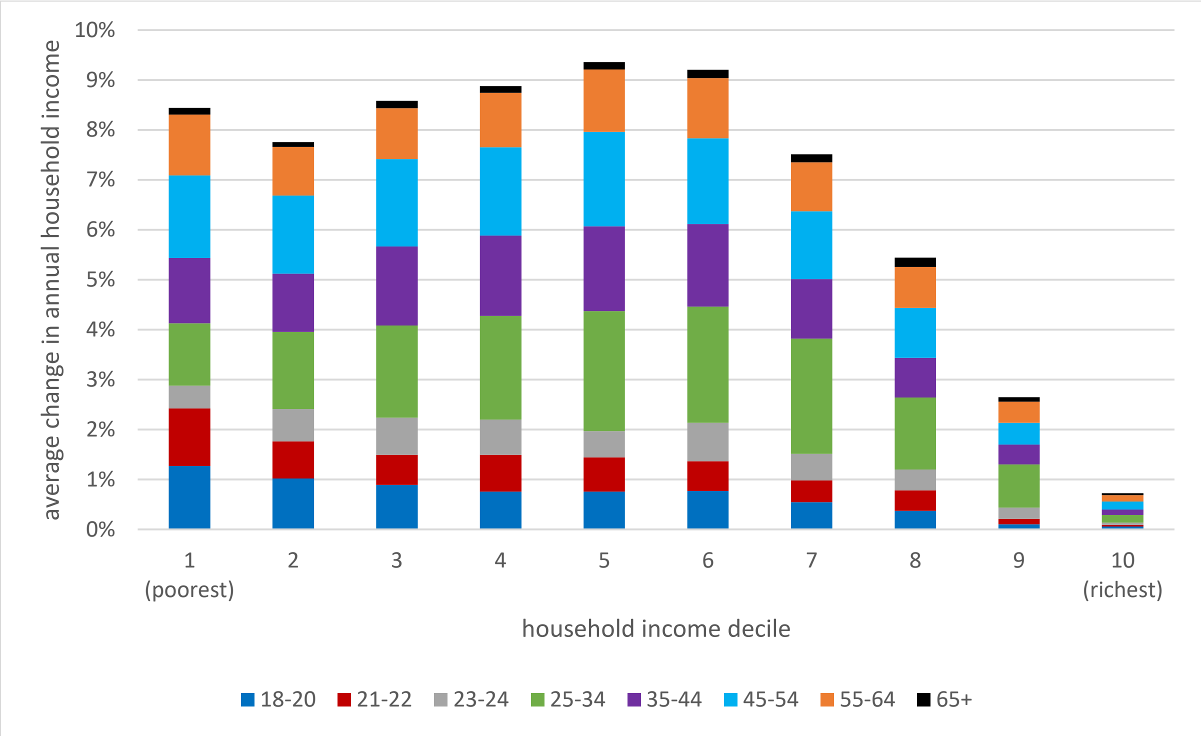
Figure 4a. Average gains as a percentage of net income from increases in National Minimum Wage to £13/hour, by age group and household income decile



Source: author's calculations using Landman Economics tax-transfer model

Figure 4a shows that in the bottom decile, net income gains for workers aged 18-20 and 21-22 make up a substantial proportion (around one third) of all the gains from the NMW increase to £13 per hour. For the second and higher income deciles, workers aged under 23 are a smaller proportion of the total net income gain, but workers aged under 35 (i.e. including the 23-24 and 25-34 age groups) account for around half of the total increase in net income in these deciles. Net income gains for workers aged 55-64 and (especially) for workers aged 65 and over are relatively limited, reflecting the smaller numbers of these workers in low-earning jobs in the labour market.

Figure 4b. Average gains as a percentage of net income from increases in National Minimum Wage to £15/hour, by age group and household income decile



Source: author's calculations using Landman Economics tax-transfer model

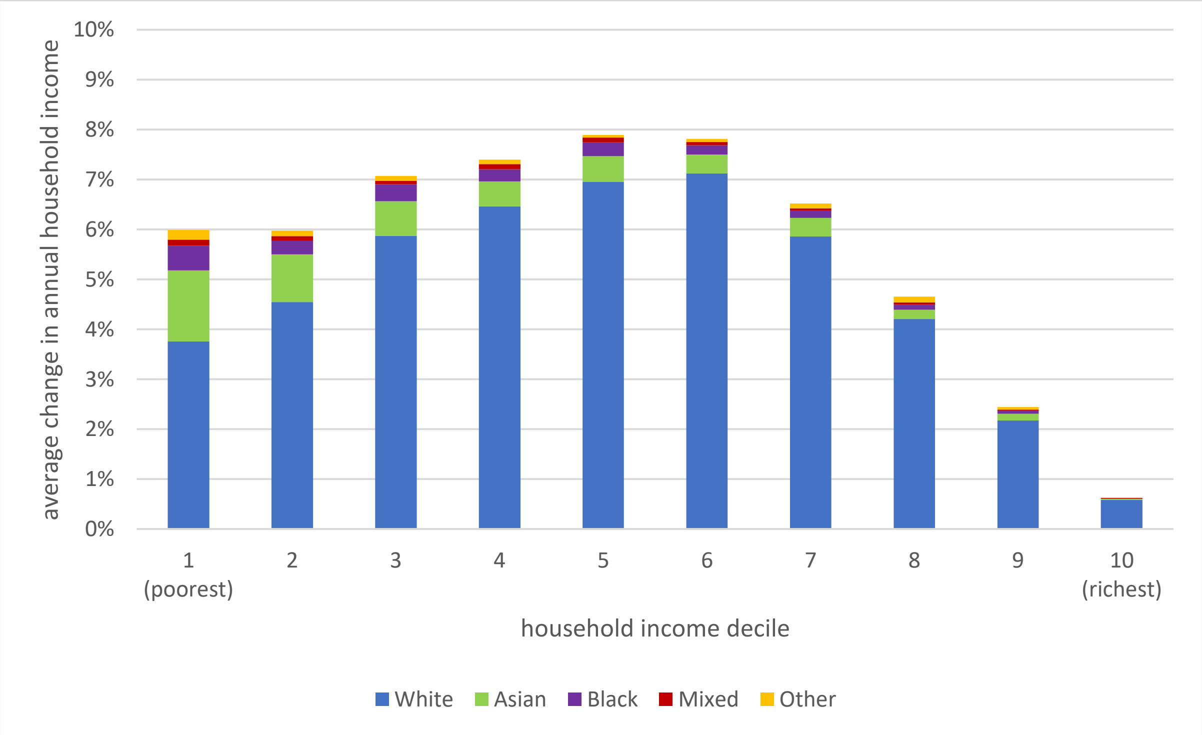
Figure 4b shows that the age composition of the gains from increasing the NMW to £15 per hour is approximately similar to the gains from the more modest increases shown in **Figure 4a**. In the remainder of this chapter we focus on the distributional gains from increasing the NMW to £15 per hour, presenting the results separately for workers aged under 23 (with the 18-20 and 21-22 age groups combined) and workers aged 23 and over.

Impacts by ethnicity

Figures 5a and 5b show the average percentage impacts of increasing the NMW to £15 per hour by ethnic group, for workers aged 23 and over and workers aged under 23 respectively.

Figure 5a shows that the distributional impact for white workers as a percentage of net income is similar to the overall pattern for workers aged 23 and over shown in **Figure 2a** above. For asian workers and black workers the impact of the NMW increases is more progressive than for white households, with especially large gains in the bottom half of the income distributions (and for asian households, the bottom three deciles in particular). The distributional impacts for mixed-race workers and workers of other ethnicities are also more progressive than for white workers although it is hard to see this on **Figure 5a** because mixed-race and other ethnicity workers are such a small part of the overall sample.

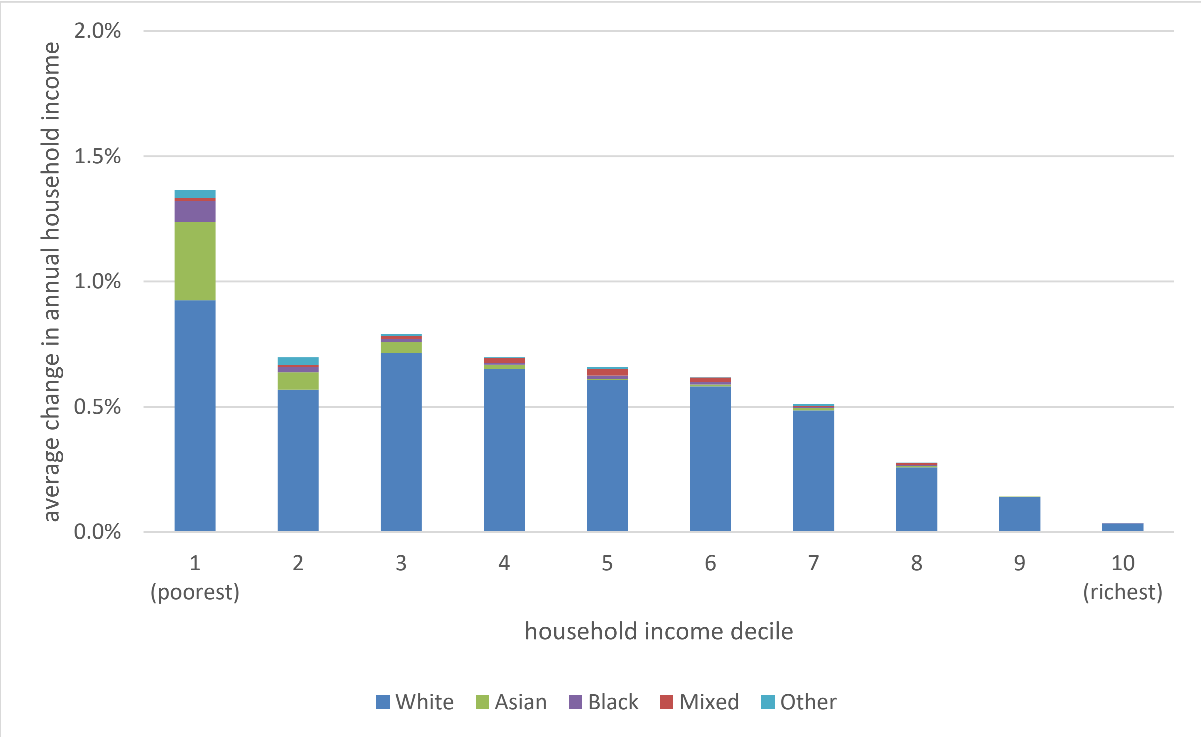
Figure 5a. Average gains as a percentage of net income from increases in National Minimum Wage to £15/hour, by ethnicity and household income decile: workers aged 23 and over



Source: author's calculations using Landman Economics tax-transfer model

Figure 5b shows that the distributional impact of increasing the NMW to £15 per hour results in bigger percentage gains in net income in the bottom decile, relative to the gains across the rest of the household income distribution, for white, asian and black workers aged under 23 than for workers aged 23 and over. Across deciles 2 to 7 the distributional effects are relatively flat in percentage terms for white workers but are more progressive for asian workers in particular. Note that the vertical axis of Figure 5b is smaller than for Figure 5a, to make it easier to see the pattern of results for these younger workers who are a relatively small proportion of the workforce.

Figure 5b. Average gains as a percentage of net income from increases in National Minimum Wage to £15/hour, by ethnicity and household income decile: workers aged under 23



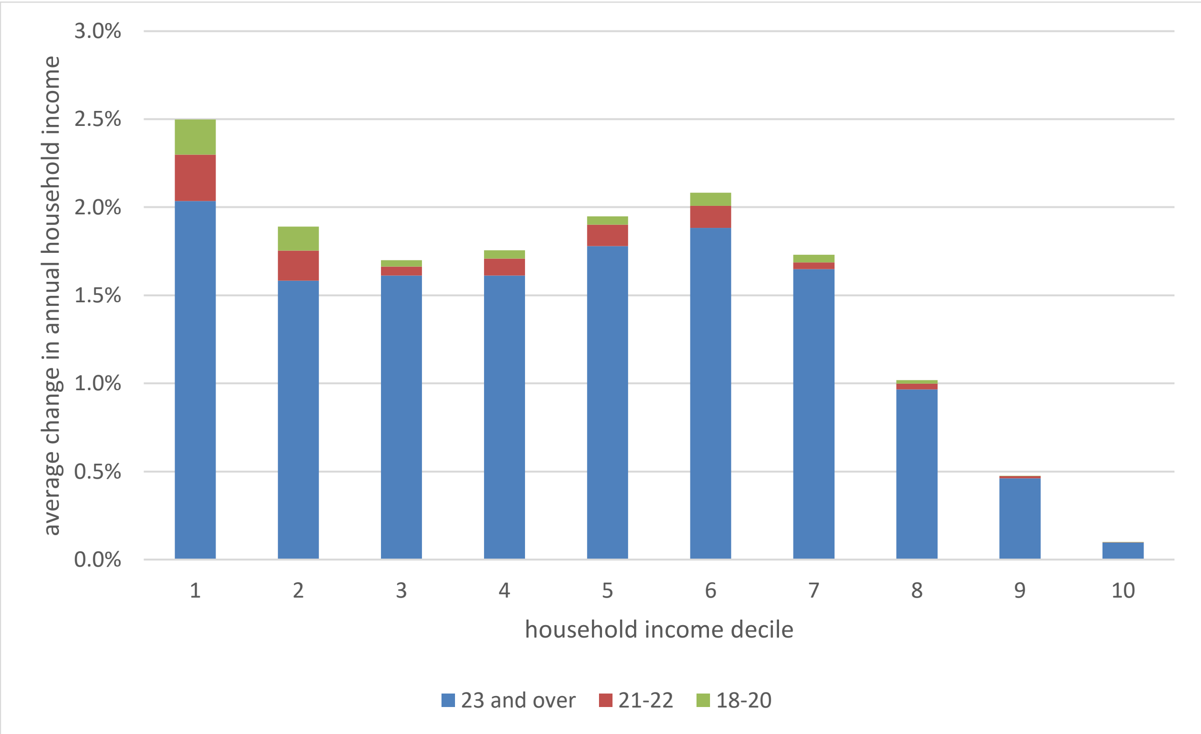
Source: author's calculations using Landman Economics tax-transfer model

Impacts for migrant workers

Figure 6 shows the distributional impacts of increasing the NMW to £15 per hour for migrant workers (as a stacked column, with the impacts for workers aged 23 and over, workers aged 21-22 and workers aged 18-20 shown on the same graph). Note that a smaller vertical scale has been used for this graph compared to **Figures 3a, 4a** and **5a**, because migrant workers are only about one in five of the total workforce affected by the increase in the NMW.

Figure 6 shows that for workers aged under 23 the distributional impacts of increasing the NMW are particularly large in the bottom decile; this echoes the analysis by age group in **Figure 5b**. For workers aged 23 and over, the distributional impacts of raising the NMW are progressive overall, but the percentage increase in net income in the bottom decile is not that much greater than in deciles 2, 3 and 4, and there is a second peak in the distributional effects for deciles 5 and 6.

Figure 6. Average gains as a percentage of net income from increases in National Minimum Wage to £15/hour, by household income decile: migrant workers



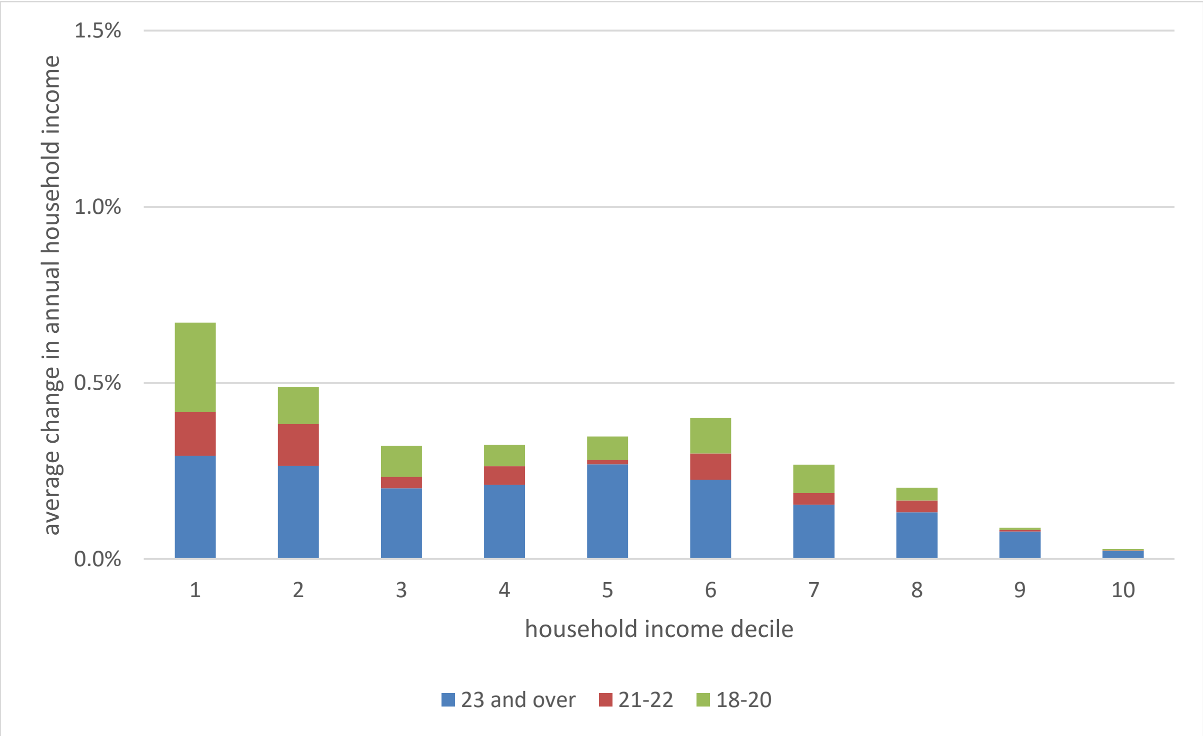
Source: author's calculations using Landman Economics tax-transfer model

Impacts for temporary workers

Figure 7 shows the distributional impacts of increasing the NMW to £15 per hour for temporary workers. As with **Figure 6** the results are presented as a stacked column, with the impacts for workers aged 23 and over, workers aged 21-22 and workers aged 18-20 shown on the same graph. Note that a smaller vertical scale is used compared to **Figure 6**, because the average distributional impacts are smaller – mainly because there are fewer workers identified as in temporary jobs in the FRS than there are migrant workers in the FRS.

Figure 7 shows that for temporary workers, the average gains from increasing the NMW for workers aged under 23 are larger than the gains from increasing the NMW for workers aged 23 and over in the bottom two deciles. In the bottom decile in particular, the gains for workers aged 18 to 20 are far larger than for the 23-and-over age group. This reflects a relatively high incidence of temporary work among the under-23 age group. For workers aged 23 and over, the distributional impacts are relatively flat as a proportion of net income in the bottom six deciles of the income distribution.

Figure 7. Average gains as a percentage of net income from increases in National Minimum Wage to £15/hour, by household income decile: temporary workers



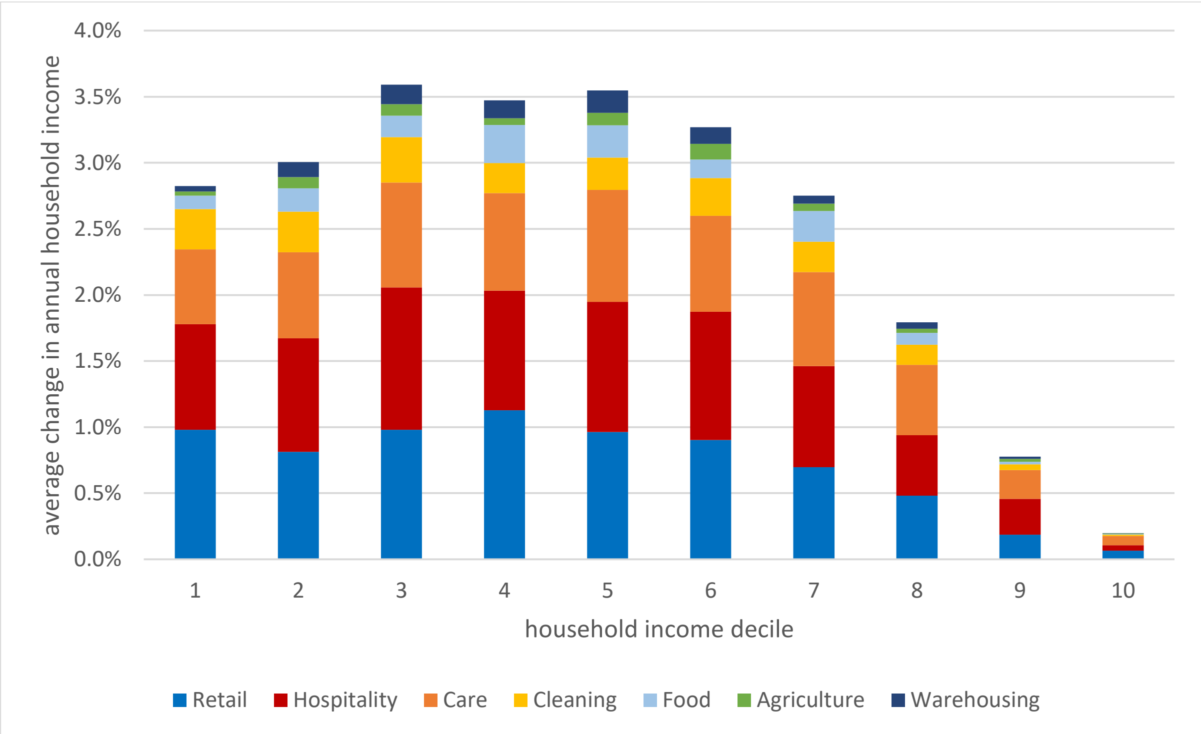
Source: author's calculations using Landman Economics tax-transfer model

Impacts by industrial sector

Finally in this chapter, **Figures 8a and 8b** show the impact of increasing the NMW to £15 per hour for workers in the seven specific industrial sectors looked at earlier in this report.

Figure 8a shows that for workers aged 23 and over, the distributional impacts on net household income are particularly large in the retail, hospitality and care industries. As shown in **Table 1**, this is mostly because there are a particularly large number of workers in these industries who would be affected by an increase in the NMW to £15 per hour. For care and hospitality workers, the biggest distributional impact in percentage terms is in deciles 3 to 6, while in retail, the biggest impact is in deciles 1, 3, 4 and 5. The distributional impacts for cleaning workers aged 23 and over are also progressive, with the biggest percentage impact in the bottom three deciles.

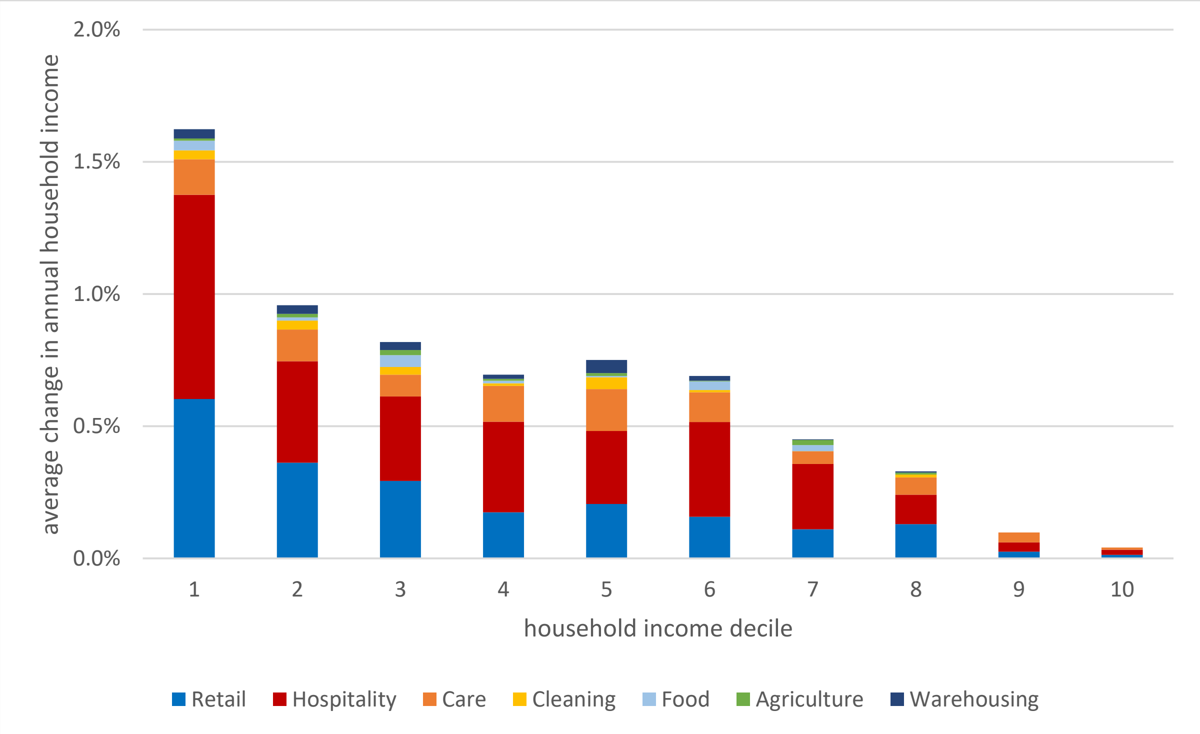
Figure 8a. Average gains as a percentage of net income from increases in National Minimum Wage to £15/hour, by industry sector and household income decile: workers aged 23 and over



Source: author's calculations using Landman Economics tax-transfer model

Figure 8b shows that the percentage impacts on household net incomes of increasing the NMW to £15/hour for workers aged under 23 are especially large in the retail, hospitality and care industries, both of which contain a particularly large number of low-paid young workers. Unlike for workers aged 23 and over, the distributional impacts for workers aged under 23 are particularly large for the bottom decile in these three industries. In the other four industries this pattern does not hold; for example, the impacts of increasing the NMW for young workers in the food industry are largest in decile 3, whereas for cleaning the impacts are largest in decile 5. The other four industries also have much smaller numbers of workers aged under 23, resulting in much smaller measured distributional effects for these industries relative to the effects shown in **Figure 8a**.

Figure 8b. Average gains as a percentage of net income from increases in National Minimum Wage to £15/hour, by industry sector and household income decile: workers aged under 23



Source: author's calculations using Landman Economics tax-transfer model

Chapter 4. The microeconomic employment impact of increasing the National Minimum Wage

This chapter discusses the potential employment impact of increasing the National Minimum Wage to £15 per hour, focusing on the 'microeconomic' impacts – not taking account, for the moment, of potential macroeconomic impacts on employment resulting from increased demand for goods and services in the economy. Chapter 5 below discusses potential macroeconomic impacts.

Theoretical models of the effect of minimum wages on employment

The predictions from economic theory about the potential employment effect of a wage floor depend on the assumptions made about the way the labour market works.

The most simplistic economic model of the labour market assumes 'perfect competition', whereby each worker is paid the value of what he or she produces. This model predicts that a minimum wage will either have no effect on the labour market whatsoever (if set at a level below what the lowest-paid worker in the labour market is paid) or will reduce employment (if set above this level). In this view, the higher the minimum wage is, the higher unemployment will be. Any worker for whom the minimum wage is greater than the value of their hourly productivity will lose their job when the minimum wage is introduced in this model.

Alternative models based on 'imperfect competition' in the labour market (e.g. Manning 2003) suggest that due to features of real-world labour markets such as employers' market power and the costs to employees of moving jobs, it is quite possible that many workers are being paid less than the value of what they produce. In this situation, it is possible for a minimum wage to raise wages without having any adverse effect on employment. In fact, in certain models there may be a positive impact on employment (Card and Kreuger, 1995). There is still a certain critical level of minimum wage above which we would expect to encounter adverse employment effects, but it is an empirical question as to where that level is.

Kaufman (2009) suggests that there is an additional rationale for minimum wages that goes beyond arguments about the structure of the labour market. This is the inequality of bargaining power between workers and employers. Bargaining inequality arises partly from the fact that labour is a perishable good which cannot be inventoried like most other production goods. Most workers' bargaining power in employment negotiations is limited by the fact that they cannot afford to live for long without working – in other words they are likely to have 'shallower pockets' than employers. This is particularly the case for workers on very low wages who are unlikely to be able to save large amounts. Also, in countries with relatively weak employment protection, unskilled workers are easier to substitute with alternative sources of labour in the event of industrial action (because employers do not need to spend a lot on training up new workers if they dismiss the strikers). Hence, the particular conditions of low-wage labour markets tilt bargaining power in favour of employers and results in low-wage workers having to accept lower average wages than they would do if bargaining strength of employers and workers were equal.

An alternative explanation for minimum wages not having negative employment effects comes from Dustmann *et al* (2020) who hypothesise that the minimum wage improves the average quality of firms that operate in the market, by reallocating workers from smaller, lower paying firms to larger, higher paying ones. This mechanism would result in losses in some firms within particular industries but offsetting gains in other firms within the same industry. Alternatively, there could be reallocation effects *across* industries, with workers being reallocated from industries with a high proportion of low-paid workers to industries where pay is higher on average.

Empirical research on minimum wage employment effects

Theory, then, suggests that the employment impact of a minimum wage is an open question. What does the empirical evidence suggest? The debate has swung wildly between defenders and opponents of minimum wages ever since 1995, when two eminent American labour economists, David Card and Alan Krueger, produced results from micro-studies on US data[92] which seemed to overturn the standard orthodoxy, showing that the best estimate of the effects of the minimum wage on US employment using micro-data from the 1980s and early 1990s was zero (Card and Kreuger, 1995).

More recent studies from Stanley and Doucouliagos (2012), Belman and Wolfson (2014) and Wolfson and Belman (2016) using meta-analyses of a large number of research studies confirm the finding that in the US, increases in minimum wages at state level have had no statistically significant impact on employment. Most recently, a review of the international evidence on the employment impact of minimum wages in a range of different countries by Dube (2019) finds that “the most up-to-date body of research from US, UK and other developed countries points to a very muted effect

92 In the US there is a national (federal) minimum wage but each individual state can choose to set a state-level minimum wage in excess of the national minimum. Most of the US studies from the 1990s were based on “difference-in-differences” estimates which look at the change in employment levels in a state or states (or counties within states) where the minimum wage was increased and compared this with the change in employment levels in a state or county where the minimum wage was held constant. Often, the studies looked at matched workplaces in each state (for example, fast food outlets).

of minimum wages on employment, while significantly increasing the earnings of low paid workers. Importantly, this was found to be the case even for the most recent ambitious policies" – minimum wages which increased the level to as much as 81% of median earnings in particular US counties within states (see for example, Godoy and Reich, 2019).

Recent evidence for the UK reaches comparable conclusions, as shown in a recent review of the National Living Wage by the Low Pay Commission (2022). An analysis of the employment impact of the National Living Wage from its introduction in 2016 to 2019 by Cribb *et al* (2021) compares employment changes in each part of the wage distribution in low-wage areas of the UK to employment changes among similar workers living in higher-wage areas who are less exposed to increases in the national minimum wage because their nominal wages are further above it. Cribb *et al* find no significant effects of the NLW on employment. Other recent evaluations of the NLW by Aitken, Dolton and Riley (2019) and Dube (2019) suggest that the introduction of the NLW likely did not have a substantial impact on low-wage employment in the UK, but did raise the quality of jobs. This is consistent with the hypothesis of Dustmann *et al* (2020) that the minimum wage results in a reallocation of workers away from low-paying firms towards higher-paying firms without an overall employment loss. Dustmann *et al* find some evidence of this mechanism operating in Germany when a minimum wage was first introduced there in 2015, and research by Frontier Economics (2020) for the UK suggests that firms in low-paying industries responded to the introduction of the NLW by reducing hiring, while firms in better-paying industries could afford to expand hiring and take on additional workers, leading to neutral or slightly positive impacts of the NLW on employment overall.

The finding of no negative employment effects from the NLW is in line with previous meta-analyses of the impact of the pre-2016 National Minimum Wage conducted by Hafner *et al* (2017) and de Linde Leonard *et al* (2014).

Potential employment effects of a National Minimum Wage set at £15 per hour

The existing body of empirical research on the National Living Wage covers the period up to the end of 2019, when the NLW was at a rate of £8.21 per hour for workers aged 25 and over. The current published evidence base does not consider the increases in April 2020 and subsequently (to the current rate of £9.50 per hour in April 2022), or the extension of the NLW to 23 and 24-year-olds in April 2021. There has also been a major change in the labour market environment since 2019 as a result of the Covid-19 pandemic, which is discussed in more detail in the next chapter.

An increase in the National Minimum Wage to £15 per hour would considerably increase the number of workers being paid at minimum wage levels. Currently, our estimates based on adjusting and uprating the 2019/20 FRS to April 2022 levels suggest that around 14 per cent of employees aged 23 and over were paid at National Minimum Wage levels, as of April 2022. Our estimates in **Table 2** above suggest that around 41 per cent of employees would be paid at NMW levels if the NMW were raised to £13 per hour with immediate effect; £13 per hour is equivalent to around 90 per cent of current median hourly earnings in the UK. An increase in the NMW to £15 per hour would cover just under 52 per cent of employees in total, i.e. just above median wages.

As explained above, the current evidence base on the microeconomic employment effect of minimum wages only considers increases up to just over 80 per cent of median earnings (based on evidence for US counties with particularly high locally set minimum wages). The impact of increases to 90 per cent or more of median earnings is not assessed in existing empirical evidence. However, it is worth pointing out that for every previous increase in the National Living Wage (and before 2016, the National Minimum Wage) there have been critics asserting that the increase would lead to a substantial decrease in unemployment. By contrast, an analysis of the empirical evidence shows no measurable negative employment effects of the introduction of the National Living Wage in 2016, or of the increases in the NLW up to 2019 (Dube 2019). Furthermore, there are potential macroeconomic stimulus effects of increasing the minimum wage which are not considered by the microeconomic evidence base reviewed in this chapter. The next chapter examines these potential macroeconomic impacts in more detail.

Chapter 5. Macroeconomic impacts of increasing the National Minimum Wage

This section discusses the potential for increases in the NMW to result in increased employment through the stimulus impact of increased demand in the economy, and the potential role of increased wages in expanding the labour force in a post-Covid economy.

Fiscal multipliers

To estimate the impacts of increasing the NMW on the UK economy it is necessary to make assumptions about the size of the fiscal **multiplier**. The relevant multiplier for the current report is a number capturing the extent to which increases in net incomes and the improvement in the government's fiscal balance arising from the increase in the minimum wages feed through into increases in GDP through increased economic activity among UK-based companies and workers.

An increase in the NMW to £15 per hour would have three potential multiplier impacts on UK GDP:

- The *wages* impact: the increase in net incomes arising from the increase in gross wages should lead to increased consumer demand which has a positive multiplier impact on GDP.
- The *profits* impact: the reduction in net incomes arising from a decrease in profits may lead to reduced consumer demand which would have a negative multiplier impact on GDP.
- The *public finances* impact: the increase in income tax, expenditure tax and NICs receipts and the reduction in Universal Credit spending leads to an improvement in the public finances even after taking into account increases in the public sector wage bill and reductions in corporation tax revenue.

The UK Office for Budget Responsibility makes the following assumptions about the size of the multiplier in the UK in its economic forecasting model[93], with the size of the multiplier depending on where the increase (or decrease) in demand comes from. **Table 8** below shows the OBR's multiplier assumptions. In general the multiplier impact of increases in public spending is higher than the multiplier impact of tax cuts or benefit increases, largely because consumers tend to save rather than spend a portion of the extra disposable income which they gain from the tax cut, which reduces the multiplier effects.

[93] The OBR model is the same model that HM Treasury uses.

Table 8. OBR multiplier assumptions

Source of demand increase (decrease)	Multiplier
Reduction (increase) in VAT	0.35
Reduction (increase) in personal tax and NICs	0.3
Increase (reduction) in spending on UC and other benefits	0.6
Change in government current spending on departments	0.6
Change in government capital investment spending	1.0

Source: OBR (2015), Box 3.2

Macroeconomic impacts

Using the OBR multiplier assumptions, the macroeconomic effects of increasing the NMW to £15 per hour can be calculated by estimating the change in GDP arising from increased wages, reduced profits and improved government finances, and then converting this into a number of (full-time equivalent) extra jobs. The calculation proceeds as follows:

The wages impact: as shown in **Table 2** above, increasing the NMW to £15 per hour leads to an increase in net incomes for low-paid workers of around £47.3 billion if the increase applies only to individuals aged 23 an over. If the £15 rate is extended to employees aged 18 to 22, net incomes for low-paid workers would increase by an additional £8.8 billion, resulting in a total increase of net income of £56.1 billion across all age groups. The multiplier effects arising from this increase are likely to depend to a large extent on how much the income of poorer households is boosted compared to richer households. Evidence from the Band of England (Bank of England 2012, pp 338-339) suggests that the marginal propensity to consume out of income is higher for lower income households than for high income households[94]. Meanwhile, the distributional results from **Figure 1** earlier in this report show that the cash impact of increases in the NMW is highest for households in the middle of the income distribution.

The OBR multiplier estimates suggest that increases in demand arising from cuts to income tax and National Insurance Contributions have a multiplier effect of 0.3 whereas increases in demand arising from benefit and tax credit increases have a multiplier effect of 0.6. Given that the distributional effect of increasing the NMW is

[94] Specifically, the Bank of England research (based on a household survey carried out by NMG Consulting) suggests that the reduction in consumption for a negative income shock is around 78 pence for every pound of reduced income for households with gross incomes of less than £9,500 per year compared with 45 pence for every pound of reduced income for households with gross incomes of more than £50,000 per year. More recent research for the Bank of England by Albuquerque and Green (2022) using data collected during the Covid-19 pandemic suggests that households' concerns about their future financial situation may affect the marginal propensity to consume (MPC). Households who were concerned about not being able to make ends meet during the pandemic had a significantly higher MPC than other households, but the research did not look explicitly at average MPC by net income level.

more progressive than the effect of income tax and NICs cuts but less progressive than the impact of Universal Credit increases, it makes sense to use a value for the multiplier impact of minimum wage increases that is somewhere in between the OBR's multiplier estimates for tax cuts and its estimate for benefit increases. Therefore, I assume that the multiplier impact of increasing the National Minimum Wage is 0.45.

A multiplier of 0.45 implies that the impact on GDP of increasing the NMW to £15 per hour is:

- 0.45 x £47.3bn = **£21.3bn** (to the nearest £100 million), if the increase only covers workers aged 23 and over;
- 0.45 x £56.1bn = **£25.2bn** (to the nearest £100 million), if the increase covers 18-22 year olds as well.

The profits impact: the impact of reduced profits on consumer demand is likely to be relatively minor, at least in the short run. A proportion of profits is paid out to shareholders as dividends and it is likely that reductions in profits will result in reduced dividend payments. However, most company shares are held by institutional investors such as pension funds; in most cases there will be a considerable time lag between the dividends being paid and the accumulated pension funds being used by the relevant policyholder to purchase an annuity. Furthermore, a substantial proportion of UK company shares are held by institutions or individuals who are not based in the UK. For these two reasons, I have assumed here that the short-run impact of reduced profits on consumer demand is zero.

The impact of improved government finances: as shown in **Table 3** above, increasing the NMW to £15 per hour results in an improvement of around £19.3 billion in the public finances (receipts minus expenditure) if the increase applies to workers aged 23 and over only, plus an additional £3.5 billion if the £15 rate is extended to 18-22 year olds. If this extra income is used to increase public spending relative to current government plans, the OBR estimate of the multiplier impact depends on what the extra resources are spent on. I assume here that half of the improvement in the public finances is spent on capital investment (e.g. infrastructure) with the other half being used to increase other aspects of departmental spending. This implies a multiplier impact of 0.8 (halfway between the OBR's estimate for investment spending and its estimate for other spending) which means that the overall increase in GDP resulting from the improvement in the public finances arising from the increase in the NMW is equal to:

- £19.3bn x 0.8 = **£15.4bn** (to the nearest £100 million), if the increase only covers workers aged 23 and over;
- £22.3bn x 0.8 = **£17.8bn** (to the nearest £100 million), if the increase covers 18-22 year olds as well.

This implies that increasing the NMW to £15 per hour results in a total GDP increase (via multiplier effects) of:

- £21.3bn (wages impact) + £15.4bn (public finances impact) = **£36.7bn** if the increase covers only workers aged 23 and over;
- £25.2bn (wages impact) + £17.8bn (public finances impact) = **£43.0bn** (if the increase covers all workers aged 18 and over).

How many jobs is this macroeconomic stimulus likely to lead to? The most recent currently available estimates of the share in wages in GDP suggest that it is about 54 percent (ONS, 2021) – implying that the increase in the total wage bill arising from the macroeconomic stimulus provided by the increase in the NMW is around £11.5 billion (if the NMW increase only covers workers aged 23 and over) or £13.6 billion (if the increase is extended to workers aged 18-22). Given current average (full-time) wages of around £31,900 per year, this implies:

(£11.5 billion / 31,900) = approximately **360,000** extra full-time equivalent jobs if the NMW increase covers workers aged 23 and over;

(£13.6 billion / 31,900) = approximately **430,000** extra full-time equivalent jobs if the NMW increase covers all workers aged 18 and over.

Macroeconomic effects in current UK labour market conditions

The econometric analysis of the potential stimulus impact of an increased National Minimum Wage presented in this chapter suggests that up to 430,000 extra jobs could be created. But this figure needs to be placed in the context of the current UK economic environment. There are a number of salient factors which need to be discussed.

Firstly, it looks increasingly likely that the UK is moving into recession. CPI inflation is currently running at 9 per cent – its highest rate for four decades – and the Bank of England has indicated that it is likely to raise interest rates further on top of a series of recent increases (Giles, 2022a), which is likely to tip the economy into a recession. There is substantial evidence that fiscal multipliers are higher during an economic downturn (for example, IMF, 2013; Glocker *et al*, 2017). This could mean that the multiplier impacts of an immediate increase in the NMW would be larger than projected above.

Secondly, one of the main problems in the UK's post-Covid labour market has been a decline in employment rates over the last two years. As Chris Giles of the *Financial Times* wrote recently (Giles, 2022b), although the UK's unemployment rate is at its lowest level since 1974, the number of people in work in the UK (including both employees and self-employed) is 500,000 lower than the pre-pandemic level, with almost a million fewer working today than the Bank of England expected in forecasts made just before the start of the Covid-19 pandemic. Part of the decline in employment rates appears to be due to an increase in long-term sickness due to "long Covid". But there has also been a substantial decrease in employment for people aged 50 and over (and especially men aged 50 and over), most of which appears to be due to retirement (ONS, 2022a). This decline in the UK's employment rate raises a number of issues.

Real wages have been falling in the current high-inflation environment – the current rate of wage increases is running at just under 6 per cent, while CPI inflation is running at 9 per cent. This means that average wages are falling by 3 per cent per year in real terms. Reductions in real wages make work less attractive relative to early retirement for workers who have the option of retiring early, other things being equal. The UK's departure from the EU has also resulted in a fall in the number of people from EU states working in Britain from 2019 onwards (ONS, 2022b).

In this labour market environment, a boost to wages arising from an increase in the NMW might encourage more people over 50 to stay in work rather than retiring early – or in some cases, to re-enter the labour force – increasing employment, and improving the government's fiscal position as well as household net incomes.

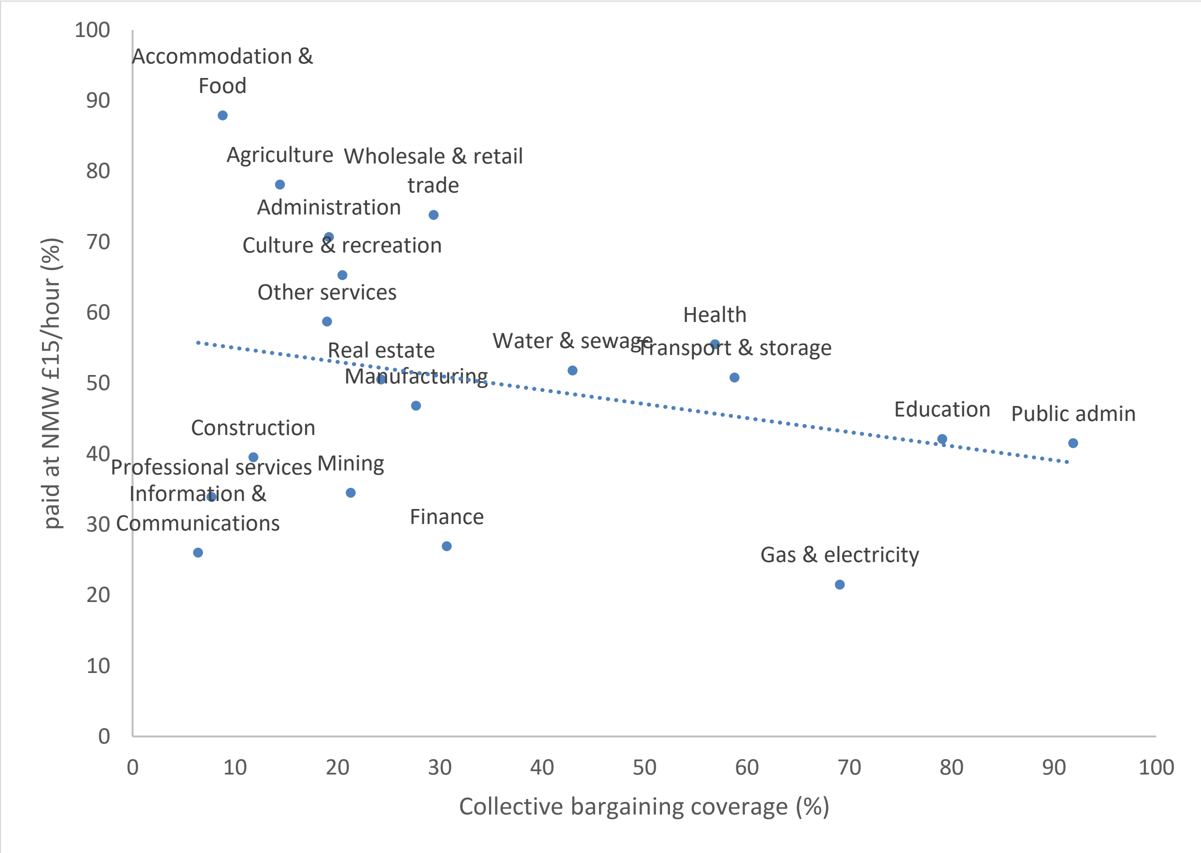
Of course, an increase from current levels of the NMW to £15 per hour – or even £13 per hour is a substantial increase. But even if it turns out that there is a small amount of job loss due to microeconomic factors if the NMW is raised to £15 per hour, the macroeconomic estimates here suggest that overall employment impact of £15 per hour is likely to be at worst neutral, and perhaps slightly positive. An increased NMW could also increase employment rates and reduce price inflation while boosting real wages.

Chapter 6. The potential impact of increasing the National Minimum Wage on collective bargaining

As shown earlier in this report, an increase in the National Minimum Wage to £13 per hour or £15 per hour would substantially increase the coverage of the NMW, and would result in a large scale overlap between workers on the NMW and workers whose wages and other conditions of employment are covered by collective bargaining. This chapter assesses what the potential impact of an increase in the NMW to £15 per hour might be.

The UK Government's *Trade Union Statistics* publication (BEIS, 2022) contains statistics on the coverage of collective bargaining across 19 different industrial sectors. **Figure 9** below shows a scatterplot of percentage of workers in each industry who are covered by a collective bargaining agreement against the percentage of workers who would be paid at the National Minimum Wage rate if the NMW were raised to £15 per hour in 2022. Each dot on the scatterplot represents an industry, and the industries are labelled on the Figure. The dotted line on the Figure is a regression line or "line of best fit" showing the relationship between collective bargaining coverage and the "bite" of the NMW for each industry.

Figure 9. Scatterplot of collective bargaining coverage against percentage of workers who would be paid at NMW rate if the NMW were increased to £15 per hour, United Kingdom, 2022: industries by 1-digit SIC 2007 classification



Source: author's calculations using BEIS (2022) and Family Resources Survey and ASHE data

Figure 9 shows that overall, there is a negative relationship between the proportion of workers covered by collective bargaining agreements in each industry and the proportion of workers who would be paid at NMW rates in each industry if the NMW were increased to £15 per hour. The negative relationship between collective bargaining and NMW "bite" across industries is fairly weak (as is shown by the high dispersion of the dots for the various industries around the "line of best fit") but it does exist. There seem to be three broad industry groupings within the Figure:

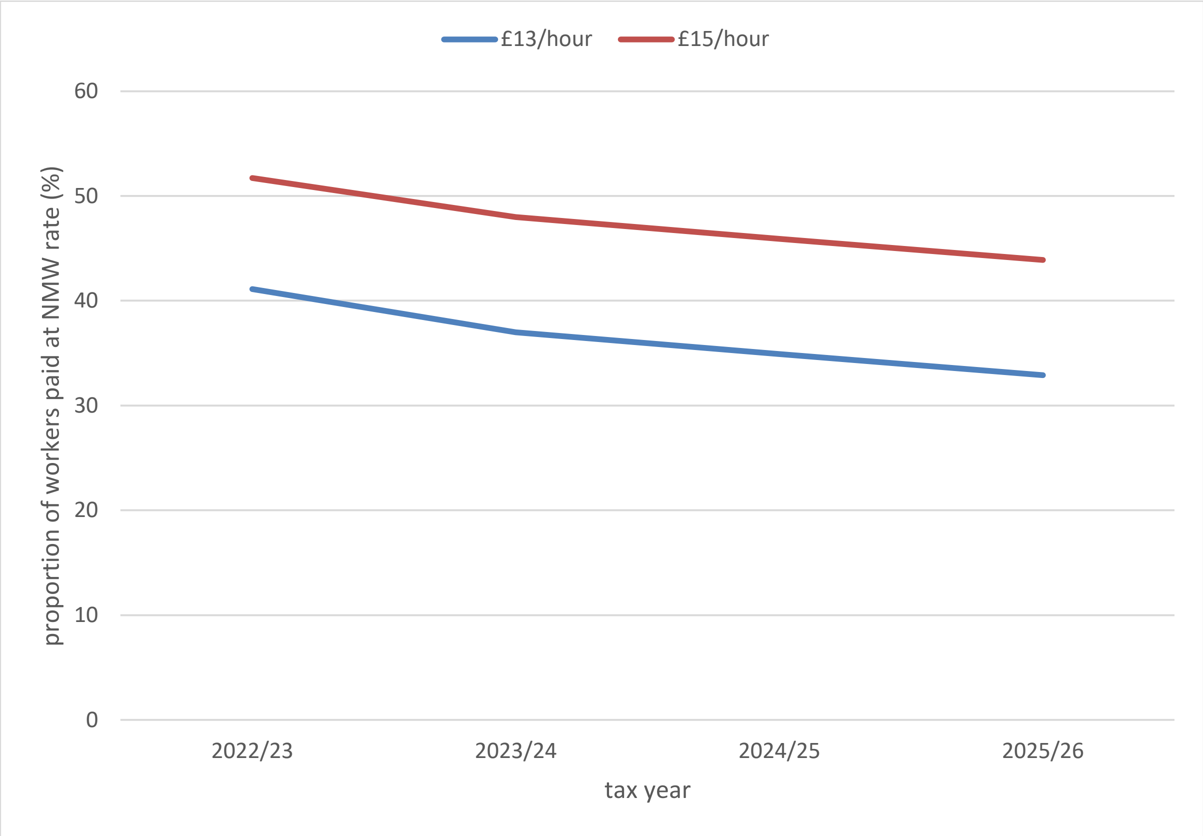
1) Sectors with low collective bargaining and high-to-medium NMW bite (accommodation and food, agriculture, wholesale & retail trade, administration, culture and recreation, other services, real estate, manufacturing);
2) Sectors with relatively high collective bargaining and medium-to-low NMW bite (public admin, education, transport and storage, heath, gas & electricity);
3) Sectors with low collective bargaining and low NMW bite (info and communications, finance, professional services, mining, construction).

Overall, these results suggest that an increased NMW would perform an important function in terms of supporting wages in low-wage sectors which also tend to have low levels of collective bargaining. But as a recent report by the author and James Meadway for the Progressive Economic Forum (Meadway and Reed, 2022) points out, a rapid rise in the minimum wage may itself help strengthen workplace collective bargaining institutions. Evidence from US states shows a statistically significant relationship between increases in the minimum wage at state level, and subsequent increases in union membership. A one dollar per hour increase in the state-level minimum wage is directly related to a subsequent 5 percentage point increase in state-level union membership, as a share of the total workforce (Clemens and Strain, 2020). There are two reasons proposed for this relationship. One is that minimum wage increases act as a visible advert for the importance of trade unions through “effective advocacy”. Another is that minimum wage rises alert other workers, unaffected directly by the wage rise, to the importance of collective labour market institutions. Thus, an increase in the National Minimum Wage may also help incentivise trade unions to bargain for wage increases for workers above the minimum wage floor.

Chapter 7. The effect of inflation on the number of workers paid at National Minimum Wage rates

As discussed in Chapter 5 above, consumer price inflation is now at a 40-year high in the UK, with the government's headline Consumer Price Index (CPI) measure of inflation running at around 9 per cent, and the Retail Price Index (RPI) at around 11 per cent. Meanwhile, wage inflation (as measured by average earnings growth) is running at around 6 per cent per year. Although wage inflation is running below price inflation, which means that wages are falling in real terms, wage inflation is forecast by the Office for Budget Responsibility to be above its long-term average rate of growth for the next three years (OBR 2022), meaning that the "bite" of a NMW of £15 per hour (or £13 per hour) will be smaller if the NMW is raised to either of those levels in future years than it is in 2022. This is illustrated by **Figure 10**, which shows the proportion of employees (aged 23 and over) who would be paid at NMW rates if the NMW were introduced in the current tax year compared to each of the next three tax years (2023/24, 2024/25 and 2025/26).

Figure 10. Proportion of employees aged 23 and over paid at NMW rates for NMW of £13 per hour and £15 per hour, 2022/23 to 2025/26



Source: author's calculations using average earnings growth forecasts from OBR (2022) and Family Resources Survey and ASHE data

Figure 10 shows that at £15 per hour, the proportion of workers paid at NMW falls from just under 52 per cent in 2022/23 to just under 44 per cent in 2025/26. For a NMW of £13 per hour the equivalent figures are 41 per cent of employees in 2022/23 and 33 per cent of employees in 2025/26.

These results show that in an environment of high inflation, the precise time at which the NMW is raised to £15 per hour (or £13 per hour) has a significant impact on the proportion of the labour force paid at the NMW. A delay of just one or two years in raising the NMW leads to a decline of several percentage points in the "bite" of the minimum wage.

Chapter 8. Future target level for the National Minimum Wage

When the National Living Wage was introduced in 2016, the UK Government's objective was for the NLW to reach 60 per cent of median hourly earnings for employees aged 25 and over by 2020, subject to sustainable economic growth. This target was reached in 2020 (and the year after that, the NLW was extended to 23 and 24-year olds). A new target was set in 2020 to reach two-thirds of median hourly pay by 2024, and to increase the NLW age threshold to 21 over the same timeframe. This chapter assesses Unite's proposal for a £15 per hour National Minimum Wage in the context of the current 2024 target.

As shown in Chapter 7 above, a NMW of £15 per hour would be just above median earnings (102% of median earnings to be precise) if introduced in April 2022, and just below median earnings (97% of median earnings) if introduced in April 2023. To maintain the real value of the NMW in future years, a target of **median hourly pay** looks reasonable. This would imply that the NMW should be around 50 per cent higher than its current long term target level. A NMW of £13 per hour would be equal to 89% of median earnings in April 2022, and 84% of median earnings in April 2023.

Raising the NMW to £15 per hour would be a step into the unknown, to a certain extent, in that there is no current empirical evidence on the impact of minimum wages set as high as median hourly earnings (as discussed in Chapter 4). There are studies in the United States that have looked at the impact of minimum wages up to just over 80% of median earnings (e.g. Godoy and Reich, 2021), but that is the highest extent of existing minimum wages in advanced industrialised countries. Bearing this in mind, there is a case for a two-stage approach to introducing the £15 minimum wage. In the first stage, the NMW could be raised to £13 per hour. Then, after monitoring to assess the employment effects (including taking account of macroeconomic multiplier effects if possible), the NMW could be raised to £15 per hour at the second stage, followed by a second round of monitoring to assess the employment effects.

There are advantages and disadvantages to this two-stage approach. The advantage is that it allows for detailed empirical analysis of the impact of the first stage increase to £13 per hour before implementing the second stage increase to £15 per hour. The disadvantage is that, if there are no significant negative employment effects arising from the increase to £15 per hour, low-paid workers miss out on the full benefits of the £15 minimum wage while the analysis of the first-stage increase is being conducted.

For younger workers (i.e. those aged 18 to 22) it may be especially important to implement the increase to £15 in two stages, because £15 is much higher, relative to median earnings, for this group. A NMW of £15 per hour is around 55 percent higher than projected median earnings in April 2022 for workers aged 18 to 22.

Chapter 9. Conclusions

This report has shown that an immediate increase in the National Minimum Wage to £15 per hour, would result in an average gain in net income per worker of over £3,600 per year for around 13 million workers aged 23 and over. The public finances would also improve by around £19.3 billion. If a NMW paid at this rate were extended to workers aged 18 to 22 it would cover an additional £1.7 million workers and would improve the public finances by an additional £3.5 billion. The distributional impacts of the increase in the NMW are progressive as a percentage of net income.

While increases in the minimum wage are often opposed on the grounds that they would lead to job losses, the analysis in Chapters 4 and 5 of the report shows that based on existing evidence, the employment effects of increasing the NMW to £15 per hour are unlikely to be negative. Indeed, incorporating multiplier and stimulus effects the overall effects on employment could well be positive. Overall, the analysis presented here makes a powerful economic case for increasing the National Minimum Wage to £15 per hour. This could happen either in one go, or alternatively in two stages, with an initial increase to £13 per hour (to monitor employment effects) and then a further increase to £15 hour after that.

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Appendix A: Limitations in the Family Resources Survey data for 16 and 17 year olds, and apprentices

16 and 17 year olds

It was not possible to use the Economics tax-transfer model to estimate the distributional impact of increasing the National Minimum Wage for 16 and 17 year olds because the Family Resources Survey only collects information on hours of work for survey respondents in the Adult survey record. Respondents aged 16 or over are placed in the Adult survey record if they have either (a) left full-time education, or (b) are not living with their parent(s) or guardians.

The leaving age for full-time education was raised to 18 in 2015 in England. This means that in the FRS data for every year since 2015, very few of the 16 and 17 year olds based in England in the survey are in the Adult survey record (because they are still in full time education and are living with parents or guardians in the vast majority of cases). Instead these 16 and 17 year olds are in the Child Survey record, which collects information on weekly earnings but does not collect information on hours of work. This makes it impossible to calculate an hourly earnings variable for these 16 and 17 year olds.

Apprentices

It was not possible to use the tax-transfer model to get a specific estimate of the distributional impact of increasing the National Minimum Wage for apprentices because the FRS does not collect information on whether workers are apprentices. Thus, for the purposes of this report, apprentices aged 18 or over have been treated as workers who are entitled to the standard National Minimum Wage rate for 18-20 year olds (apprentices over 19 are entitled to the standard NMW or NLW rate for their age group anyway, while apprentices aged under 18 are not included in the analysis due to the data limitations for 16 and 17 year olds explained above).

Implications of including 16-17 year olds and apprentices in the analysis

An important question is how much difference it would make to the results in this report for the impact of increasing the National Minimum Wage to £15 per hour if 16 and 17 year olds and apprentices were included in the analysis.

Looking first at 16-17 year olds, analysis of Labour Force Survey data for 2021 suggests that around 320,000 16-17 year olds were in employment in autumn 2021, compared to around 1 million 18-20 year olds. This means that the distributional and fiscal impacts of including 16-17 year olds in the analysis, had I been able to do so, would have been relatively limited. 18-20 year olds account for less than a tenth of the total number of workers affected by the increase in the NMW to £15 per hour, around one-tenth of the fiscal impacts, and around 15 per cent of the net earnings impacts. Given that the group of 16-17 year olds in employment is only around one-third the size of the group of 18-20 year olds in employment, the impact of including 16-17 year olds in the analysis would be fairly limited.

Turning to apprentices, we need to distinguish between three separate groups:

- Apprentices aged 19 or over, and apprentices aged 18 in the second or subsequent year of their apprenticeship, are entitled to the standard NMW or NLW rate for their age group, and will therefore be included in the overall distributional results (although they cannot be specifically identified due to the lack of an apprentice identifier variable in the FRS data).
- Apprentices aged 18 in the first year of their apprenticeship are entitled to the NMW apprentice rate of £4.81. In this report they are modelled as if they are entitled to the standard 18-20 year old NMW rate of £6.83. Hence the analysis in this report underestimates the distributional impact of increasing their earnings to £15 per hour, but they are not entirely left out.
- Apprentices aged under 18 are not included in the analysis – they are a subgroup of the 16-17 year olds discussed above.

Therefore, the implication of not having an apprentice identifier variable in the FRS, over and above the omission of 16 and 17 year olds from the analysis as discussed above, is that apprentices aged 18 in the first year of their apprenticeship are miscategorised as employees who are entitled to the full NMW rate of £6.83 per hour rather than the apprentice rate. Given that there were around 622,000 people participating in an apprenticeship in England based on the most recent statistics (Department for Education, 2022), and much smaller numbers in Scotland, Wales and Northern Ireland (LPC 2021, ch 7), and only a small proportion of those (probably less than 10%) were 18-year olds in the first year of their apprenticeship, the impact of not specifically identifying the apprentice NMW rate for 18-year olds in the analysis is likely to be limited.

Appendix B: Adjustment of hourly wages in the Family Resources Survey using the Annual Survey of Hours and Earnings

The FRS is a reliable source of information on *weekly* earnings, but the *hourly* wage information is not fully reliable because the survey responses on the number of hours each person works per week in the survey, and the survey responses on weekly wages, are taken from different weeks in many cases. Because of this, the FRS hourly wage measure is an overestimate of the proportion of workers in the UK working at, or just above, the minimum wage.

To address this problem, the analysis in this report uses data from the Annual Survey of Hours and Earnings – a much bigger survey than the FRS which explicitly collects accurate hourly wage information – to recalibrate the hourly wage measures in the FRS so that the adjusted FRS offers a more accurate representation of the hourly wage distribution in the UK.

The recalibration of the FRS hourly wage distribution is achieved by using published statistics from the Annual Survey of Hours and Earnings for 2021 (ONS, 2021b) which show various percentiles of the hourly wage distribution for workers, disaggregated by 2-digit industrial sector using the SIC07 industrial classification (giving 88 sectors in total). These percentile points were then compared with percentile points in the FRS distribution of hourly wages after uprating the pooled FRS dataset (for 2017/18, 2018/19 and 2019/20) to 2021 levels using data from ASHE on average earnings growth between 2017 and 2021. Hourly wages for workers in each industry in the pooled FRS dataset were adjusted so that the distribution of hourly wages in the FRS matches the distribution of hourly wages in ASHE. **Table A** below gives an example of this process for a particular industry sector (retail - 2-digit SIC code 47) which is featured in the report.

Table B. Percentiles of hourly wage distribution in ASHE (2021) and FRS (2017/18, 2018/19 and 2019/20 pooled) and multipliers used at various percentile points: retail sector (SIC 47)

Percentile	Hourly wage: ASHE 2021	Hourly wage: pooled FRS dataset (uprated by average earnings)	Multiplier
10th	£8.88	£6.30	1.409
20th	£9.04	£7.51	1.203
25th	£9.24	£7.87	1.173
30th	£9.37	£8.10	1.157
40th	£9.86	£8.53	1.156
50th (median)	£10.20	£9.12	1.119
60th	£10.98	£9.83	1.116
70th	£12.35	£10.89	1.133
75th	£13.17	£11.62	1.133
80th	£14.00	£12.66	1.106
90th	£18.53	£16.47	1.124

After these adjustments, the FRS hourly and weekly wages were uprated from 2021 to 2022 using the latest ONS estimates of annual growth in weekly earnings (6.0 percent in the year to April 2022).

Appendix C: Identification of industry sectors in the Family Resources Survey

The FRS SIC variable (which is defined using the 2-digit SIC07 classification) was used to identify the industrial sectors used in the analysis of the impact of increasing the minimum wage for specific sectors as explained in **Table C** below.

Table C. Sectors used for industry analysis: 2 digit codes and description

Industry	2-digit SIC07
Retail	47: retail trade, except of motor vehicles and motorcycles
Hospitality	55: accommodation 56: food and beverage service activities
Cleaning	81: services to buildings and landscape activities
Agriculture	1: crop and animal production, hunting and related service activities 2: forestry and logging 3: fishing and aquaculture
Food manufacturing	10: manufacture of food products
Care (childcare and social care)	87: residential care activities 88: social care activities without accommodation
Warehousing	52: Warehousing and support activities for transportation

It should be noted that according to data for 2021 from the UK Labour Force Survey (which contains more detailed industry information than the FRS), around 89 per cent of workers in the the care sector as defined using the two SIC codes 87 and 88 are social care workers, with the rest being childcare workers.