Championing better work and working lives

# Low Pay Commission consultation 2021: consultation

## Submission to the Low Pay Commission

**Chartered Institute of Personnel and Development (CIPD)**

**August 2021**

CIPD
Championing better work and working lives

## Background

The CIPD is the professional body for HR and people development. The not-for-profit organisation champions better work and working lives and has been setting the benchmark for excellence in people and organisation development for more than 100 years. It has 155,000 members across the world, provides thought leadership through independent research on the world of work, and offers professional training and accreditation for those working in HR and learning and development.

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

Against the backdrop of strong demand for labour, the re-emergence of rising labour shortages and recent CIPD data, the CIPD has no objection to the LPC continuing on its current path to 2024.  As the CIPD survey data suggests (see below), the most recent NLW recent uprating seems to have had a fairly limited impact on both pay and employment.

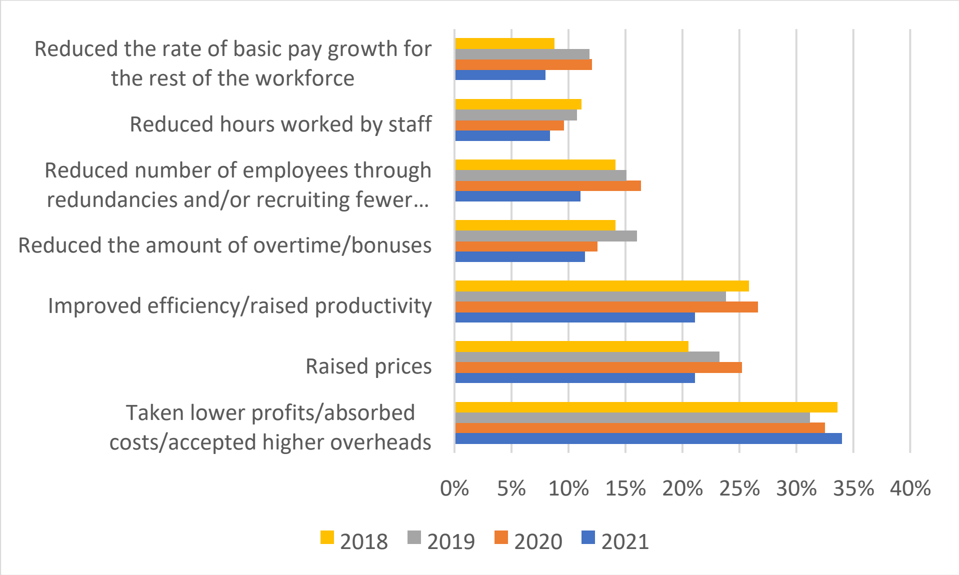
As the LPC is aware, the CIPD's *Labour Market Outlook* summer survey has asked employers who have been affected by the NLW how they have coped with a higher wage bill every year since the NLW's introduction in 2016.  In the survey, employers are given a list of potential responses and permitted to pick up to three which constituted their main reactions.

The latest Labour Market Outlook summer survey data, conducted in June 2021, suggests that employers have responded in a broadly similar way to previous years (see Figure 1). According to the survey data, the most popular responses among employers are to absorb the costs or take lower profits (34%), raise prices (21%) and make productivity improvements (21%). Two observations emerge from the time series. Firstly, the proportion of employers that have absorbed the cost has risen compared to the other two popular responses, especially during the past year. The data also suggests that employers are hitting diminishing returns on increasing productivity and reducing bonuses.

However, there is some considerable variation across low-paying sectors for whom the higher wage floor has had a disproportionate impact; most notably hospitality (77%), retail (62%) and transport (53%) sectors. This compares to 48% of all employers surveyed. For instance, the three most popular responses among hospitality employers include taking lower profits/absorbing the cost (40%), raising prices (38%) and raising productivity levels (17%). Just six per cent of employers say that they have made job cuts compared with an all-survey average of 11%. Additionally, it is also interesting that 30% of all hospitality and leisure employers that have been affected by the NLW have reduced their pay differentials while 22% have maintained them. Over a quarter (27%) say that the NLW has not affected them.

In contrast, the responses are much more broad-based in the retail sector. The most prevalent ones include taking lower profits/absorbing the cost (33%), improving productivity levels (26%), raising prices (19%), employing fewer workers (19%) and reducing overtime or bonuses (19%). The main concern from the survey data is the relatively high proportion of retail employers who say that the NLW has had an impact on employment levels. However, a more thorough qualitative assessment is required to understand whether there are deeper underlying causes, such as a lack of demand among some retail employers. In terms of pay differentials, in retail, just 18% have reduced them and 23% have maintained them. More than one in three (37%) employers say that the NLW has not affected them.

**Figure 1: Employers' response to the National Living Wage since its introduction in 2016**




Source: Labour Market Outlook summer report (2021)

Overall, therefore, the survey data continues to show that employers have been able to absorb the NLW without any significant impacts.

However, it should be added that it is highly likely that employers are continuing to face other challenges following the most the recent generous upratings; especially in-work progression, pay structures, training (including reductions in training in spend) and work intensification. These observations were set out in a report published by the CIPD last year[1], which was part-funded by the LPC. As the LPC is also aware, the report last year struck a fairly sceptical tone about whether employers had made a direct link between the NLW upratings and productivity improvements.

As the same CIPD report also showed, there is a lot of employer support for lowering the NLW age threshold to 23 and eventually 21. Our previous report found no evidence that the different wage rates had any impact on the employment rates of young people[2], and we remain of that view despite the impact of the pandemic. The overriding response from employers remains that young people should be paid the same rate as older workers if they are performing the same role.

[1] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/880528/CIPD_National_Minimum_wage_report_FINAL.pdf

[2] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/880528/CIPD_National_Minimum_wage_report_FINAL.pdf

This is also reinforced by the *Labour Market Outlook* summer survey, that has yet to be published, which shows that just the lowering of the age threshold has had very limited employment effects. Just four per cent of employers say that they have hired more workers aged 22 and under (excluding apprentices) among employers whose wage bill has increased as a result of the National Living Wage.

The timing of the merging of the adult and youth rates should therefore proceed at the same pace as originally set out by the LPC.

However, in the context of the current debate about labour shortages, one of the worrying developments is the extent to which low-paying sectors are complaining of chronic labour shortages. Nonetheless, the chronic labour shortages narrative is somewhat at odds with recent survey data, which suggests that labour supply is no more constrained compared with recent years in some low-paying sectors.

For instance, where employers last filled a low-skilled vacancy in the retail sector, they received a median number of 25 applicants for that role in summer 2021. This compares with 20 applicants in the summer 2020 report, 15 applicants in the summer 2019 report and 20 applicants in the summer 2018 report. In addition, employers report that the number of applications they received for medium skilled roles is broadly consistent with recent years.

In contrast, the transport and construction have seen fairly sharp falls in labour supply.

Nonetheless, it would thus be wrong to claim that employers are suffering from chronic labour shortages across the UK economy. Rather, it seems that employers are contending with fields of less experienced, and in some cases less qualified applicants to choose from compared with recent years. This is no surprise given the changes to the composition of the UK workforce over the past couple of years. According to the most recent official data, the stock of EU nationals, who are disproportionately represented in many of these sectors, saw a modest fall in 2021. However, the latest official data also shows that despite recent improvements in labour market outcomes, the stock of young people in employment remains well below pre-pandemic levels.

The CIPD has taken soundings from employers, and it seems that many employers have not lowered their expectations and are rejecting many applicants because they are either unsuitable and/or too inexperienced for often low-skilled roles. This does not augur well for the long tail of 19-year olds without Level qualifications who are keen to join the labour market. The most recent data suggest that just 60% of 19 year-olds are qualified to Level 3[3] (2 or more A Levels or an equivalent Level 3 qualification

This indicates that either the employability of jobseekers is deficient and/or that the cost of employing them is too high relative to their labour market value. This

[3] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/791405/L23_attainment_2018_main_text.pdf

suggests that the National Minimum Wage youth rate should be reviewed for young people with limited experience, skills and/or few qualifications.

The same discussion with employers also shows that many employers are keen or would be keen to increase apprenticeship activity in response to labour shortages. However, it is also interesting to note that a recent focus group of young jobseekers conducted by the CIPD, the results of which will be published in October, pointed to a lack of demand among young people because the apprentice rate was too low. The eventual lowering of the NLW age threshold will only compound the perception that the apprentice rate is too low for young people.

The obvious solution to this would be to improve the apprentice rate. We feel the Government should contribute more to offset the additional burden a higher apprentice rate would impose on business; especially given that many employers have already made a substantial contribution to the apprenticeship system via the Apprenticeship Levy. In addition, given that a high proportion of apprenticeships go to existing employees, the Government should also increase the generosity of apprenticeship incentives and target them at 18-24 year-olds to make full use of the potential supply of younger workers. A compromise step might be to have an upper age limit for the apprentice rate aligned to NLW eligibility, so that it comes down as the age limit for the NLW comes down? In this way, the disincentive effect of raising the apprentice rate would be concentrated among older apprentices.