

10 South Colonnade Canary Wharf London E14 4PU

<u>lpc@lowpay.gov.uk</u> <u>www.lowpay.gov.uk</u>

25 October 2024

The Rt Hon Jonathan Reynolds MP

Department for Business and Trade

Dear Secretary of State,

## NATIONAL LIVING WAGE AND NATIONAL MINIMUM WAGE RATES FOR 2025

- 1. I write with the Low Pay Commission's (LPC) recommendations for the rates of the National Living Wage (NLW) and National Minimum Wage (NMW) to apply from April 2025. This letter summarises the rationale for our recommendations, which are the agreed view of the whole Commission.
- 2. We recommend that the following rates apply from 1 April 2025:

	NMW Rate	Increase (£)	Increase (%)
National Living Wage (21 and over)	£12.21	£0.77	6.7
18-20 Year Old Rate	£10.00	£1.40	16.3
16-17 Year Old Rate	£7.55	£1.15	18.0
Apprentice Rate	£7.55	£1.15	18.0
Accommodation Offset	£10.66	£0.67	6.7

- 3. This is my first set of recommendations as Chair. The task has been made easier by the commitment and expertise of our Commissioners who have worked tirelessly to ensure that our responsibilities as a Commission are fully delivered. I also want to thank all our stakeholders for their evidence and their time, including during our visits around the UK this year.
- 4. I would like to note that we have made these recommendations whilst still not having a full complement of Commissioners for this cycle. I look forward to news on the appointment of a further worker Commissioner imminently.



- 5. Our work this year was made more complicated by the change in our remit midway through the cycle, the continued poor quality of the official labour market data and a surprise revision to the Annual Survey of Hours and Earnings (ASHE).
- 6. Last year we noted the problems with the Labour Force Survey (LFS), and while the response rate has begun to improve, there is still some way to go. The poor response rate seems to particularly affect young people and those with low incomes, which is a problem for informing our work. We urge the Government to support the Office for National Statistics' (ONS) efforts to improve the LFS. We also extend our thanks to HMRC for providing additional data that helped to fill gaps in our understanding of the current state of the labour market. Going forward, we will continue to work with HMRC for better and more timely access to the Real Time Information (RTI) data they produce. We will make further detailed recommendations on this in our full annual report which will be laid before Parliament in the near future.
- 7. This year's deliberations have also been made more difficult by the ONS's decision to change the ASHE methodology. This change took place a matter of weeks before we were due to provide advice and meant that median pay in April 2024 was significantly higher than we had anticipated. It is entirely right for the ONS to strive for accuracy, and there is good reason to believe the ASHE undercounts higher earners, so we understand the rationale for this change. That said, we note that the <u>ONS</u> also intends to review the ASHE methodology over the coming year and so may make yet further changes. This raises the question as to why the method has been changed before the methodological review is complete. With further methodological changes due next year, the picture will likely change further, again adding to the uncertainty.

## The National Living Wage

- 8. Our new remit from the Government asks us to do the following when recommending the National Living Wage rate for 2025:
  - a. Ensure that the NLW rate does not drop below two-thirds of median earnings.
  - b. Take account of the impact on business, competitiveness, the labour market and the wider economy.
  - c. Take account of the cost of living, including expected trends in inflation up to March 2026.
- 9. It is our job to balance these considerations, ensuring the NLW provides a fair wage for the lowest-paid workers while taking account of economic factors.
- 10. GDP growth, while improved, is still fairly weak by historic and international standards and productivity growth remains subdued. At the time we made our recommendations last year, the economy was expected to grow weakly in 2024 (around 0.4 per cent). However, growth in the first half of the year comfortably beat these projections. This led forecasters to more than double their growth estimates for 2024. They also expect growth to be higher still in 2025.



- 11. Despite this improved macroeconomic picture, the labour market has continued to loosen, with vacancies falling for the last two years and nominal earnings growth coming down from its high point last summer. However, we believe this largely reflects the strength of post-pandemic recruitment unwinding. Levels of vacancies and the vacancy rate remain similar to 2019, which itself was a period of tight labour markets where both metrics were at or close to historic highs. In line with this, forecasters expect unemployment to remain at its historic low levels, albeit increasing slightly.
- 12. The low-paid labour market is in a similar position. April this year saw a second successive major increase in the NLW and the share of jobs covered by the NLW increased for the first time since it was introduced in 2016. However, this share remained below prepandemic levels, despite an increase in the number of workers eligible as 21-22 year olds became entitled from April this year. The rate at which NLW workers moved into higher-paying employment, and the wage premium for doing so, both fell, but, again, remained above prepandemic levels. This suggests that the low-paid labour market has loosened to an extent, but remains robust.
- 13. However, this does not mean that employers, especially small businesses, have found it easy to respond to this large NLW increase. Employers in low-paying sectors are more worried about their cash reserves, debt obligations and risk of insolvency than those in other sectors. Few of them, though, are planning redundancies, and growth in input costs has slowed.
- 14. Employers are also concerned about differentials the gap in pay between those on the wage floor and those just above them in the pay distribution, including their managers and supervisors. Differentials are more compressed in the low-paying industries and becoming increasingly so. Employers worry it is harming staff retention, recruitment and morale. Some workers have also told us that the reduction in differentials has reduced their incentives to progress.
- 15. Passing on the costs of the NLW increase to customers through price increases remained a common response among employers. Some, though, continued to say that there is a limit to how long this can go on for, particularly as inflation itself wanes. Some sectors remain constrained in their ability to pass on cost increases. Firms who compete internationally, and publicly-funded sectors like social care, local government and childcare are less able to increase prices.
- 16. While inflation has fallen substantially, workers and employers are keen to remind us that this just means that prices are now growing more slowly. It does not reverse the damage done to living standards in recent years. While energy prices have fallen, they are far higher than prior to the cost-of-living crisis, as are food and other essentials. However, we are pleased to note that the NLW has increased in real terms since 2019.



- 17. Workers told us they are still suffering from the high cost of living and have seen their spending power and living standards decline in recent years. While NLW upratings are appreciated they are seen as a partial mitigation at best. We also heard that insecure work is common and that it exacerbates this financial insecurity. Many workers told us about the difficulty of securing sufficient working hours.
- 18. Measures that the LPC recommended in 2018 may help with insecure and unpredictable hours of work. We recommended a right to a contract that reflects hours of work, to reasonable notice of work schedules and to compensation if a shift is cancelled or curtailed at short notice. So, it is gratifying to see these measures being taken forward through the Employment Rights Bill.
- 19. Our new remit asks us to balance the living standards of workers, business conditions for employers and the Government's aim for the NLW not to fall below two-thirds of median pay. Taking all of this into account, we recommend an NLW of £12.21 that should apply to those aged 21 and above (an increase of 77 pence or 6.7 per cent).
- 20. This is the rate required to meet the Government's ambition not to fall below two-thirds of median earnings. In October 2023, when we made our recommendation of £11.44, we expected that it would achieve this level. However, the combination of wage growth outstripping forecasts and the ONS methodology change to ASHE meant that £11.44 was not high enough to reach it. This means there is ground to make up to reach this threshold in 2025, which in turn means an increase of 6.7 per cent is required. The combination of a larger than expected increase being required to hit the threshold and business conditions weakening in some areas has led us not to recommend an increase above the two-thirds threshold.
- 21. Because of the welcome return of real wage growth and forecasters' expectations that this will continue, we believe our recommended rate is sufficient to stay ahead of expected inflation on a range of measures up to March 2026. The labour market has loosened, but demand remains robust. And while some business conditions have deteriorated with more firms worried about cash, debt and insolvency others have improved. Labour shortages have reduced, and the growth in input costs has slowed. If monetary policy loosens in response to lower inflation, then this may further bolster economic growth, which is expected to be greater in 2025 than it was in 2024. We believe this increase is consistent with the state of the labour market and the wider economy.

## Youth rates of the National Minimum Wage

22. The Government wants "every adult worker" to benefit from a "genuine living wage" and to lower the NLW age threshold to 18 years of age. Rather than make this change straight away, the remit suggests we should "take steps year by year" and in 2025 we should "continue to narrow the gap" between the 18-20 Year Old Rate and the NLW. In making this change, we are asked to take account of the effects on employment of younger workers, incentives for



them to remain in training or education and the wider economy. Our remit for the youngest workers, those aged 16 and 17, is different again. Here we still have our traditional remit of pushing the wage as high as possible without damaging employment.

- 23. Last year we recommended ambitious increases for young people and apprentices and acknowledged some risk in doing so. However, while the labour market has softened for young people there is no robust evidence to suggest that last year's large increases have caused harm.
- 24. The increase for 18-20 year olds in April this year was the highest ever (£1.11 or 14.8 per cent) and has already started to close the gap with the NLW. With such a large increase we would expect coverage (the share of jobs paid the rate) to increase in tandem, but it only increased very slightly. Also, effective coverage those paid between their age rate and the NLW remained below pre-pandemic levels. Wage growth among this age group was strong. All of this is consistent with healthy demand for 18-20 year old workers so we recommend an increase that continues to narrow the gap with the NLW, with a recommended rate of £10 an hour for 18-20 year olds (an increase of £1.40 or 16.3 per cent). We will consult next year on the appropriate pace and approach to closing the gap the rest of the way, whether by raising the level, lowering the age threshold or a combination of the two.
- 25. Following a substantial increase in the wage floor for 16-17 year olds (£1.12 or 21.2 per cent) in April 2024, coverage rates for this group rose to their highest ever level, though they remain below those for some apprentices and 21-22 year olds. Also, as wages have been growing rapidly for these workers, the very large increase in their wage floor has only returned the bite (the ratio of the minimum wage to the median wage) to its pre-pandemic levels. **We recommend a rate of £7.55 (an increase of £1.15 or 18 per cent)** that returns the 16-17 Year Old Rate to the relativity it had with the adult rate when it was introduced.
- 26. In our advice on the National Minimum Wage Beyond 2024, we recommended that, in the long term, the Apprentice Rate changes to a simple discount of the adult rate. However, we said that this should not happen at the same time as major changes to the youth rates. We also note the Government's intention to change policy on apprenticeships and the levy, which will have implications for the system in England. As such, we don't recommend significant change at this stage and the Apprentice Rate should stay aligned with the 16-17 Year Old Rate, so we recommend a rate of £7.55 for them also (an increase of £1.15 or 18 per cent).

## Accommodation Offset

27. We recommend increasing the Accommodation Offset in line with the NLW, to £10.66 (an increase of 67 pence or 6.7 per cent). This is in line with the conclusion of our review of the offset in 2022, where we stated that "The value of the offset as a proportion of the NLW will not increase significantly until we have some assurance that there are robust minimum standards in place for accommodation quality and that these are enforced." In this context, we note the Government's announcement that they will consult on a new Decent Homes Standard



for the rented sectors; we wait to see the details of whether this applies to the accommodation affected by the offset and our recommendations.

- 28. In 2022, we recommended that the Accommodation Offset should not apply to seafarers, noting their particular situation of being confined to their work premises which also happens to be their only available accommodation. We reiterate this recommendation. We also recommend the Government look more widely at the entitlement to and enforcement of the NMW for seafarers, including via full implementation of the Seafarers Wages Act. In particular, we note stakeholder representations on the situation of workers in the offshore renewables sector, who they tell us are currently excluded from the NMW.
- 29. We continued to hear evidence from care workers and their representatives about sleep-in shifts, and the wide range of pay arrangements which exist for these shifts. We recommend that the Government ensures the question of sleep-in shifts' entitlement to the minimum wage is addressed in the planned Fair Pay Agreement for the social care sector.
- 30. These recommendations show the value of the Commission's independence and social partnership model in reaching consensus on key policy decisions. We are grateful to the employers, workers, their representatives and other experts who gave us invaluable evidence and testimony over the year.

With kind regards,

Baroness Philippa Stroud

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Chair of the Low Pay Commission

Copied to:

Rt Hon Sir Keir Starmer KCB KC MP, the Prime Minister

Rt Hon Angela Rayner MP, the Deputy Prime Minister and Secretary of State for Housing, Communities and Local Government

Justin Madders MP, the Minister for Employment Rights, Competition and Markets