Low Pay Commission consultation 2024

Submission to the Low Pay Commission

Chartered Institute of Personnel and Development (CIPD)

August 2024

CIPD
Championing better work and working lives

About CIPD

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 160,000 members across all sectors and sizes of organisation and 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. It also seeks to promote and improve best practice in people management and development and to represent the interests of our members.

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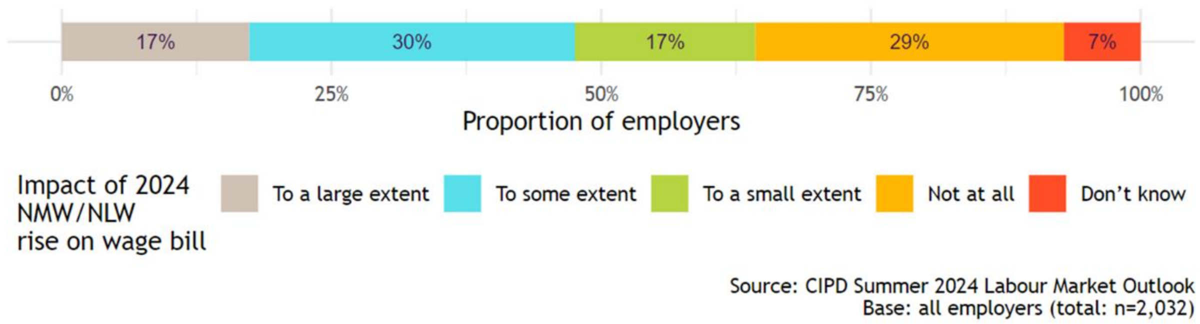
<u>Our response</u>

The National Living Wage

2. What has been the impact of the NLW in the past year, particularly the most recent 9.8 per cent increase to £11.44 in April this 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 below:

- **a. Profits**
- **b. Prices**
- **c. Productivity**
- **d. Pay structures and differentials**
- **e. Progression and job moves**
- **f. Training**
- **g. Investment**
- **h. Recruitment**
- **i. Job quality and security**

According to the CIPD's Summer 2024 Labour Market Outlook (LMO), 17% of respondents said that the rise in the National Minimum Wage (NMW) and National Living Wage (NLW) rates in April 2024 had increased their organisation's wage bill to a large extent, while 30% said the increases had pushed up the wage bill to some extent. A further 17% said the NWW and NLW rises had increased the pay bill to a small extent. By contrast, 29% reported no impact following the increase in the Minimum Wage rates, while the rest (7%) did not know what the impact had been.

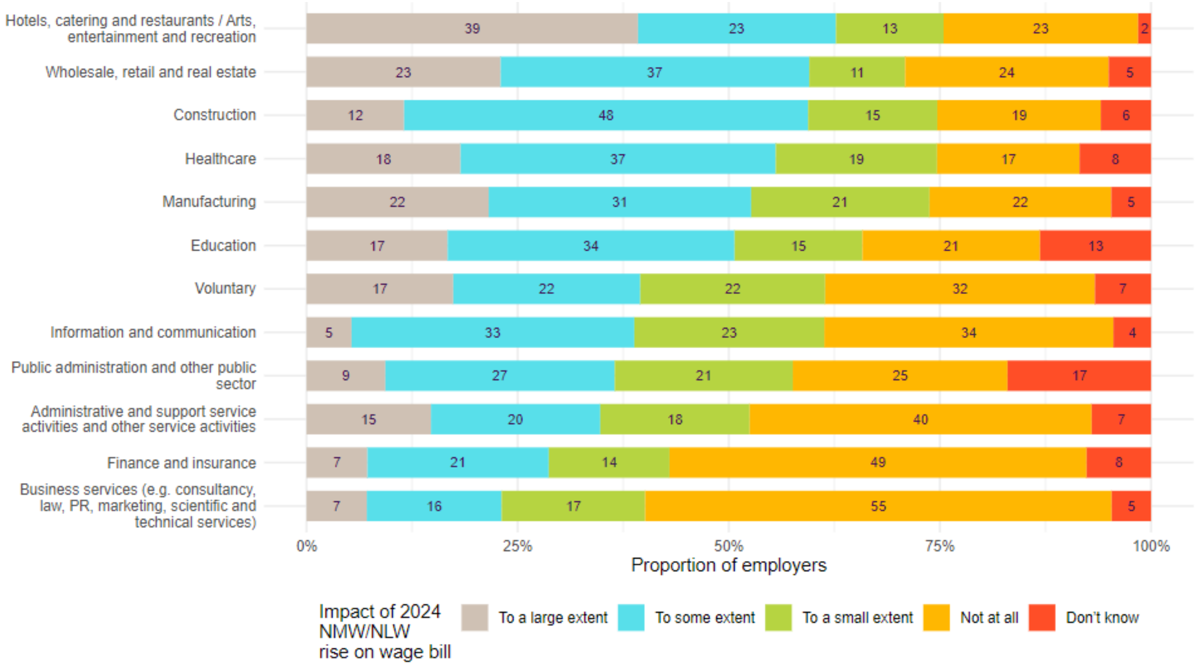


Last summer, 43% of LMO respondents said that the April 2023 increases had pushed up their wage bills by a large or moderate extent. By this summer, 48% said that the April 2024 rises had a similar effect. This, however, is not a significant difference.

The sectors reporting that these rises have affected their wage bill to a large extent in 2024 are:

- Hotels, catering and restaurants / arts, entertainment, and recreation (39% of all respondents);
- Wholesale, retail, and real estate (23%); and
- Manufacturing (22%).

Construction and healthcare were impacted to some extent at the highest rate.

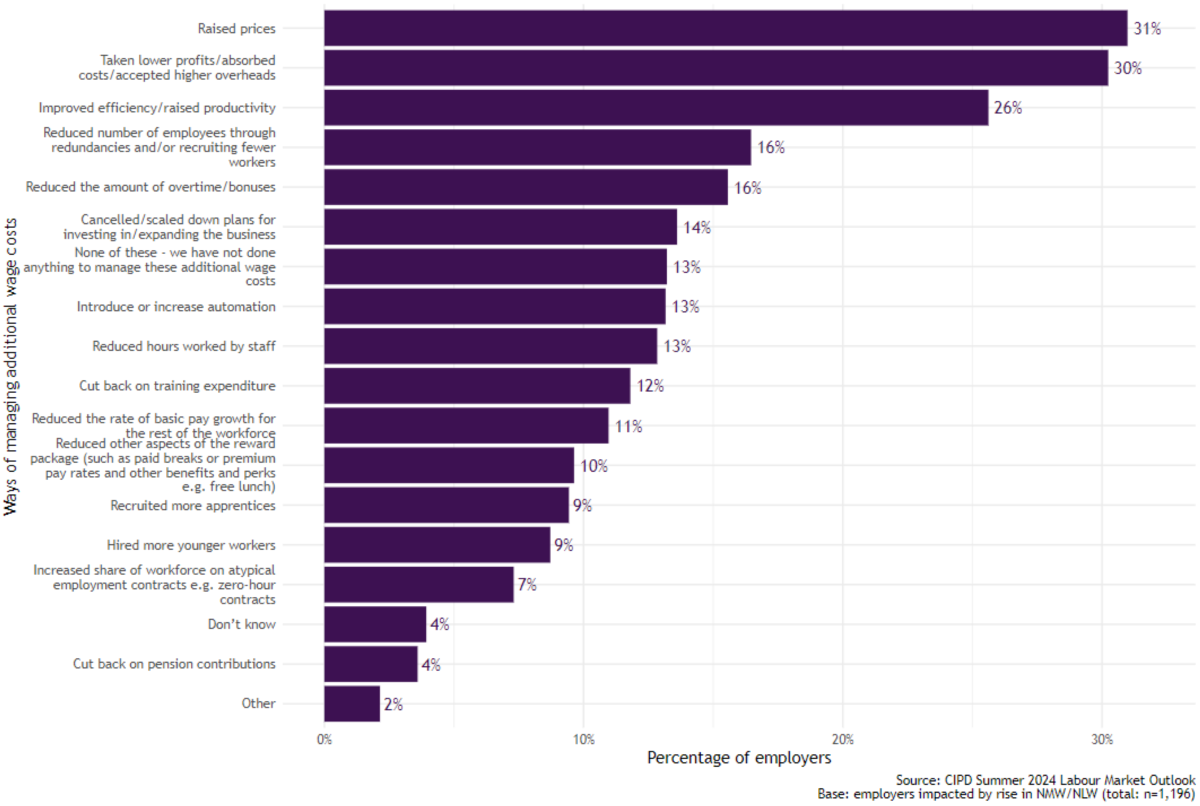


By firm size, respondents working for large companies (250 or more staff) are more likely to report that the increase in the minimum rates have increased their employer's wage bill to a large extent (22%) than respondents working for small or medium-sized companies (14%).

Overall, in the private sector, 18% of workplaces have been impacted to a large extent by April's rates increase. This compares to 14% of those in the public sector, and 17% in the voluntary sector.

The most common ways that employers have managed this year's increase in their wage bills are by:

- Raising prices (31%);
- Taking lower profits/absorbed costs/accepted higher overheads (30%);
- Improving efficiency/raised productivity (26%); and
- Reducing the number of employees through redundancies and/or recruiting fewer workers (16%).



Overall, 83% of all employers affected to some extent by the increase in the NMW and NLW rates have taken some action to moderate the cost impact. This ranges from 72% of all those reporting a small impact on their wage bill, to 84% reporting a moderate impact, and to 91% of those reporting a large impact.

Among those respondents that say that the minimum rates rises have had a significant impact for their employers, the most typical ways that these workplaces have been managing their additional wage costs are by:

- Raising prices (47%);
- Taking lower profits/absorbed costs/accepted higher overheads (41%);
- Improving efficiency/raising productivity (24%);
- Reducing the number of employees through redundancies and/or recruiting fewer workers (24%);
- Reducing the rate of basic pay growth for the rest of the workforce (22%); and
- Cancelling/scaling down plans for investing in/expanding the business (22%).

A. Profits

As a result of April's increase taking lower profits/absorbed costs/accepted higher overheads was the most common response among employers in the following sectors:

- Wholesale, retail, and real estate (46%);
- Hotels, catering and restaurants / Arts, entertainment, and recreation (42%);
- Voluntary (35%); and
- Business services (e.g. consultancy, law, PR, marketing, scientific and technical services) (33%).

B. **Prices**

The CIPD's summer 2024 LMO finds that increasing prices to pay for April's NMW and NLW rises was most common among respondents in the following sectors:

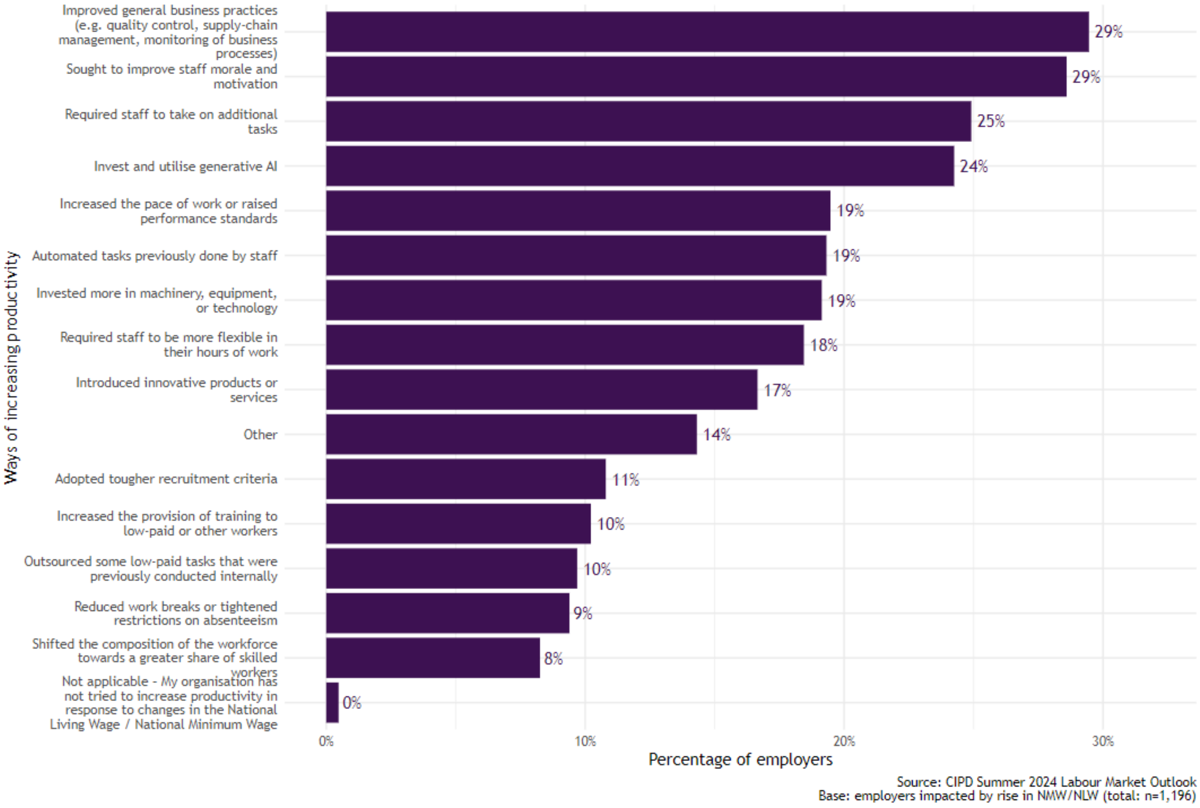
- Hotels, catering and restaurants / Arts, entertainment and recreation (53%);
- Transport and storage (41%);
- Wholesale, retail, and real estate (38%);
- Business services (e.g. consultancy, law, PR, marketing, scientific and technical services) (37%); and
- Manufacturing (34%).

C. **Productivity**

In response to the increase in hourly rates in April, 26% of workplaces have improved efficiency/ raised productivity, while 13% have also introduced or increased automation.

Employers have aimed to increase productivity to manage their additional wage costs in several ways, these include:

- Improving general business practices (such as quality control, supply-chain management, monitoring of business processes) (29%);
- Seeking to improve staff morale and motivation (29%);
- Requiring staff to take on additional tasks (25%);
- Increasing the pace of work or raising performance standards (19%);
- Investing more in machinery, equipment, or technology (19%); and
- Requiring staff to be more flexible in their hours of work (18%).



However, among our respondents, 24% admitted that their workplace has not tried to increase productivity in response to April's the NLW and NMW uplift. This percentage was higher in the public sector (30%) than the private sector (22%). Last year, by contrast, the gap between the public sector (25%) and the private sector (24%) was smaller.

Similarly, the public sector has been less likely (14%) to invest more in machinery, equipment, or technology, than the private sector (19%). However, the public sector (15%) has been just as likely as the private sector (15%) to invest in and utilise generative AI to manage their additional wage costs.

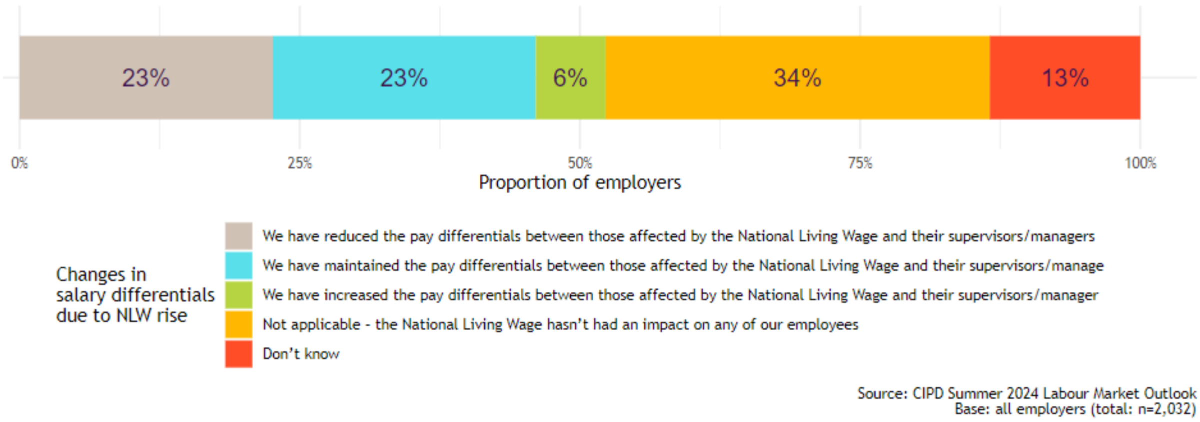
Among those employers most affected by the recent NLW pay bump, the most common actions aimed to improve productivity in response to the higher wage bill include:

- Required staff to take on additional tasks (34%);
- Improved general business practices (31%);
- Sought to improve staff morale and motivation (28%);
- Required staff to be more flexible in their hours of work (26%);
- Increased the pace of work or raised performance standards (22%); and
- Automated tasks previously done by staff (22%).

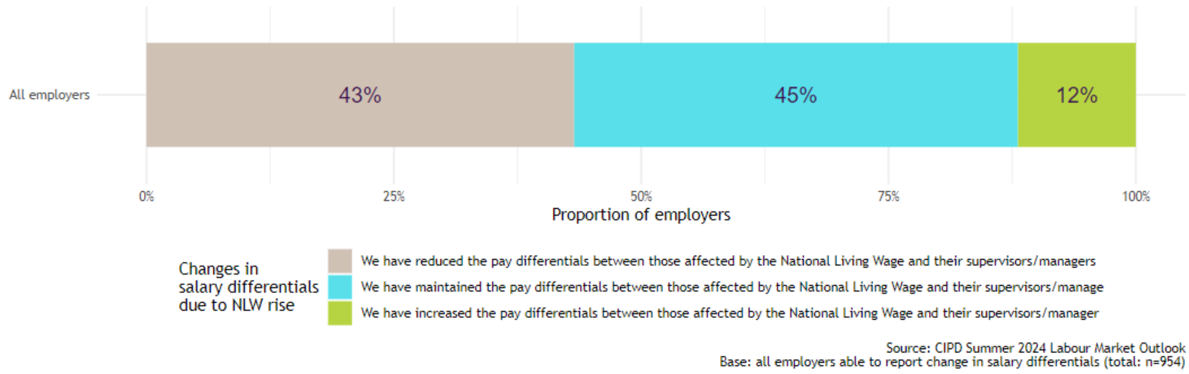
Among these respondents, 18% said their workplace had not tried to increase productivity in response to April's increase.

D. Pay structures and differentials

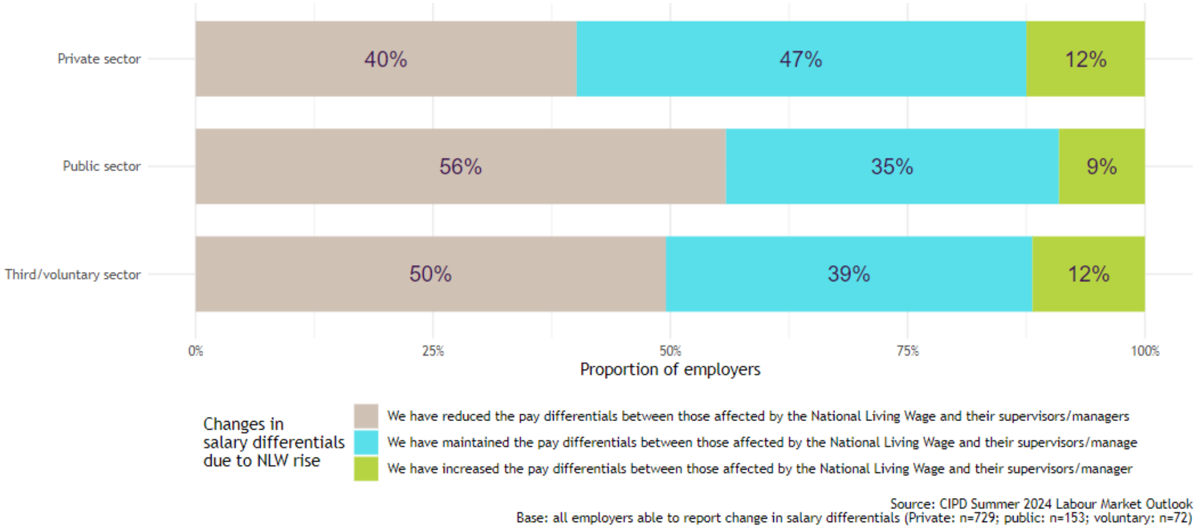
In our sample, 23% of employers said they had reduced the pay differentials between those affected by the NLW and their supervisors/managers, because of April's rise. By contrast, 6% had increased them, while 23% had maintained them. The rest said that they either reported they did not know (13%), or that this question was not applicable (34%).



Removing the not applicable and don't know response paints a clearer picture. Among employers able to report on how salary differentials have changed, there was a fairly even split among employers who have reduced pay differentials (43%) and those who have maintained them (45%). Twelve per cent increased the salary differentials between those affected by the National Living Wage and their supervisors/managers.



There was a marked difference in responses between the private and public sector for this question. Reducing the pay differentials between those affected by the NLW and their supervisors and managers was more common in the public sector (56%) than the private sector (40%). Maintaining the pay differentials was therefore more common in the private sector (47%) compared to the public sector (35%).



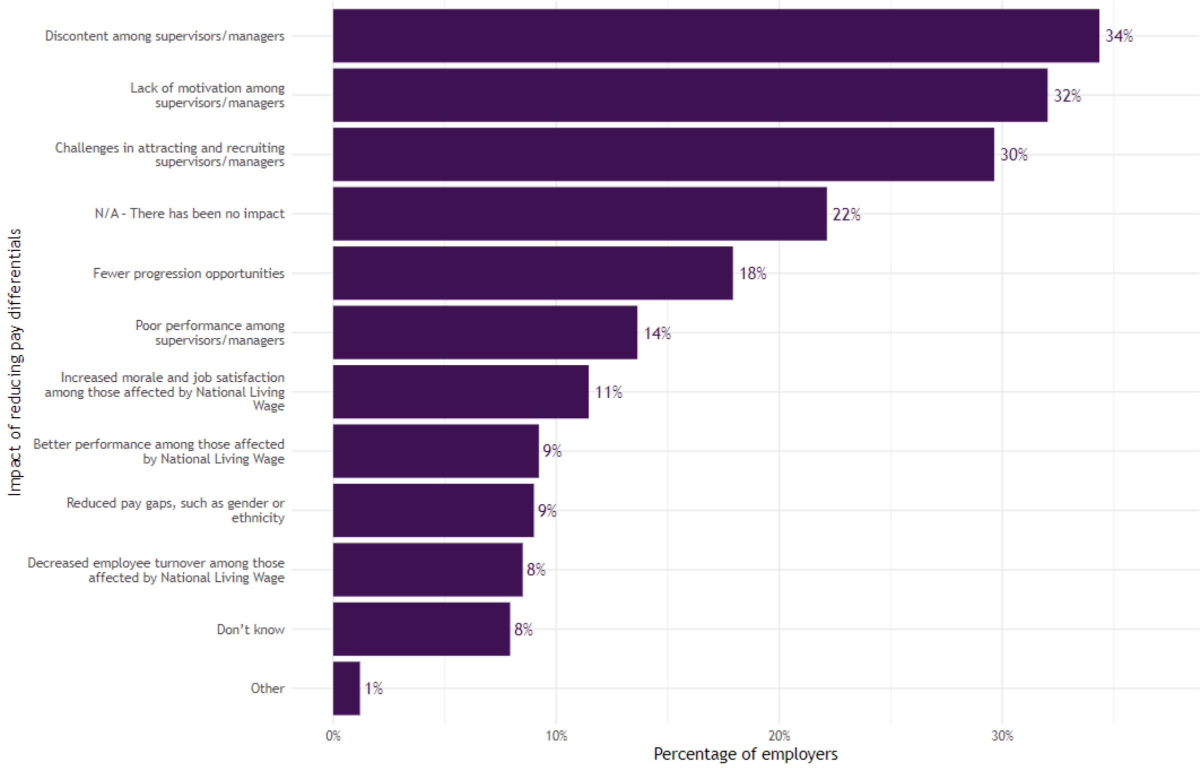
Employers in the transport and storage sector were most likely to have reduced pay differentials (35%), followed by those in wholesale, retail, and real estate (31%), and public administration and other public (26%) sectors.

Among those workplaces that had seen a reduction in the pay differentials between those affected by the recent rise in the NLW and their supervisors/managers, several consequences were reported. The most common being:

- Discontent among supervisors/managers (34%);
- A lack of motivation among supervisors/managers (32%);
- Challenges in attracting and recruiting supervisors/managers (30%);
- Fewer progression opportunities (18%); and
- Poor performance among supervisors/managers (14%).

Some respondents did mention a few positive consequences resulting from smaller pay differentials, such as: increased morale and job satisfaction among those affected by NLW (11%), decreased employee turnover among those affected by NLW (9%), and better performance among those affected by NLW (9%).

However, 22% claimed that the smaller pay differentials had not had a discernable impact, either positive or negative, in their workplace.



Source: CIPD Summer 2024 Labour Market Outlook
Base: employers who have have reduced the pay differentials between those affected by the National Living Wage and their supervisors/managers (total: n=381)

In response to this April's increase, employers also responded by amending the following elements of reward:

- 16% reduced the amount of overtime/bonuses;
- 11% cut the rate of basic pay growth for the rest of the workforce;
- 10% decreased other aspects of the reward package (such as paid breaks or premium pay rates and other benefits and perks, such as a free meal); and
- 4% reduced their pension contributions.

Again, employers reporting a significant impact on their wage bill from the increase in the NMW were more likely to have taken these options. For example, 22% of these organisations cut the rate of basic pay growth for the rest of the workforce.

E. **Progression and job moves**

16% of respondents have reduced the number of employees through redundancies and/or recruiting fewer workers in response to the increase in the wage bill. Among those employers reporting a significant increase in their pay bill due to the NMW, this proportion jumps to 24%.

By contrast, 10% of employers say that they have hired more younger workers, this rises to 15% among those employers reporting a large rise in their pay bill. Similarly, 7% say they have increased the share of the workforce on atypical employment contracts (such as zero-hour contracts), a figure that increases to 10% among those employers most impacted by the recent NLW uplift.

F. **Training**

The summer 2024 Labour Market Outlook finds 12% of respondents reporting that their workplace has cut back on its training expenditure in response to the NMW and NLW rises, a proportion that rises to 17% among those who say that their wage bill has increased significantly since April 2024.

By contrast, 10% of respondents say that in response to the hourly rate rises, they have increased the provision of training to low-paid or other workers.

G. **Investment**

14% of employers said they had cancelled/scaled down their plans for investing in or expanding the business. Among those most impacted by the NMW increase, this figure increases to 22%. By sector, 23% of hotels, catering and restaurants / Arts, entertainment and recreation respondents report cancelling or scaling down their investment plans.

H. **Recruitment**

The summer 2024 LMO finds that those employers that say April's NMW and NLW increases have significantly increased their wage bill are also more likely to both recruit staff in the next three months (74% versus the overall figure of 66%), as well as make redundancies (28% verses 21%). Overall, 43% of these workplaces expect that after job losses and job additions, their total staffing level will increase, compared to 42% for all respondents.

I. **Job quality and security**

N/A - no data to support

3) 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?

N/A - no data to support

4) How has the NLW's impact varied across different areas of the UK?

By nation and region, the increase in the NLW and NMW rates has increased the wage bill of organisations to a large extent in:

- North-east England (30%);
- East Midlands (29%);
- Wales (27%); and
- Yorkshire and Humberside (22%).

By contrast, respondents in Southeast England (33%), London (28%), and the East of England (28%), are more likely to report that these increases have had no impact on their employer's wage bill.

5) At what level should the NLW be set from April 2025

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The past few increases to the NLW were driven by the target of 66% of UK median earnings. Now it has been reached, we would expect the 2025 increase to be smaller, resulting in a rate of around £11.90.

However, the CIPD notes the Labour party manifesto commitments to having just one adult NLW rate and that the LPC should consider the cost-of-living when recommending future increases to the NLW.

Both proposals could have significant cost proposals for employers, so their introduction should not be rushed through without consultation. The CIPD has several questions that it would like to be resolved, such as how will the cost-of-living be defined, how regional and national variations will be considered, what the balance will be between a cost-of-living formula and LPC discretion, and how fast the proposal to have one adult rate will be brought in.

6) Where do employers get their information about the NLW and its future path? Now that the NLW has reached its two-thirds target, do you have any comments on how the path was calculated and communicated?

Please see our response to question 25

7) How have changes in the cost of living affected workers on or close to the NMW and NLW and how, if at all, has this affected worker needs and expectations from their employment and pay?

The table below summarises the most recent CIPD UK Working Lives surveys' question asking employees whether they are are keeping up with their bills and credit commitments without any difficulties now. It shows that slightly more low-waged workers (those earning less than £20,000) reported in January 2024 that they are now keeping up with their financial commitments without any difficulties. However, this percentage is still down on the percentage that reported this back in January 2022, when the cost-of-living crisis was just beginning to bite.
The percentage of employees reporting that they are keeping up with their bills and credit commitments without any difficulties at the moment, by annual pay.

	Below £20,000	£20,000 to £39,999	£40,000 to £59,999	£60,000 and over
Winter 2022	44%	59%	73%	79%
Winter 2023	34%	45%	60%	74%
Winter 2024	36%	46%	63%	70%

Source: CIPD UK Working Lives Survey

The CIPD's autumn 2023 LMO found that many employers have been trying to help their staff with the increased cost of living that had taken place over the past 12 months. The most common responses to help their workers have been to:

- increase wages (38%);
- introduce more flexible working (29%);
- highlight to employees how their benefits package can help them with rising prices (23%); and
- highlight sources of impartial financial information and guidance (23%).

Between autumn 2022 and 2023, private sector firms were most likely to raise wages, especially those in the manufacturing (47%), transport and storage (43%), and construction (42%) sectors. Employers in these sectors were also more likely to boost wages with an additional supplement to help cover the increase in the cost-of-living, and introduce or improve benefits that reduced the cost-of-living for employees, such as providing free or subsidised meals.

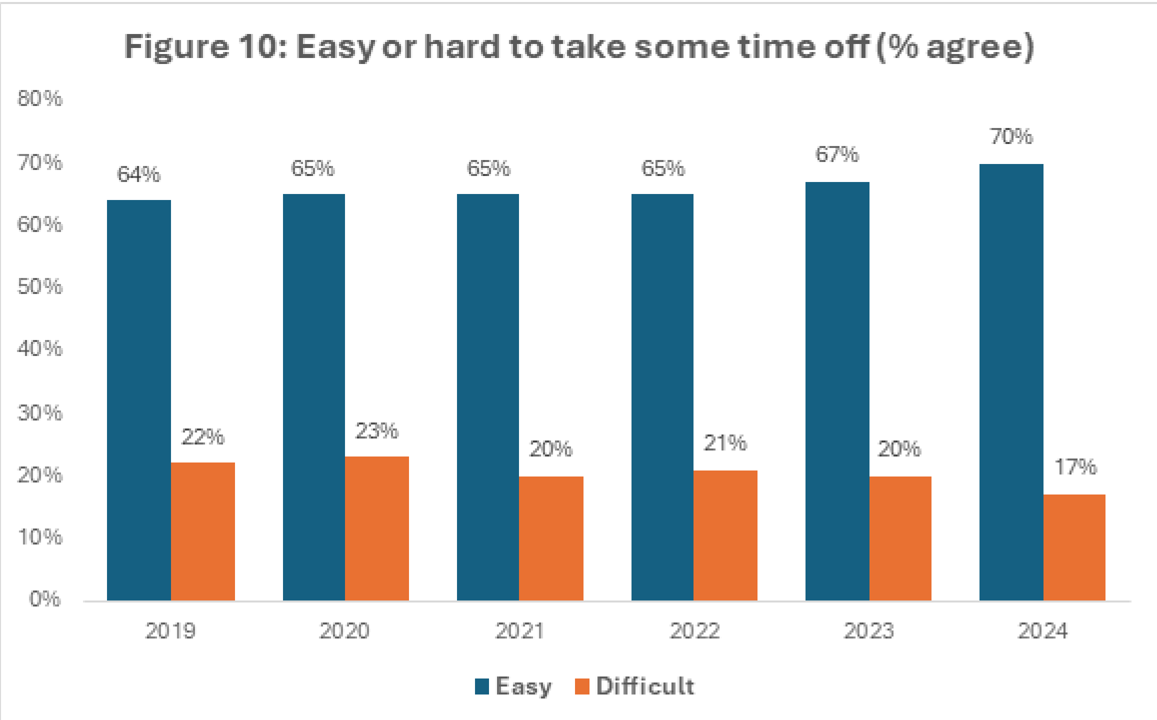
Overall, 71% of the respondents we surveyed said that their employer had taken one or more activities to help their people with the jump in prices, while 22% said that their workplace had not done anything, and 7% did not know.

The survey also found that 54% of employers planned to take steps over the next 12 months to reduce the impact of the cost-of-living crisis for their employees. The most common plans were to:

- increase wages (28%);
- highlight to employees how their benefits package can help them with rising prices (18%);
- introduce more flexible working (17%); and
- highlight sources of impartial financial information and guidance (17%).

8) What has happened to quality of work recently? For example, have workers experienced changes in contract types, flexibility, workplace harassment and work intensification (e.g. greater expectations for workers to work more flexibly, with greater effort, to higher standard etc).

The CIPD *UK Working Lives Survey* explores employee perceptions of many aspects of their jobs. Notably, we see positive findings for informal flexibility in 2024, with 70% of employees saying they find it easy to take an hour or two away from work to deal with personal or family issues. This figure has been slowly rising from 2019 and peaked in 2024.



Source: CIPD UK Working Lives Survey

Looking at interpersonal conflict at work, one-quarter of employees reported experiencing any form of conflict in 2024. Those with protected characteristics were especially likely to report conflict at work, notably women, ethnic minority staff, those with a disability and those who identify as non-heterosexual.

More positively, reporting of conflict has fallen from 30% in 2019 to 25% in 2024. This fall appears to be mostly driven by the rise in homeworking since 2019.

Changes in reported workplace conflicts by group, 2019–24

	2019	2024	Change
All in work	30%	25%	–5
Male	29%	22%	–7
Over 35	29%	22%	–7
Non-heterosexual	39%	33%	–6
White	30%	24%	–6
Permanent employee	32%	26%	–6
Socioeconomic group ABC1	30%	24%	–6
Heterosexual	29%	24%	–5
Non-disabled	28%	23%	–5
Female	31%	28%	–3
Ethnic minority	32%	29%	–3
Disabled	37%	35%	–2
Socioeconomic group C2DE	30%	28%	–2
Under 35*	33%	32%	–1
Atypical employee contract*	35%	38%	+3

Source: CIPD UK Working Lives Survey

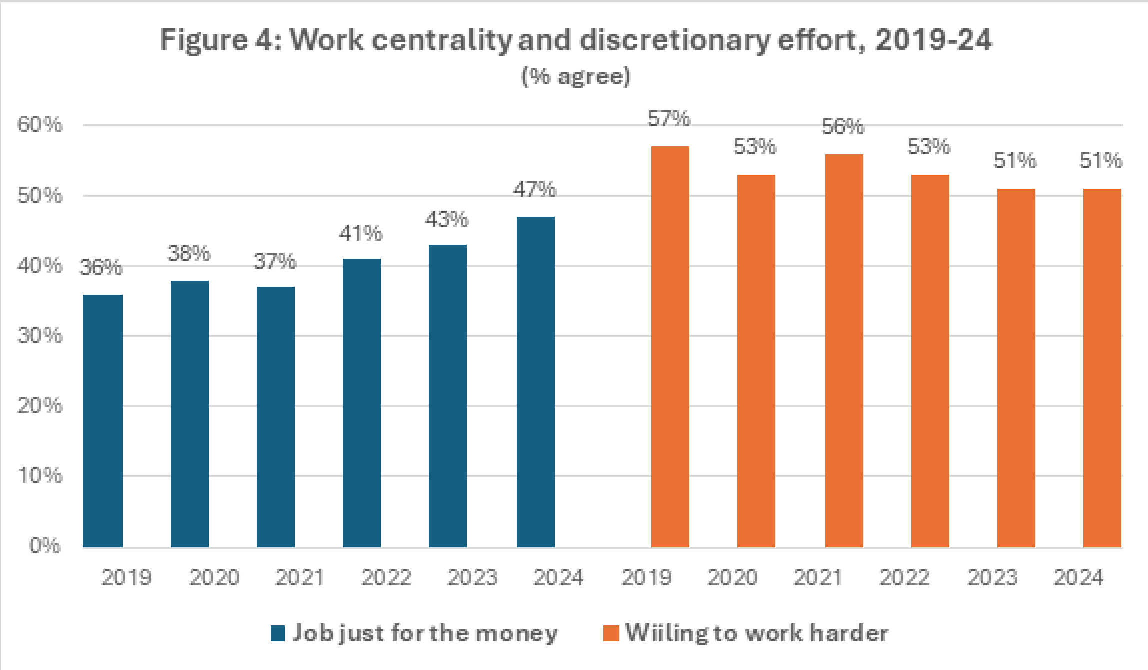
Thinking about the work intensity, the UK Working Lives survey presents mixed findings in 2024. While only around one-third of staff reporting always or often feeling full of energy at work, just one-quarter always or often feel exhausted in their job, and even fewer feel under excessive pressure. None of these numbers have shifted dramatically in recent years and it is positive that we haven't seen an upturn in feelings of exhaustion and pressure. Nevertheless, there is still more to be done to ensure staff don't feel overworked.

How I feel about my job (%)

	Always/often	Sometimes	Rarely/never
Full of energy	30%	45%	26%
Excessive pressure	21%	37%	41%
Exhausted	24%	42%	33%

Source: CIPD UK Working Lives Survey

One element of job quality that has shifted significantly over the years is *work centrality,* or the extent to which people perceive work as central to their life. In 2024, nearly half of respondents reported feeling that their job is purely transactional, just for the money. This number has been steadily increasing since 2019. Moreover, employees' willingness to go the extra mile and work harder than needed to help their organisation is now significantly lower than it was in 2019. However, this shift has been smaller.



These findings present an interesting conundrum for employers. While lower work centrality isn't, in itself, a major concern – after all, it is healthy for staff to have interests outside of work and develop a health work-life balance – it does pose a risk for employees, who may feel less fulfilled and motivated as a result of their lesser connection with their work. However, our UKWL data shows that most staff are engaged at work, with most feeling enthusiastic, immersed in their work and experiencing time flying in their jobs. One possible conclusion from this is that a shift occurred following the COVID-19 pandemic, where work became a lower priority for many amid uncertainty and upheaval.

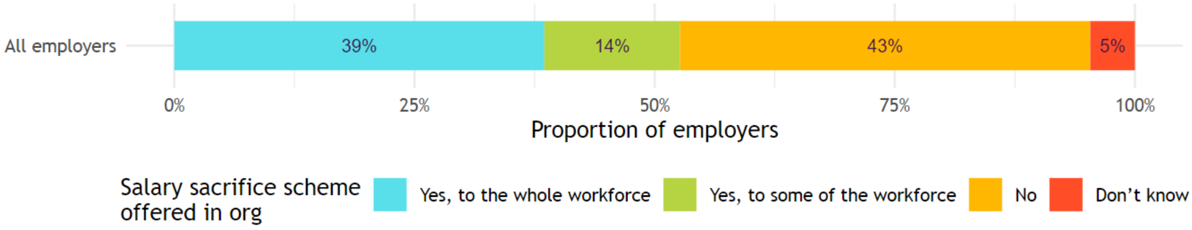
	Always/often	Sometimes	Rarely/never
Enthusiastic	51%	34%	16%
Time flies	50%	38%	13%
Immersed	49%	36%	14%

9) What has happened to wider benefits available to workers (including premium pay and non-pay benefits across the workforce)?

On behalf of the Low Pay Commission, the CIPD included some questions in its summer 2024 LMO about the impact of the recent rises to the NMW and the NLW on benefit provision via salary sacrifice. Salary sacrifice, also known as salary exchange, is an agreement between employees and their employer to reduce their pre-tax annual salary in return for receiving a non-cash benefit, i.e. goods or a service.

The survey found that 39% of employers offer benefits through salary sacrifice schemes to all workers, while a further 14% offer it to some of their employees. By contrast, 43% of all respondents do not have salary sacrifice schemes, especially in the following sectors:

- hotels, catering and restaurants / arts, entertainment and recreation (62%);
- voluntary (57%); and
- wholesale, retail and real estate (56%).

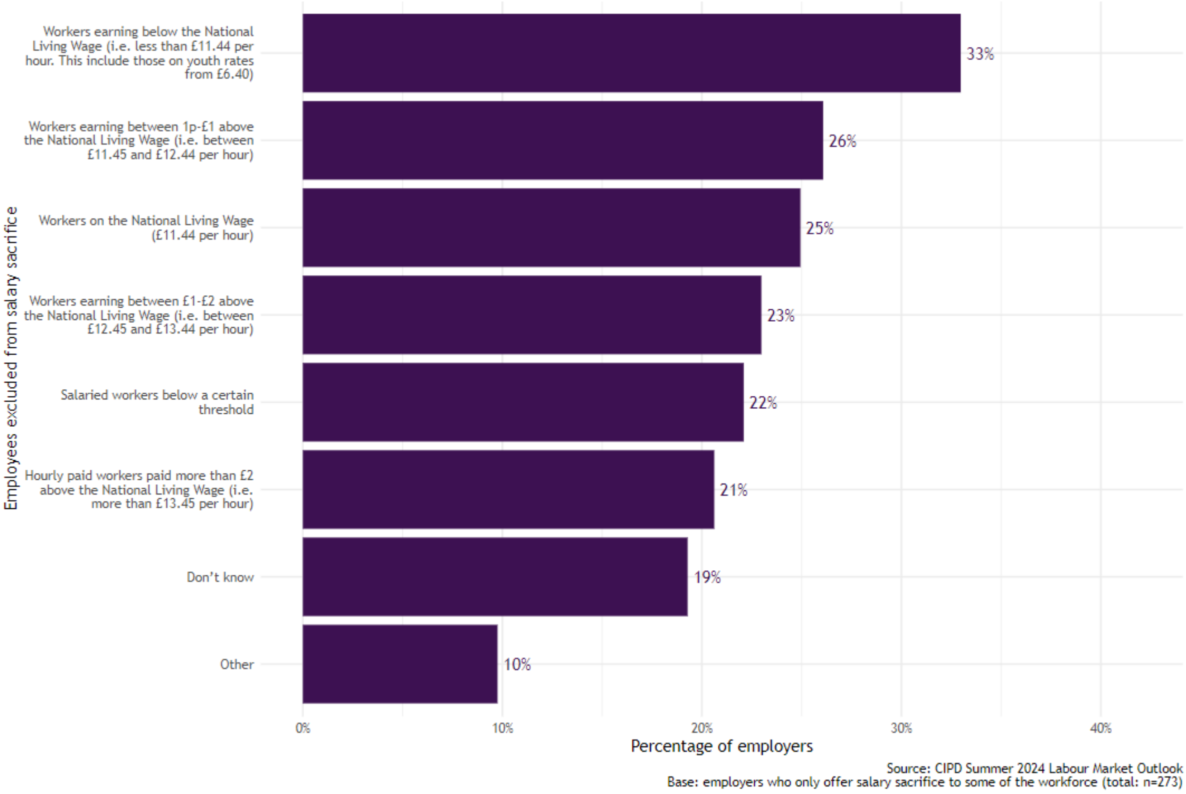


Source: CIPD Summer 2024 Labour Market Outlook
Base: all employers (total: n=2,032)

Among employers that report being most impacted by the recent increase to the NLW and NMW, 34% of employers offer benefits through salary sacrifice schemes to all workers, while a further 18% offer it to some of their people. By contrast, among workplaces that report that April's rise in the NLW and NMW rates did not affect their wage bill, 41% of employers offer benefits through salary sacrifice schemes to all workers, while a further 5% offer it to some of them.

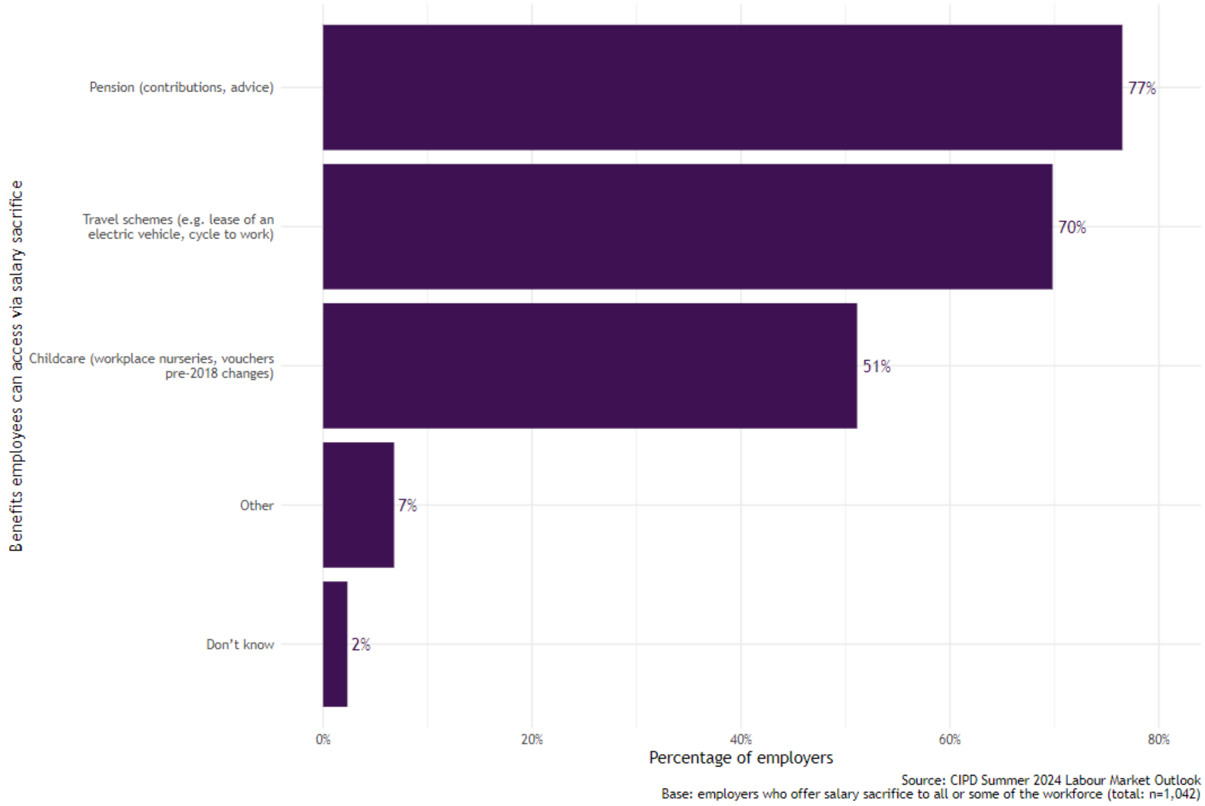
Among those employers that only offer benefits through salary sacrifice to some of their people, we asked which employees were excluded. The most common approaches were to exclude those earning:

- less than the National Living Wage rate (such as those on youth rates) (33%);
- between 1p-£1 above the National Living Wage rate (26%);
- the National Living Wage rate (25%); and
- between £1-£2 above the National Living Wage (22%).



Among those employers that offer salary sacrifice benefits to all or some of their staff, the most common benefits provided are:

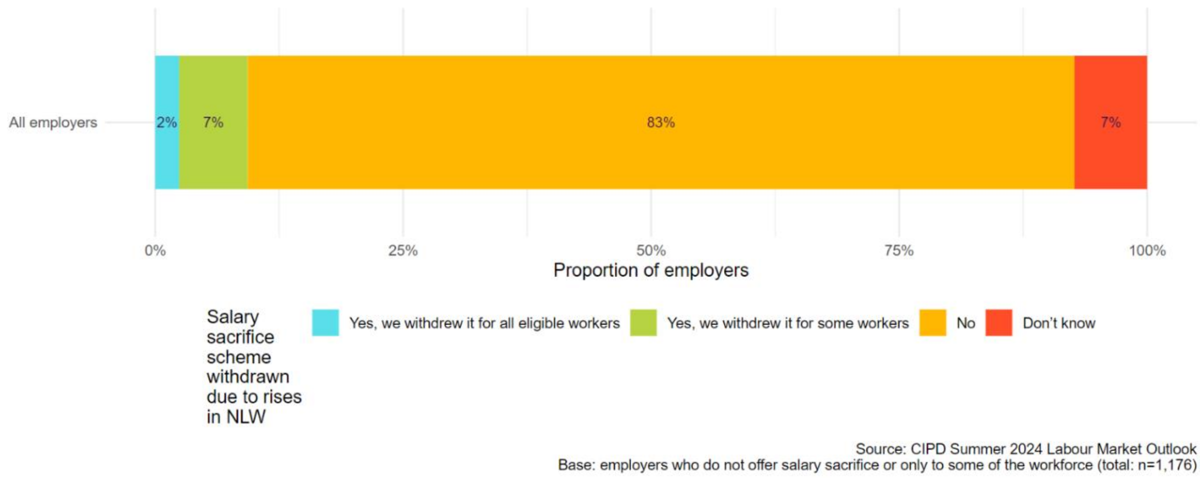
- pension (such as contributions or advice) (77%);
- travel (such as lease of an electric vehicle or cycle to work) (70%); and
- childcare (such as workplace nurseries or childcare vouchers pre-2018 changes) (51%).



Pensions via salary sacrifice are most common among voluntary sector employers (86%) and least common among public sector organisations (68%), while the opposite is true for travel - public sector organisations (80%) and voluntary sector employers (61%).

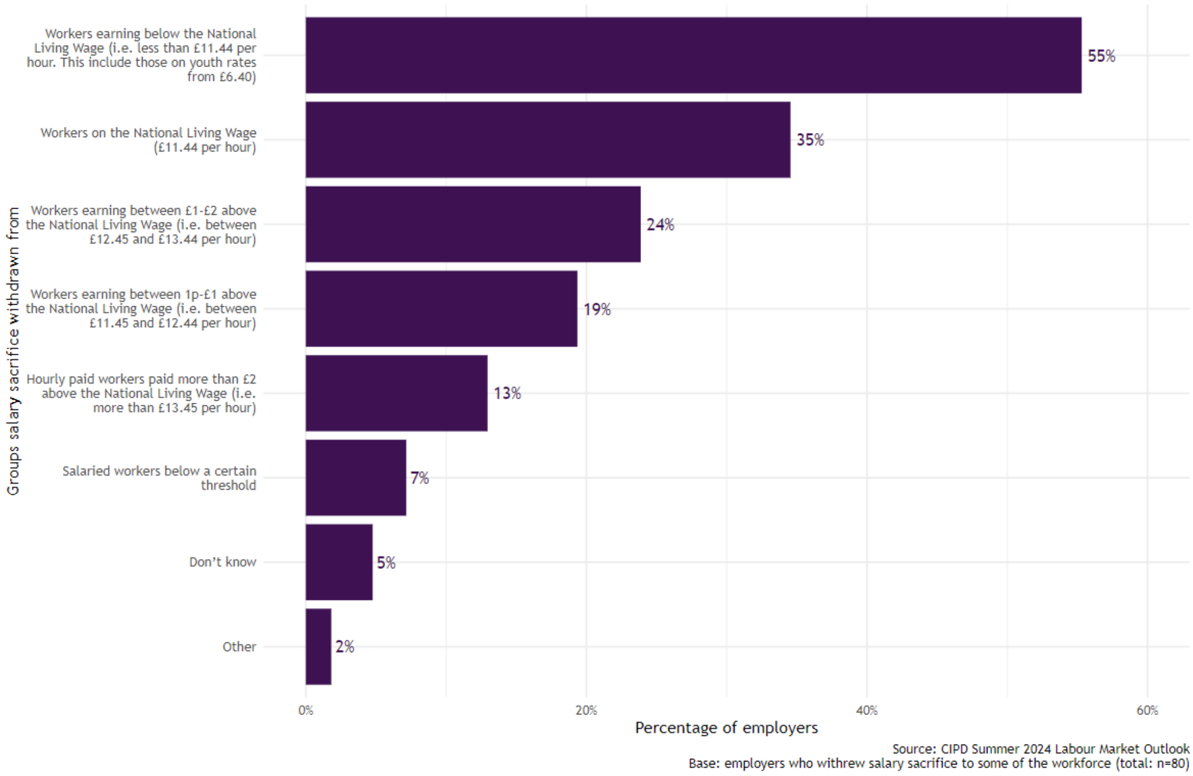
The LMO asked those respondents that said that their employer does not offer salary sacrifice or only offers it to some employees, whether the recent increase in the NLW and NMW rates has led to their organisation withdrawing its salary sacrifice schemes to some or all workers.

Just 2% said that their workplace had withdrawn it for all workers, while a further 7% had done so for some of their people. Employers based in manufacturing (2% all and 29% some) and construction (1% all and 28% some) were most likely to have done this. However, most respondents (83%) reported no change, or they did not know (7%).



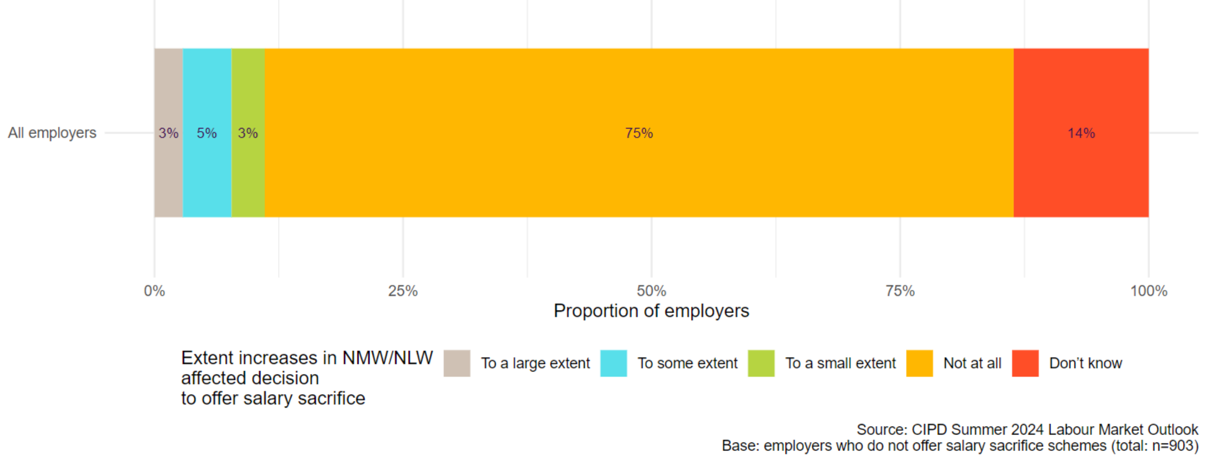
At those workplaces that have withdrawn salary sacrifice benefits for some or all their people (9%), the groups of workers that have most affected are those earning:

- less than the National Living Wage rate (55%);
- the National Living Wage rate (35%);
- between £1-£2 above the National Living Wage (24%); and
- between 1p-£1 above the National Living Wage rate (19%).



We also asked those respondents who say that their employer does not offer salary sacrifice to their workers the extent to which this decision has been influenced by the increases in the NLW and NMW in the past couple of years.

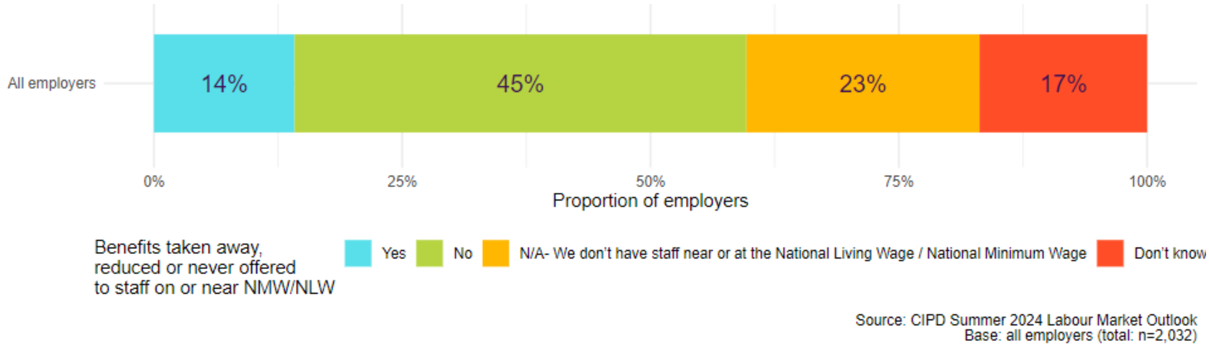
3% said that the recent rises had affected their employer's decision not to provide this benefit to a large extent, 5% said that it had affected the decision to some extent, while 3% said it did to a small extent. However, 75% reported that the recent increases have had no impact.



However, the recent increase to the NLW and NMW rates have not just impacted on benefits provided through salary sacrifice, our summer LMO finds. We asked whether since Summer 2022 any benefits not linked to salary sacrifice had been either taken away, reduced, or never offered for employees on, or just above, the NLW or NMW. For example, a voluntary or discount benefit was not introduced because the payroll deduction would have taken some staff below the NLW or NMW hourly rate.

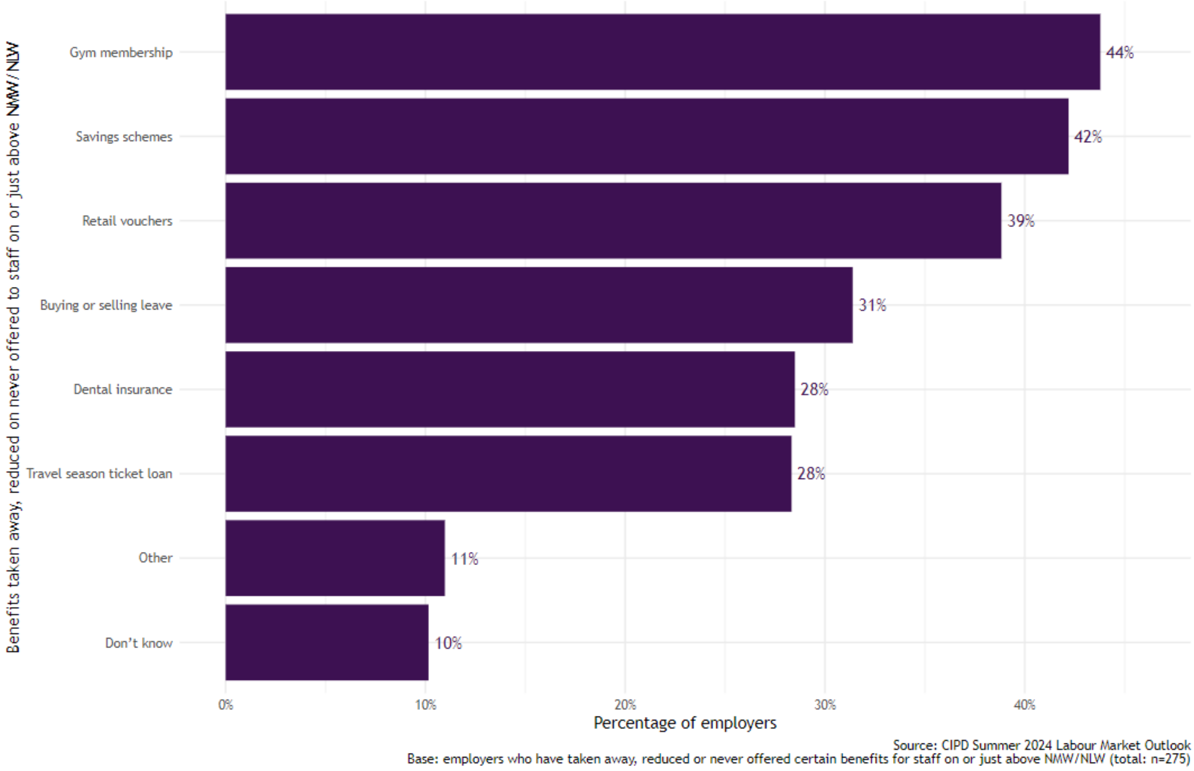
We found that overall, 14% of all respondents said that this had happened. This was most likely to be reported in the following sectors:

- construction (32%);
- manufacturing (27%);
- healthcare (23%); and
- information and communication (19%).



Among those who said that their employers had taken away, reduced, or never offered benefits to employees on or just above, the NLW and NMW rates, the most common benefits impacted have been on:

- gym membership (44%);
- savings schemes (42%);
- retail vouchers (39%);
- buying or selling leave (31%); and
- travel season ticket loan (28%)



This shows that the recent increases in the NLW and NMW have had an impact on benefit provision for low-waged workers, albeit a limited impact. However, going forward, it makes sense for the LPC to review periodically the spill over that the NLW is having on benefit provision.

10) What are the barriers preventing workers from moving to a new job, particularly one that is better paid?
N/A - no data to support

11) How has access and cost of childcare and transport affected workers' ability to move into work or to a better paying job?
N/A - no data to support

12) What opportunities are there for progression to better paid work for low paid workers and how common is promotion?
N/A - no data to support

13) What has been workers' experience of the Universal Credit system and how the minimum wage interacts with it? Has these influenced workers approach to how many hours they work and whether they move to another better paying job?
N/A - no data to support

Young people
14) How have recent changes in the minimum wages for young people affected their employment prospects?
N/A - no data to support

15) The NLW age of eligibility came down from 23 to 21 on April 1 2024 – what has been the impact of this?
N/A - no data to support

16) How do the youth minimum wage rates influence employers' decisions about hiring and pay, and young people's decisions about employment?
N/A - no data to support

17) What other factors determine pay for young people aside from the rates? For example, job role, skills or length of time in the job.
N/A - no data to support

18) Why do employers make use of the youth rates (including pay rates above the youth minimum wages, but below the NLW)? To what extent has this been affected by the recent tight labour market?
N/A - no data to support

19) At what level should these rates be set from April 2025?
N/A - no data to support

20) Our advice to the Government on the future of the NMW recommended lowering the threshold for the NLW over time to 18 if the evidence allows. We welcome any comments on these recommendations.
We recommend a staged lowering of the NLW to age 18, to protect the employment prospects of young people. There is strong evidence to suggest that periods of unemployment as a young person can have negative consequences on employment prospects and wages for years to come.

Apprentices

21) The Apprentice Rate increased substantially this year. What do you expect the effects of this increase to be?
N/A - no data to support

22) What is the outlook for the recruitment and employment of apprentices?
Among employers with hard-to-fill vacancies. A higher proportion plan in future to hire more apprentices (27%) than have done so in the last six months (22%). The figure is driven more by the public sector, where a third (34%) of employers' plan to hire more apprentices, compared with 24% in the private sector.

As previously mentioned, 9% of employers who have been impacted by the rise in the rates in 2024 have managed their additional wage costs by recruiting more apprentices. This rises to one in five (22%) who were impacted to a large extent. Recruiting more apprentices was far more common among employers in construction (29%) and manufacturing (21%) in response to rises in the NMW/NLW.

23) How widely used is the Apprentice Rate (including pay rates above the Apprentice Rate but below the relevant age-related minimum wage rate)? What kind of apprenticeships are paid this rate? What kind of jobs do these apprenticeships (paid at or just above the Apprentice Rate) lead to?
N/A - no data to support

24) Our advice to the Government on the future of the NMW recommended significant changes to the treatment of apprentices, including the replacement of the Apprentice Rate by a discount against the relevant NMW age rate. We welcome any comments on these recommendations.

We support the recommendation that the apprenticeship rate should be reformed to a discount on the minimum wage rate for that age group. We supported any instances of simplification of minimum wage rates, especially where evidence points to minimal negative employment effects. Given your own evidence suggesting that the typical apprenticeship earns above the minimum wage, but there remains a degree of effective coverage (i.e. where employers pay apprentices more than the Apprentice Rate, but less than the NMW rate for their age), caution needs to be applied in calculating this discount rate.

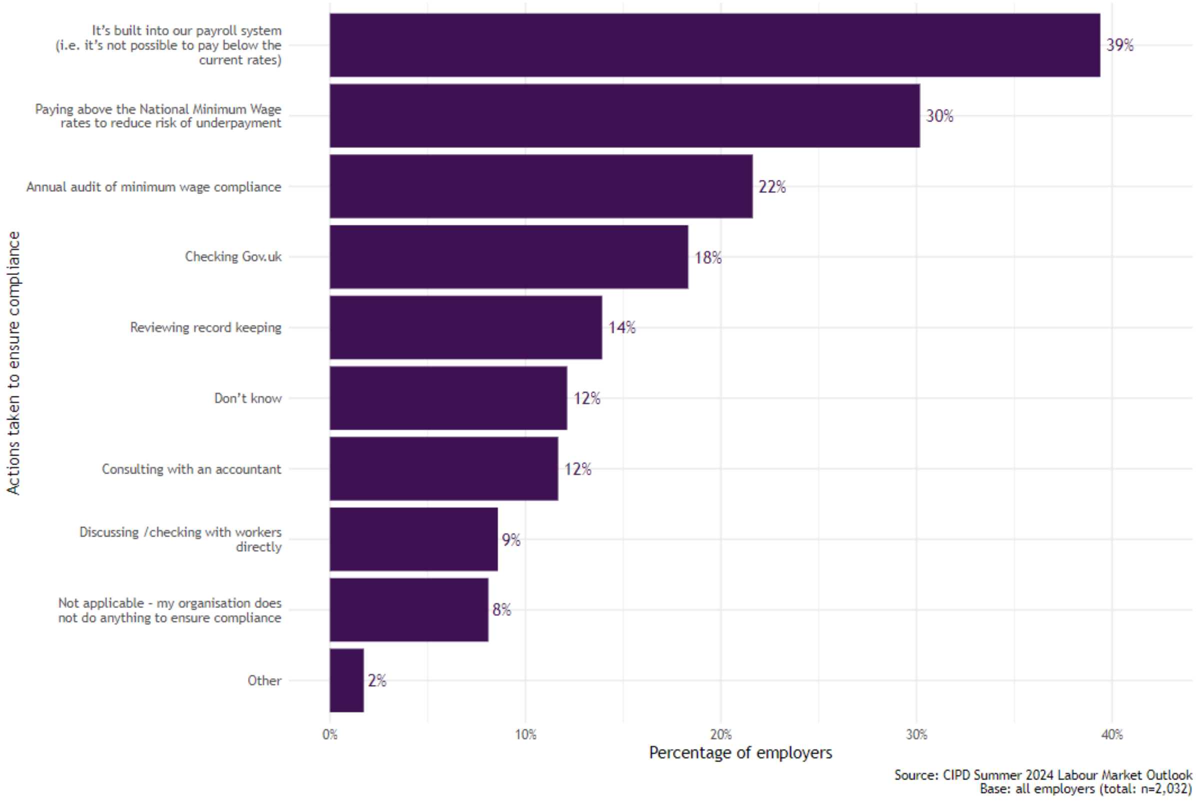
Historic evidence commissioned by the LPC suggests in comparison with other countries the level of apprentice pay is higher in the United Kingdom than in those countries operating an established (Dual) apprenticeship system. However, an updated understanding of how apprenticeship pay and wage progression, as well as how the work and training balance compares with other key economies, is required.

Compliance and enforcement

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

Our survey asked respondents what actions their organisations take to ensure that they comply with NNW and NLW regulations.

- Below are the most common steps:
- Built into payroll system (i.e. it's not possible to pay below the current rates) (39%);
- Pay above the NMW rates to reduce the risk of underpayment (30%);
- Annual audit of minimum wage compliance (22%);
- Checking Gov.uk (18%); and
- Reviewing record keeping (14%).



Overall, 80% of respondents take one or more actions, while 8% say that their employer takes no action to ensure that they are compliant with the regulations. The rest, 12%, does not know.

Among small and medium-sized private sector companies, the most common measures are:

- Built into payroll system (i.e. it's not possible to pay below the current rates) (31%);
- Pay above the NMW rates to reduce the risk of underpayment (30%);
- Checking Gov.uk (22%);
- Consulting with an accountant (18%); and
- Annual audit of minimum wage compliance (16%).

However, 14% of this group of employers also report taking no steps to ensure compliance. By contrast, just 5% of respondents working for large firms say the same.

Among employers that have been most affected by the recent increases in the NMW and NLW hourly rates, the most common actions are:

- Built into payroll system (57%);
- Pay above the NMW rates to reduce the risk of underpayment (30%);
- Annual audit of minimum wage compliance (26%):
- Reviewing record keeping (19%); and
- Checking Gov.uk (18%).

Among these group, just 2% of respondents admit their employer is doing nothing to comply with the regulations. Overall, 92% of these respondents are taking one or more steps.

The steps taken can also vary by sector. For example, within construction; wholesale, retail and real estate; and hotels, catering and restaurants / Arts, entertainment and recreation, these are the actions that employers are most likely to be taking:

	Construction	Wholesale, retail and real estate	Hotels, catering and restaurants / Arts, entertainment and recreation
Checking Gov.uk	38%	18%	23%
Consult with an accountant	19%	12%	11%
Review record keeping	23%	9%	17%
Annual audit of minimum wage compliance	26%	23%	16%
It's built into the payroll system (i.e. it's not possible to pay below the current rates)	28%	44%	44%
Pay above the NMW rates to reduce risk of underpayment	28%	31%	37%
Discuss /check with workers directly	23%	4%	9%
Organisation does not do anything to ensure compliance	7%	6%	10%

26) What comments do you have on HMRC's enforcement work?

While it's right that employers deliberately flouting the law on paying minimum wage are fined for doing so, these regulations can be complex and some organisations might break this law inadvertently because of a lack of resources or expertise, especially small firms. That's why the CIPD supports the sharing of examples of how mistakes have happened in the past so that they can be avoided in the future. We also believe there should be more support to boost employer compliance, particularly for SMEs as part of a more progressive approach to labour market enforcement.

Economic outlook

32) What are your views on the economic outlook and business conditions in the UK for the period
up to April 2025? We are particularly interested in:

- **the conditions in the specific sector(s) in which you operate.**
- **the effects of Government interventions to support the economy and labour market.**
- **the current state of the labour market, recruitment and retention.**

The findings in this section refer those from our Summer 2024 Labour Market Outlook, unless otherwise stated.

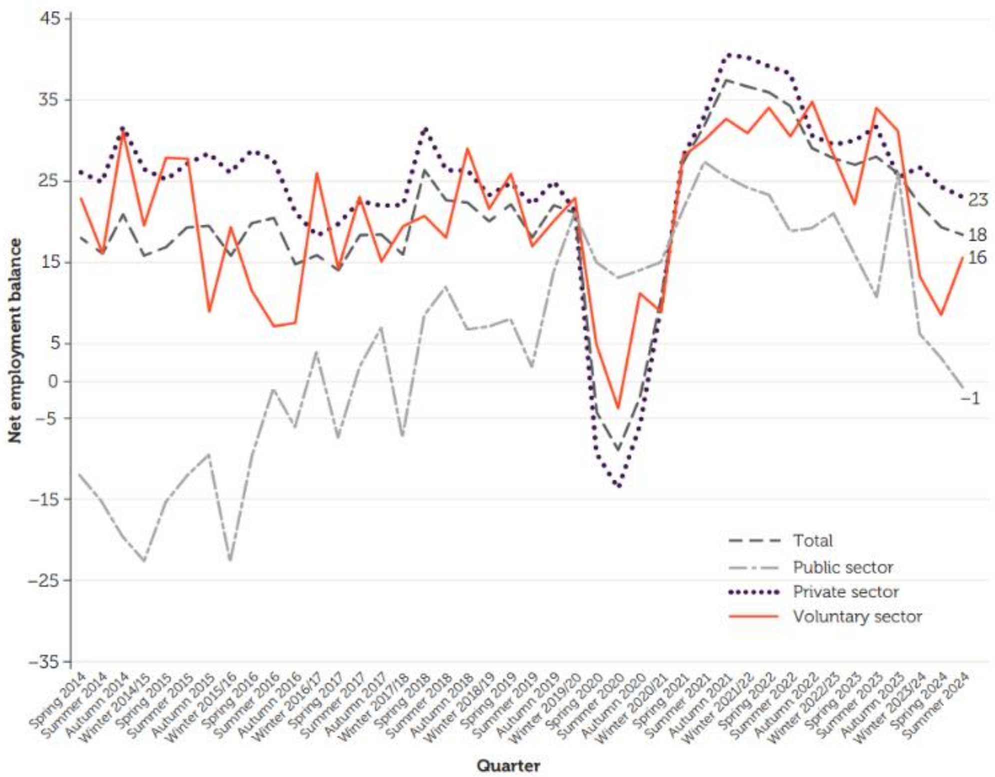
Recruitment and redundancy outlook

The net employment balance – which measures the difference between employers expecting to increase staff levels in the next three months and those expecting to decrease staff levels – remains positive but has continued its downward path from +19 last quarter to +18 this quarter.

The main story this quarter is that the net employment balance in the public sector is now below zero (-1). This means more employers are looking to decrease than increase staff levels in the next three months. This is the lowest level since winter 2017/18. The net employment balance remains highest in the private sector at +23 and does not differ between SMEs and larger private sector organisations.

Net employment balance below zero in the public sector

Figure 1: Net employment balance, by broad sector

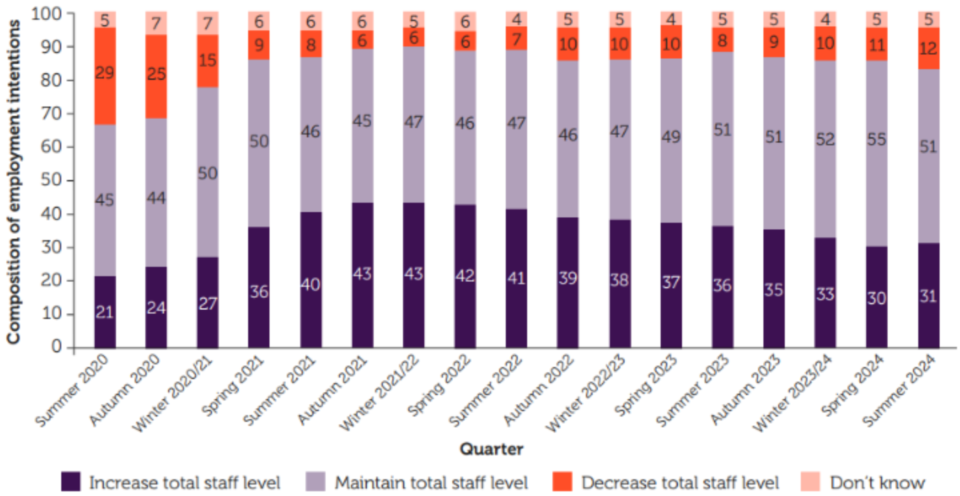


Base: summer 2024, all employers (total: n=2,032; private: n=1,538; public: n=347; voluntary: n=147).

Overall, the positive net employment balance is driven by more employers looking to increase their total staff level (31%) than those decreasing their total staff level (12%) (Figure 2). This latter figure is the highest since winter 2020/21.

Rate of employers looking to increase staffing levels stable

Figure 2: Composition of employment intentions (%)



Base: summer 2024, all employers (n=2,032).

As in recent quarters, public sector employers remain twice as likely as their private sector counterparts to plan to decrease their total staff level in the next three months (22% vs 10%). The negative net employment balance in the public sector is a result of this figure being higher than the 21% who wish to increase their total staff levels. Meanwhile, a third (33%) of private sector employers plan to increase total staff levels in the next three months (Figure 3).

Public sector twice as likely to decrease total staff levels in next three months

Figure 3: Composition of employment intentions, by broad sector (%)

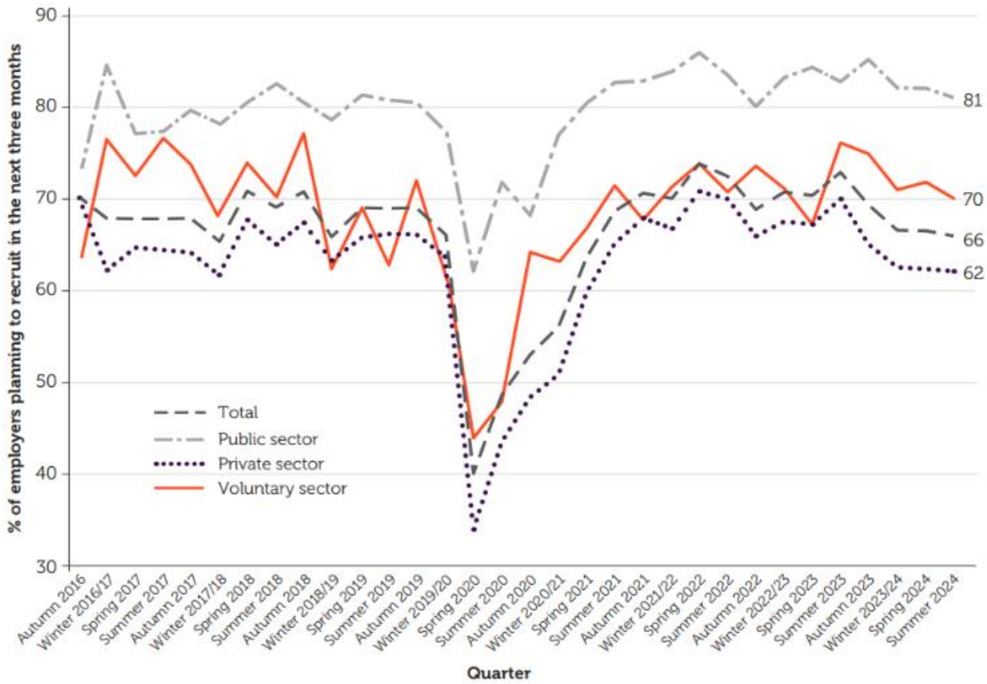
Base: summer 2024, all employers (total: n=2,032; private: n=1,538; public: n=347; voluntary: n=147).

Two-thirds (66%) of employers plan to recruit in the next three months. Recruitment intentions remain highest in the public sector (81%), followed by the voluntary sector (70%). The percentage of employers in the private sector that plan to recruit in the next three months is 62% (Figure 5). All sectors are largely unchanged on the previous two quarters.

It may seem at odds that the public sector has the highest recruitment intentions yet also the highest likelihood of a decrease in staff levels. However, the public sector has much higher rates of hard-to-fill vacancies (48% vs 34% in the private sector) and are more likely to anticipate problems filling future vacancies too (38% vs 15% in the private sector). Therefore, while public sector employers may intend to hire, they are anticipating significant recruitment difficulties. Combined with the level of redundancies planned, the expected net effect on workforce size is negative.

Recruitment intentions highest in the public sector

Figure 5: Recruitment intentions, by broad sector (%)

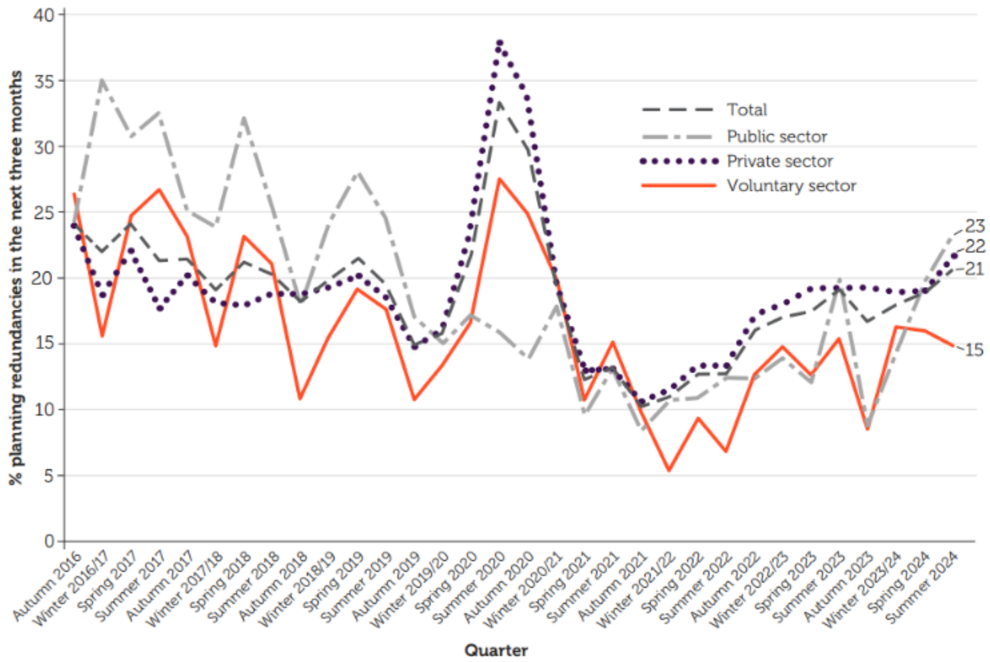


Base: summer 2024, all employers (total: n=2,032; private: n=1,538; public: n=347; voluntary: n=147).

Overall, 21% of employers are planning to make redundancies in the three months to September 2024 (see Figure 6). There is little variation in the expected rate of redundancies between the public and private sectors.

Redundancy intentions follow usual seasonal patterns

Figure 6: Redundancy intentions, by broad sector (%)

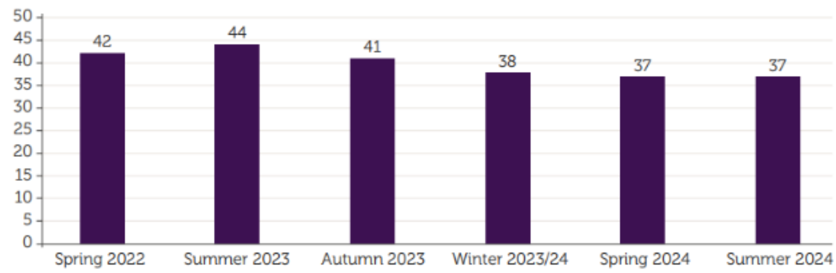


Base: summer 2024, all employers (total: n=2,032; private: n=1,538; public: n=347; voluntary: n=147).

Official data published in mid-July showed that overall vacancy levels have fallen for 24 consecutive months. Yet, as can be seen in Figure 7, the proportion who continue to have hard-to-fill vacancies is largely unchanged over much of this period. Among the surveyed respondents, 37% had hard-to-fill vacancies in the latest quarter.

Employers continue to have hard-to-fill vacancies

Figure 7: Employers with hard-to-fill vacancies (%)

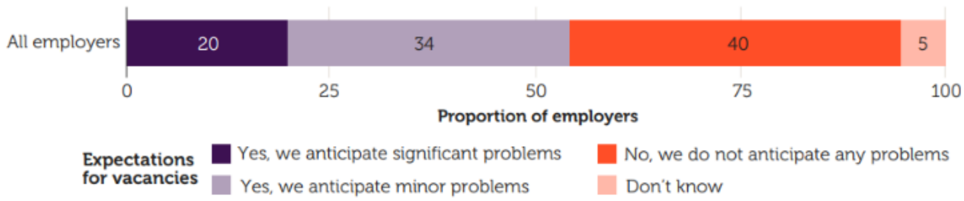


Base: summer 2024, all employers (n=2,032).

As in the previous quarter, one in five employers are anticipating significant problems in filling vacancies in the next six months.

One in five employers anticipate significant problems filling roles

Figure 9: Expectation for vacancies in the next six months (%)

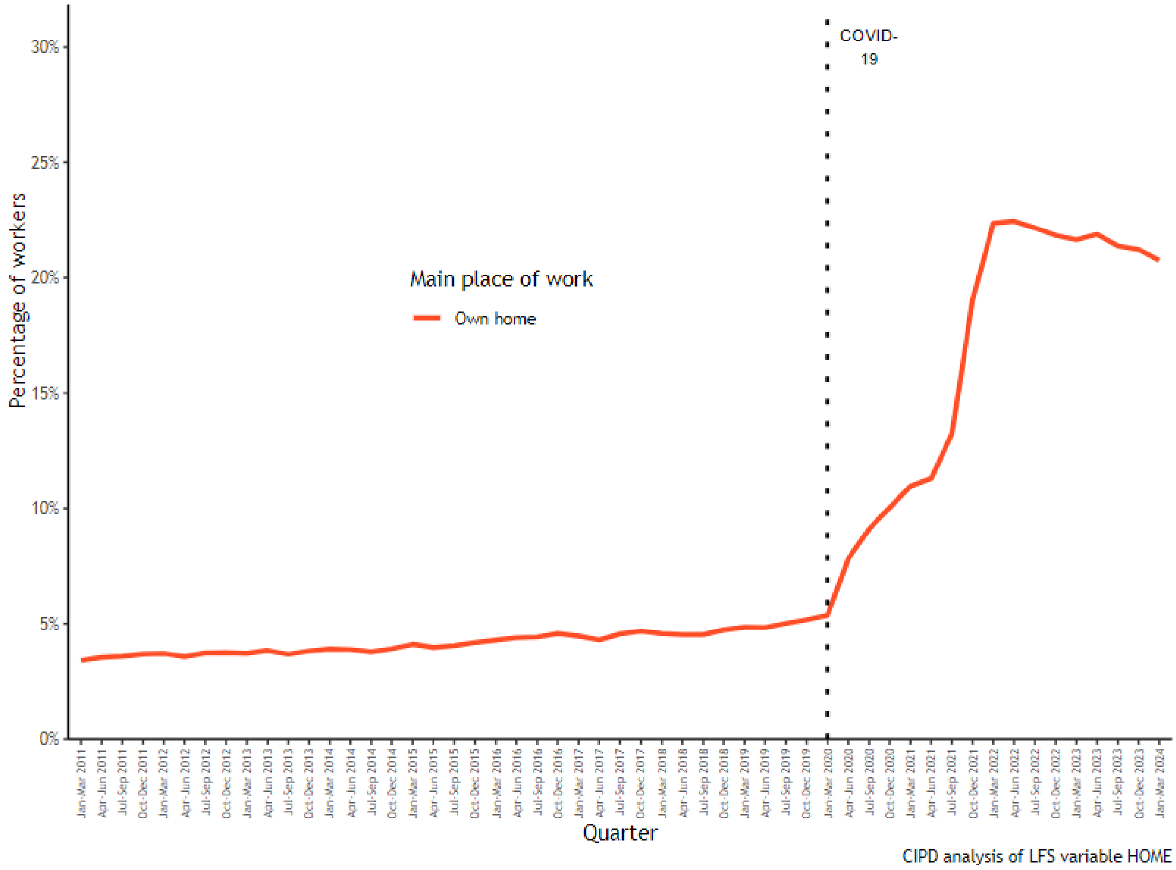


Base: summer 2024, all employers (n=2,032).

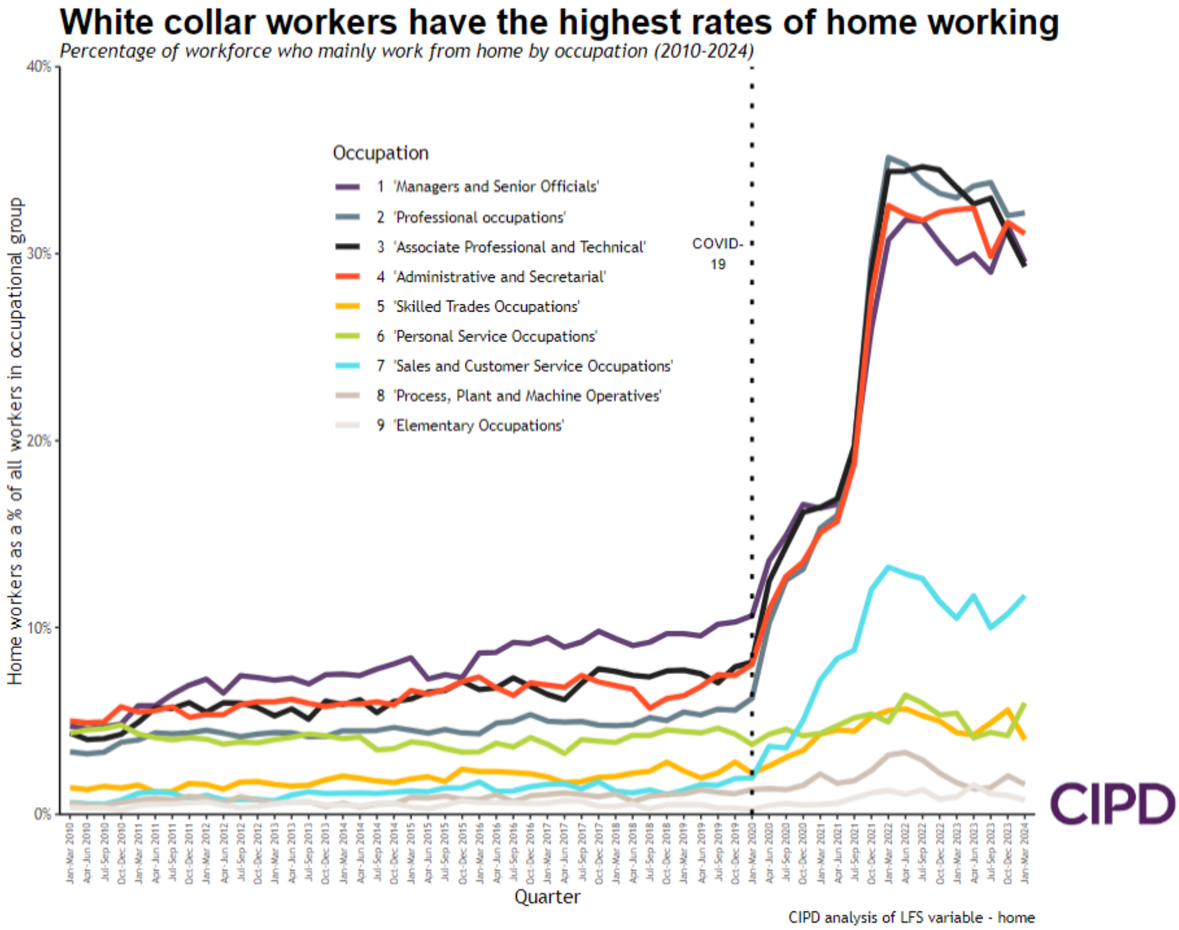
33) To what extent have employers been affected by other major trends in the economy and labour market: for example, inflation, Brexit, the shift to homeworking or changes in the numbers of migrant workers in the UK?

One of the major impacts of the covid pandemic was the shift to home working particularly among certain roles in the economy. Whilst less applicable to those on or near the national living wage, the reduction in commuting costs and time and other factors which make up the unseen monetary value of home working has made home working more attractive. Thus, even those on a lower wage may consider home working as a factor in selecting employment. What follows are a series of charts which demonstrate the trend in home working based on quarterly Labour Force Survey data.

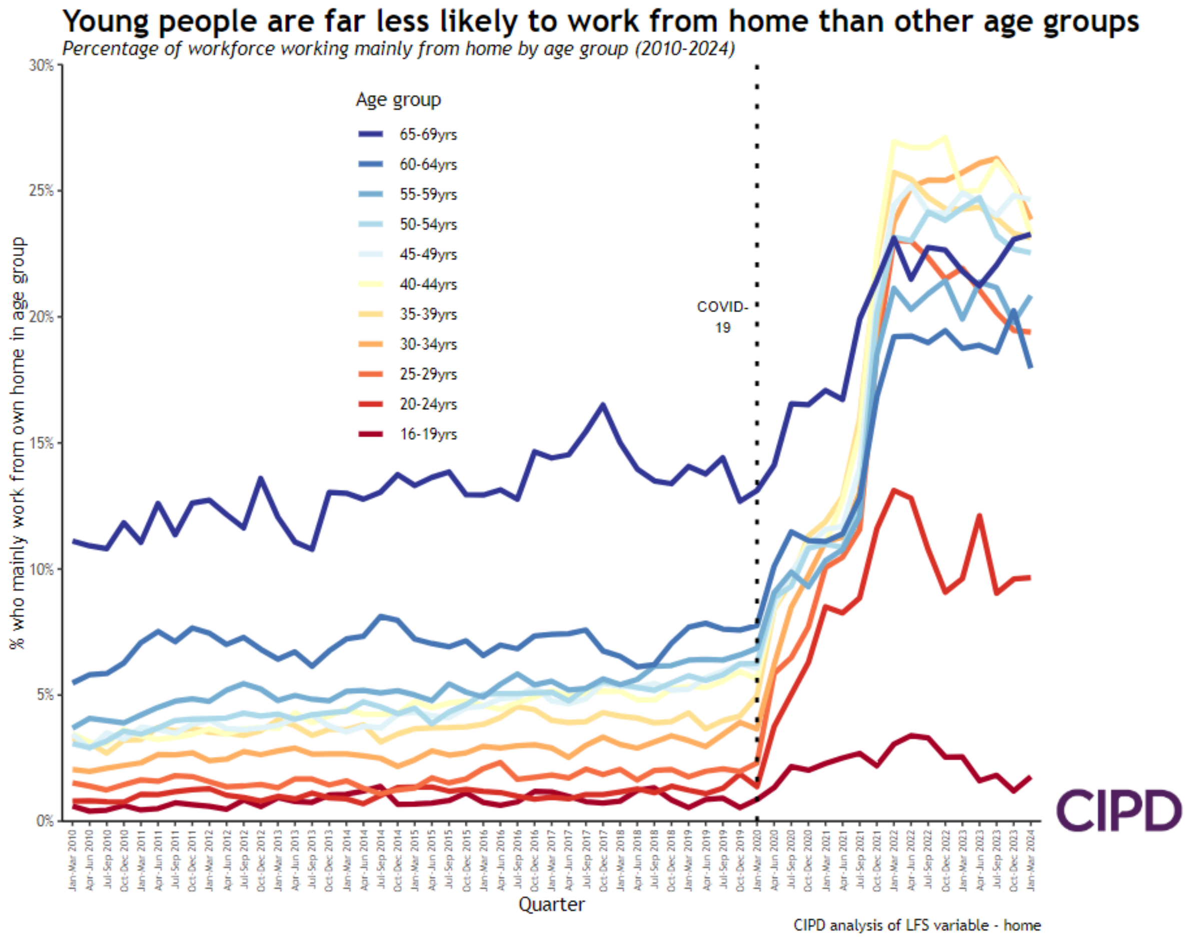
Since the beginning of 2022 home working (defined as those say their main place of work as home), has stabilised at just over one in five workers. Whilst the chart below suggests a slight decline in home working since then, this is very moderate, and the return to office is less common that news outlets would suggest.



White collar workers, those working as managers and senior officials, professionals, associate professionals, and in administrative and secretarial roles have higher rates of home working. This sharp increase has broadly stabilised among these groups. The only occupational group with a larger proportion of lower-paid workers who have a sustained increase in home working (to approximately one in ten employees) are those in sales and customer service occupations. This is likely due to the ability of operating customer service calls from home.



Another key characteristic whereby there are differences in rates of home working is by age. Rates of home working were broadly unchanged, compared to other age groups, by 16-19 year olds as a result of the pandemic. Rates of home working among 16-24 year olds have broadly stabilised at around one in ten.



34) 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, access to transport or homeworking.
N/A - no data to support

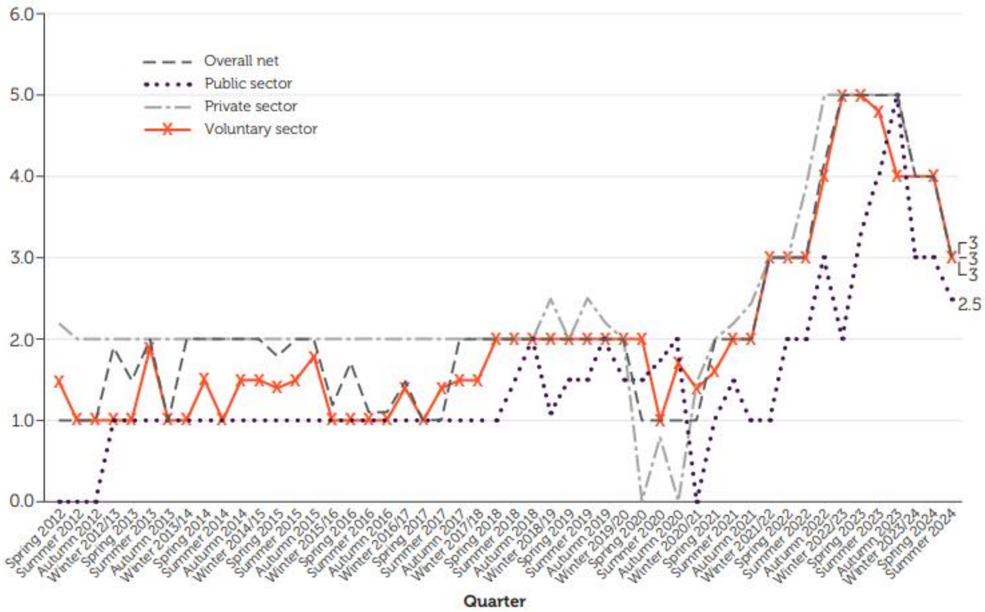
35) How do employers balance pay pressures for low-paid workers with those for others higher up pay scales? In this context, how do employers decide the money available for their pay bill?
N/A - no data to support

36) How has inflation and the cost of living factored into wage setting? What has been your experience of wage growth and inflation in the last year, and what are your views on forecasts for the next couple of years?

High rates of inflation and therefore higher cost of living has been one of the key factors influencing wage setting by employers over the past couple of years. CPI inflation peaked in October 2022 at 11.1%. The corresponding quarter of wage setting by employers in our Labour Market Outlook (Winter 2022/23) was the first quarter when median basic pay expectations for the next 12 months reached a peak of 5%. Whilst inflation has fallen month on month almost every month since then culminating in a 2% inflation figure in May and June 2024, wage setting by employers has not followed the same pattern. Instead, the overall median basic pay increases in the following 12-month period remained at this historic high of 5%. By the time there was a fall in median basic pay increase expectations to 4% in Winter 2023/24, CPI inflation had fallen from its peak to 4% (January 2024).

Expected pay awards have fallen to 3%

Figure 13: Median basic pay increase expectations – median employer



Base: summer 2024, all employers expecting and able to estimate a pay award (total: n=827; private: n=608; public: n=148; voluntary: n=71).

Raising prices has been (and remains) the most common mechanism to deal with increases in the wage bill (due to rises in the NLW or otherwise) and due to hard-to-fill vacancies. This has led to the historic situation with inflation, and in part is resulting in sticky wages as employees remain far worse than they did just over two years ago.

The Bank of England has forecast rising inflation to just shy of 3% by the end of 2024. As nominal wage growth remains high and basic pay increase expectations remain above historic levels (circa 2%) we believe that wage setting will remain at this inflated level until at least the end of the year, in response to cost-of-living concerns. In 2025, as inflation stabilises around the target rate, we would expect wage setting to return to historic norms, barring any economic shock.