Low Pay Commission consultation 2022

Submission to the Low Pay Commission

Chartered Institute for Personnel and Development (CIPD)

August 2022

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.

CIPD
Championing better work and working lives

Our response

2.2 Economic outlook

2. 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.***
- ***the effects of Government interventions to support the economy and labour market.***
- ***the state of the labour market, recruitment, and retention.***
- ***wage growth and inflation in the last year, and expectations for the next couple of years.***

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

The CIPD's Labour Market Outlook (LMO) gives a forward-looking indicator of hiring intentions. Although, intentions are higher in some industries than others (such as IT, Construction, and hospitality), all sectors plan to increase the number of staff in the following quarter.

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

In comparison to the highly interventionist policy of furlough, the Government's approach to the post-pandemic labour market has been more hands-off. Buoyant demand has kept unemployment low but there is an increasingly recognised problem of increased inactivity, and an economic slowdown later in the year could see unemployment rise. It is, therefore, important to consider support for both unemployed, and inactive groups, particularly right now when there are concerns about labour supply.

- the state of the labour market, recruitment, and retention.

The labour market is incredibly tight with low unemployment and a high vacancy count. The CIPD's LMO, which is forward-looking, indicates that hiring will remain strong in the next quarter. With candidates in short supply, employers are focusing as much on recruitment as they are on retention. The redundancy rate is at a record low level.

- wage growth and inflation in the last year, and expectations for the next couple of years.

Nominal wage growth has been high but inflation has been higher. Regular pay (excludes bonuses) in the year to May 2022 was 4.6%. The equivalent figure for the private sector was 5.3% and for the public sector 1.9%. Once inflation is taken into account regular pay fell by 2.9%.

The CIPD's Summer 2022 LMO, shows that businesses planning a pay award in the next 12 months expect a median award of 3%. This rises to 4% in the private sector and is 2% in the public sector.

CPI inflation reached 9.4% in the year to June 2022 far exceeding the Bank of England's 2% target. The Bank of England expects inflation to rise even higher in the short term to around 10% in Q4 2022, and to fall back to around 2% after it peaked.

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

- ***Profits***
- ***Prices***
- ***Productivity***
- ***Pay structures and differentials***
- ***Wider benefits available to workers (including premium pay and non-pay benefits across the workforce)***
- ***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)***
- ***Progression and job moves***
- ***Training***
- ***Investment***
- ***Business debt***

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

The CIPD's pay and reward survey 2022 takes an in-depth look at trends in pay and reward. The findings suggest that recent labour shortages may have had a slightly greater effect on the provision of benefits than the pandemic.

- 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)

The CIPD report is work becoming less secure looked at various metrics of labour market insecurity. The tight labour market is generally reducing insecurity over time. People are less likely to be unemployed, made redundant, temporary employees, working variable hours, involuntarily part-time, and underemployed.

- Progression and job moves

There has been much talk of the great resignation. Some of this was pent-up churn that was suppressed during the pandemic. Rates of job-to-job moves are at record highs (3.2%, the highest level since data is available in 2001).

- Training

In recent years, there has been a fall in employer investment in training. Overall employer investment in training has declined, with employer-funded off-the-job training in England falling by £2.3bn between 2017 and 2019 - according to the Employer Skills Survey.

- Investment

Business investment has flatlined since 2016 before dropping with the onset of the pandemic. The most recent data show it to be 9.2% below pre-pandemic levels.

5. 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.

The CIPD's summer 2022 LMO finds that 47% of employers report having hard to fill vacancies (46% private sector, 48% public sector and 53% voluntary sector). Overall, proportionally fewer employers in the wholesale, retail, and real estate sector say they have hard to fill vacancies (31%) compared with the national average (47%), while employers in the hotels, catering and restaurants, arts, entertainment, and recreation sector are slightly more likely (50%) to report hard to fill vacancies compared with the overall average.

To counter this challenge, 29% of organisations reporting hard-to-fill vacancies plan to increase wages, a response that is more common among organisations in the hotels, catering and restaurants, arts, entertainment, and recreation (39%) sector than among firms in the wholesale, retail, and real estate (21%) sector. However, employers in the wholesale, retail, and real estate sector are more likely to say that they will introduce automation (24%) compared with those in hotels, catering and restaurants / arts, entertainment, and recreation (8%).

Our Summer 2022 LMO also finds, that to help with spiralling inflation, 15% of employers have introduced a cost-of-living bonuses for some or all their employees, while another 15% are currently reviewing whether they need to adopt such an approach.

2.3 The National Living Wage

6. 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.

Comparing the Summer 2022 LMO with the Summer 2021 LMO, we find a slight increase in the proportion of employers reporting that the introduction of and subsequent increases in the National Living Wage (NLW) and National Minimum Wage (NMW) have increased their wage bills (from 48% to 51%). There has also been a similar decline in the proportion of organisations reporting no impact on their wage bills (from 42% to 39%).

Over this period, there's been a slight increase in the percentage of organisations saying that the introduction of and subsequent increases in the NLW and NMW have either increased their pay bill, either 'to a large extent' (13% to 16%) or 'to some extent' (20% to 23%). Similarly, there's been a drop in the percentage of employers saying that the extent has been small (15% to 12%).

By low-waged sector, the proportion of firms reporting that the NMW and NLW have increased their pay bill to a significant extent has risen from 18% to 28% in the wholesale, retail, and real estate sector, and from 30% to 37% in the hotels, catering and restaurants, arts, entertainment, and recreation sector. Employers in both these sectors are also more likely to say now that the NMW and NLW has increased their wage bills to some extent and less likely to say that it has increased it to a small extent.

In the LMO, we asked those who reported that the NLW and the NMW, has increased their organisation's wage bill, how it had been managing these additional costs?

The three most common responses given are:

- Taken lower profits/absorbed costs/accepted higher overheads (34% in 2022, and 34% in 2021
- Raised prices (30% in 2022 and 21% in 2021)
- Improved efficiency/raised productivity (24% in 2022 and 21% in 2021)

Those employers that have been most likely to cite improved efficiency/raised productivity are in health care (39%), public administration and other public services (36%), and construction (33%) sectors.

For businesses operating within the wholesale, retail, and real estate sector, the three most common responses are:

- Raised prices (39% in 2022 and 19% in 2021)
- Taken lower profits/absorbed costs/accepted higher overheads (35% in 2022, and 33% in 2021
- Improved efficiency/raised productivity (25% in 2022 and 26% in 2021)

Within the hotels, catering and restaurants, arts, entertainment, and recreation sector, the three most common responses are:

- Raised prices (53% in 2022 and 38% in 2021)
- Taken lower profits/absorbed costs/accepted higher overheads (36% in 2022, and 40% in 2021
- Improved efficiency/raised productivity (24% in 2022 and 17% in 2021)

These findings suggest that in these sectors, it's easier currently to pass on increased wage costs through higher prices than reduce them through improved productivity.

In terms of salary differentials, our Summer 2022 LMO finds that the introduction of the NLW has affected salary levels for those staff earning above the NLW rate in 42% of respondents, while 43% say that it hasn't had an impact, while the rest (15%) don't know. By contrast, in 2021, 38% of respondents said there had been an impact, while 45% said there had been no impact while the rest (16%) don't know.

Table x shows what the impact has been on salary levels in those employers impacted by the NLW. It shows that since 2021 there has been a slight increase in the proportion that have either maintained the existing pay differentials between those affected by the NLW and their supervisors/managers or have increased it.

Table x: the impact of the NLW on pay differentials

	2022	2021
Action		
Reduced the pay differentials between those affected by the NLW and their supervisors/managers	18%	17%

Maintained the pay differentials between those affected by the NLW and their supervisors/managers	19%	17%
Increased the pay differentials between those affected by the NLW and their supervisors/managers	5%	4%
NLW hasn't had an impact on any of our employees	43%	45%
Don't know	15%	16%

However, these are overall figures. Within the wholesale, retail, and real estate sector, the percentage of employers that have reduced the pay differential has increased from 18% in 2021 to 27% in 2022, with a corresponding fall in the proportion of firms reporting that the NLW had not had an impact on their workers, from 37% in 2021 to 29% in 2022.

By contrast, within the hotels, catering and restaurants, arts, entertainment, and recreation sector, the percentage of respondents that said their company had reduced the pay differential has fallen from 30% in 2021 to 15% in 2022, with a corresponding jump in the percentage reporting that their firm had maintained the pay differentials between those affected by the NLW and their supervisors/managers, from 22% in 2021 to 37% in 2022.

Respondents in construction (10%) are most likely to say that their firms have increased the pay differentials between those affected by the NLW and their supervisors/managers. In 2021, it had been companies in the transport and storage sector that had been most likely to say this (13%).

7. 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?

We can't answer this question, our research focuses on employers rather than employees

8. How has the NLW's impact varied across different geographical areas of the UK?

Table z shows the proportion of employers stating that the introduction of and subsequent increases in the National Living Wage and National Minimum Wage increased their wage bills 'to a large extent' in our summer 2021 LMO and our summer 2022 LMO. It shows that most areas have seen an increase in the percentage of employers reporting a significant increase, such as in north-east England or in south-west England. However, in some parts of the UK, there are areas where fewer employers have said this, such as in the East Midlands and Scotland.

Table z: whether the introduction of and subsequent increases in the NLW and MMW increased wage bills 'to a large extent', by region and year.

	To a large extent	
	2022	2021
Region		
North-west England	19%	13%
North-east England	29%	8%
Yorkshire and Humberside	18%	9%

West Midlands	15%	17%
East Midlands	14%	19%
South-west England	21%	15%
South-east England	16%	13%
Scotland	10%	21%
Wales	24%	14%
Eastern England	16%	12%
London	13%	10%

9. 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?

We asked respondents how they would respond to an increase in the NLW to £10.95 over the next two years. Of these, 35% said that they would not respond to this increase, possibly because they already pay well above this rate.

Among those who anticipate that they would need to respond (65%), the most common options are:

- Raise prices (20%)
- Don't know how the employer will respond (16%)
- Improve efficiency/raise productivity (15%)
- Take lower profits/absorb costs (13%)
- Introduce or increase automation (7%)
- Reduce the number of employees through redundancies and/or recruiting fewer workers (7%)

Among those employers operating within the wholesale, retail, and real estate sector, that think they'll need to respond (73%), the four most common responses are:

- Raise prices (31%)
- Take lower profits/absorb costs (24%)
- Improve efficiency/raise productivity (17%)
- Reduce the amount of overtime/bonuses (14%)

Among those employers operating within the hotels, catering and restaurants, arts, entertainment, and recreation sector, that think they'll need to respond (76%), the four most common responses are:

- Raise prices (40%)
- Improve efficiency/raise productivity (17%)
- Take lower profits/absorb costs (15%)
- Cut back on training expenditure (14%)

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

Due to the labour shortages reported by many employers, £10.32 an hour does not look unreasonable currently. However, if we enter a recession towards the end of the year, then this figure will need to be revised downwards.