7th June 2019

**Consultation on April 2020 National Minimum Wage Rates**

**Response from the Genesis Initiative**

1. **Introduction**

The Genesis Initiative (Genesis) is pleased to have this opportunity to respond to the consultation from the Low Pay Commission on minimum wage rates.

The matter was discussed at a meeting of the Genesis Senate of Trade Association leaders on June 5th, so this is indeed a real-time response. Associations present and with interest in this issue included representatives of the security industry; the construction sector, legal and professional services plus, the agricultural, hospitality and food sectors. A wider range of business associations added to the discussion but were less affected by the issues raised.

1. **Summary**

Genesis organisations include 115 trade associations with over 1 million business and self-employed members. Whilst the principle of the national minimum wage is supported, concerns relate to accelerated increases at times of economic difficulties; sectoral and regional differences and the cost of the national minimum wage as just one of many burdens on businesses.

1. **Dealing with the consultation questions**

**About Genesis**

1. *Please provide some information about yourself or your organisation. If possible, include relevant details about your location, the occupation or sector you are involved in, your workforce if you are an employer (including number of NMW/NLW workers), and anything else you think is relevant.*

The Genesis initiative is an umbrella organisation, providing its members with cross sector networks, access and a more powerful voice than most might have alone. The 115 trade bodies and associations forming its membership through the Genesis consultative Senate primarily represent smaller SMEs and the self-employed or, in some cases, the SME sections of larger bodies <https://www.genesis-initiative.org/senate/senate-member-listing/>.

In addition, Genesis Senate membership includes policy makers, academics and individual business owners with a commitment to the sector. Genesis does not have a corporate view, except in its support for SMEs and their centrality to the UK economy. Genesis has a particular focus on bringing together associations in the same broad sectors of business. It is cross party and includes parliamentarians and other politicians and opinion formers of all political views.

**Questions on Economic Outlook**

*2. What are your views on the outlook for the UK economy, including employment and unemployment levels, for the period up to April 2020?*

*3. What are your views on the current state of the labour market? Has the labour market tightened over the past year? If you are an employer, what has been your experience of filling vacancies?*

*4. What has been your experience of wage growth and inflation in the last year and what do you forecast for the next couple of years?*

The Genesis initiative, through its senate of 115 trade associations and similar bodies, regularly looks at the state of the economy. It also takes its views to a twice-yearly regular forum with the Bank of England. The current outlook for the UK economy is highly uncertain because of Brexit and there is a wide consensus that confidence is low, backed up by member data e.g. from the small business section at the Institute of Chartered Accountants in England and Wales. While economic performance has not been as bad as predicted, indeed has often been rather better during the beginning of this year, Genesis debates point to this primarily originating from the stock building. Our international contacts suggest mirroring activity with trade partners in Europe. Investment decisions are being put off.

There is a very mixed picture in the labour market. In sectors such as hospitality and food which rely on seasonal labour or immigrant labour, it has become much more difficult to find the right people as European nationals have left the UK with a fall in the pound and Brexit. There continues to be pressure in the service sector and retail sector where skills particularly in finance, management and good administration are in short supply, but this is a longer-term facet of the British economy looking for longer term answers. Several associations are concerned at the £30,000 pay floor for non-UK recruitment, when in areas such as food and medical there is concern that the UK labour market cannot met demand in the short and medium term.

No one expects high wage growth. However equally many employers are concerned about stagnation in the economy and wages, with the lack of prospect of improvement for many employees and the impact that has on morale. The gig economy is not always seen as a good influence, pressurising margins and profitability in more traditional businesses. Likewise, the online economy, particularly with its capacity to avoid business rates and other costs presents significant competition to many SMEs on an unlevel playing field.

**Questions on Impact of the National Living Wage**

*5. What has been the impact of the NLW since April 2016? The rate is currently £7.83 and will rise to £8.21 in April 2019. Our critical interest is in views or data on the NLW’s effects on employment, hours and earnings. We are also very interested in evidence on pay structures, differentials and benefits (including premium pay and impacts on parts of the workforce above the NLW), outsourcing, progression, job moves, training, contract type, business models, productivity (and the different ways in which productivity improvements can be achieved), prices or profits.*

*6. To what extent has the NLW particularly affected certain occupations or industries, types of firms (small, large etc), regions or groups (for example women, ethnic minorities, migrant workers etc)?*

Genesis Senate member bodies came at this question from two points of view. Those in industries such as security, hospitality and food felt that it was increasingly difficult to pass additional cost on to their clients. For instance, local government is a major user of security staff and those contracts are already under financial pressure. Whilst there was no objection in principle and indeed support for the existence of a minimum wage, there was concern about the practical impact on businesses with low profits to turnover. There was a concern in this sector that other benefits might be cut to meet a headline minimum wage figure. While the point was taken the productivity could be improved, these sectors felt that the nature of their businesses make this difficult. In the security sector, there was a concern about businesses bypassing regulation and using that to cut costs and so meet headline wage obligations.

The second point of view came from some service-based sectors such as law, where there was a broader concern about a range of burdens over the last few years, such as increased pension contributions. Looking at sectoral issues, representatives of the engineering sector pointed to what was effective employment agency control of recruitment in many lines of work, which already inflated employment costs.

There was a concern about the impact of gradually rising minimum wages in regions such as the south-west and he borders. In the south-west, prices are lower and wages are lower than the minimum wage is the same level nationally. There was, as there always has been at Genesis, a concern that a more regional approach would be wise.

**Questions on April 2020 rates of the NLW and other minimum wage rates**

*7. Under our latest forecasts, the target April 2020 rate for the NLW would be £8.67. Do you agree that the LPC should seek to meet this target?*

*8. What do you predict would be the effects of a rate of £8.67 in 2020 (earnings, employment, competitiveness)?*

*9. At what level should the 21-24 Year Old Rate be set in April 2020?*

*10. At what level should each of the other rates of the minimum wage be set in April*

*2017 – that is, for 16-17 year olds, for 18-20 year olds, for apprentices, and the Accommodation Offset?*

*11. What, if any, are the barriers to larger increases in the 21-24 Year Old rate, 18-20 Year Old Rate, 16-17 Year Old Rate and Apprentice Rate?*

The consensus was that increases to the national minimum wage should be graduated, recognising the importance of the principal would but also the health of businesses and so the economy. Thus, the Low Pay Commission should not make a hard and fast judgement on overall rates of change now. Whilst a minimum lease level of £8.67 was not seen as unreasonable, other factors in the economy should be considered e.g. the impact of leaving the European Union. In dealing with questions 8, 9, and 10; the Genesis Senate felt that the commission should look at the economy nearer the time, particularly after the October deadline for leaving the EU. The barriers to larger increases for younger people relate to the overall impact sector by sector in whatever the current state of the economy is. Representatives of the construction sector for instance supported increases but felt the need to be needed to be graduated to lessen the impact, large increases imposed pressures.

**The Minimum Wage Beyond 2020**

*Reflecting on your experience of the NLW since its introduction in 2016, what lessons do you think should be learned for the period after 2020?*

*13. Given the Chancellor’s statements in the 2018 budget, what are your views on the future trajectory of the NLW and other NMW rates after 2020? What considerations should inform this?*

As set out above, the future trajectory of the national minimum wage should depend on overall health of the economy. Whilst there may be a feeling that large increases should be met by significant increases in productivity, many businesses that would be affected by larger increases at difficult times would be lifestyle businesses. In many of the service sectors is hard to see how such businesses generally become more competitive, although some can and should. A more sectoral and more regional approach is worth considering. Of course, were the government to introduce the lower rate of VAT opted for in many other countries for high turnover low margin business, this might provide the space to refocus some spending on wages and training.

**21-24 year olds**

*14. What has been the effect of the minimum wage and the NLW on workers aged 21-24 and what effect do you think this has had on their employment prospects?*

*15. To what extent are firms using the 21-24 Year Old Rate (set at £7.38 since April 2018 and rising to £7.70 in April 2019)?*

A number of associations pointed to the impact of added employment costs leaving businesses with decisions about recruitment or not recruitment and indeed to whether to shed staff. The trade-offs of higher starting wages but relatively high levels of unemployment among young people in some European countries were cited.

**Young people and apprentices**

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

*17. What has been the effect of the Apprentice Rate on the pay, provision and take-up of apprenticeship places, and training volume and quality?*

*18. What are your views on the Apprentice Rate given the substantial policy changes to apprenticeships in England? Should the design of the Apprentice Rate change in response? If so, how?*

*19. What influence do other policies – for example, National Insurance and/or the Apprenticeship Levy – have on employers when deciding whether to employ young workers or apprentices?*

The Genesis Senate was aware of the difficulty of objective economic measurement in this area. The feeling was that the apprentice rate would not be an issue in prosperous areas but in areas with lower levels of pricing and wages. The major impact on the pay, provision and take-up of apprenticeships relates to the structure of the apprenticeship system, particularly the levy and its inflexibility which makes it difficult for SMEs to employ apprentices and to benefit as much as they should. Senate members commented on the apparent non-availability of benefits to apprentices, particularly when apprentice was working away from their home full benefits should be offered where appropriate.

**Compliance and enforcement**

*20. What issues are there with compliance with the minimum wage? Has the NLW affected compliance and enforcement? Are there any other trends, for example in particular sectors or groups?*

*21. What comments do you have on HMRC’s enforcement work? What is your opinion on the quality and accessibility of the official guidance on the NLW/NMW?*

*22. What more could be done to improve compliance with the NLW/NMW?*

*23. What are your views on the Accommodation Offset and the extent to which it is protecting low-paid workers? What difference, if any, have the increases in the rate since 2013 made to the provision of accommodation?*

The Genesis Senate did not think there was a particular pattern with non-compliance. It was certainly the case that more marginal businesses with pressure on their profits and facing financial volatility might be more tempted to try and avoid paying. There is a feeling that those using shorter contracts might also be more tempted to avoid the minimum wage. There were always going to be businesses that try to break the rules, they had to know that there was the potential of sanction and enforcement.

In general, there was felt to be enough guidance and no issues were raised about awareness of enforcement. However, the comment was made that an employer facing difficulties as a result might well not wish to comment to its trade association.

We have no particular comments on the accommodation offset.

**Next steps**

The Genesis Senate would be pleased to meet with representatives of the Low Pay Commission and talk about these matters in more detail if that would be useful.



**David Harvey**

**Chief Executive**

**The Genesis initiative**