

Employment

The national living wage – what you need to know

The national living wage applies to pay for those aged 25 and over. Employers will be required to pay a minimum of £9 per hour by 2020, with the first increase having taken effect in April 2016. This factsheet explores the impact of this change and also looks at the voluntary living wage promoted by the Living Wage Foundation.

Background

The national living wage was a response to nationwide debate on the issue of the living wage and sustained pressure from independent campaign group the Living Wage Foundation. It was met with mixed reactions from employers, some believing it to be unrealistic and unaffordable while others maintain that it is fair and attainable. It is intended that it will take effect incrementally, with gradual rises until 2020 when it will reach £9 per hour.

From 1 April 2018, the minimum hourly rate for employees aged 25 and over increased to £7.83. Notably, the national living wage does not apply to adult workers aged under 25. They are entitled to the adult national minimum wage, which is currently £7.38 per hour.

What is the living wage?

It is important to distinguish between the national living wage and the living wage, which is promoted by action group the Living Wage Foundation. There are significant differences between the two.

The national living wage is a premium that is added to the minimum wage for workers aged 25 and over. The living wage refers to how much an average worker needs to earn in order to be able to cover the basic cost of living in the UK. It follows that as the cost of living rises, so too should pay. From 6 November 2017, the living wage is £10.20 per hour in London and £8.75 per hour in the rest of the UK.

The national living wage is the increased amount of minimum pay that all employees over 25 are entitled to from 1 April 2016. The Government calculates and sets this rate by liaising with the Low Pay Commission, which is an independent advisory body sponsored by the Department for Business, Energy and Industrial Strategy. The rate is based on median earnings.

Summary

The Government implemented the national living wage from 1 April 2016, ensuring a sustained rise in minimum hourly pay for all employees aged 25 and over.

Many employers have taken a commercial decision to increase minimum pay to the rates recommended by the charity the Living Wage Foundation. The Foundation campaigns for pay to reflect the basic cost of living in the UK and counts over 3,800 employers as voluntary subscribers to its living wage policy.

In contrast, the Living Wage Foundation states that its proposed living wage is calculated on the basis of the cost of living in the UK, which is evaluated and updated annually. In essence, it is an aspirational target that employers can voluntarily endorse and pay. Unlike the Government's calculations, the Foundation recognises that the cost of living differs across the country and for this reason the rate is higher in London.

The Foundation has criticised the Government for not going far enough to bridge the gap between the minimum wage and the cost of living, suggesting that the national living wage is merely an improved national minimum wage.

The Living Wage Foundation

Founded in 2001 in London, after a slow start and initial reluctance from employers, the Foundation has now captured the attention of many FTSE 100 companies and even the former Prime Minister, who stated that he supported it in principle. The Foundation offers a voluntary scheme for employers who wish to confirm their intention to pay the living wage.

While advantages for employees are self-evident, the Foundation affirms that there are numerous advantages for employers who sign up to their living wage policy:

- It is good for business: in an independent study the Foundation found that over 80% of employers who had implemented the living wage had seen an improvement in the quality of work their staff produced.
- Employers reported absenteeism down by a quarter.
- 70% of employers believe that the living wage policy has improved the face of their organisation in the eyes of the consumer, bolstering their image as an ethical employer.

Over 3,900 organisations now subscribe to the Foundation's scheme. An employer that chooses to endorse the living wage policy and implement it in its organisation gains accreditation and can benefit from increased media exposure thanks to the efforts of the campaign.

Action

In any increase of its wage bill, an employer needs to weigh up the cost the business will incur as a result and how it will be funded. The national living wage, which increased hourly pay for those aged 25 and over from £6.70 to £7.20 in April 2016, represented a considerable rise and raised concerns over wage inflation. The national living wage affects business sectors differently: the Financial Times estimated that paying the national living wage could cause wage bills to increase by as much as 3.4% in the accommodation and food sectors.

Employers should start planning for the incremental increases now and considering how they will cover the cost; they may decide to pass the cost on to consumers or they may need to look at changing their staffing structure.

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