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17 July 2019

London Assembly Economy Committee response to the Low Pay Commission Consultation on April 2020 National Minimum Wage Rates

Dear Low Pay Commission,

The London Assembly Economy Committee (“the Committee”) welcomes the opportunity to respond to the consultation on the level of National Minimum Wage (NMW) and National Living Wage (NLW) from April 2020.¹ The Committee is currently investigating the impact and indicators of Low Pay and In-work poverty in London which will culminate in a report in the summer. The Committee speaks on behalf of Londoners and agrees that it is necessary to increase the NLW and NMW, however the NLW must be raised to match the London Living Wage (LLW) in order to meet the higher living costs in the capital.

This response references previous investigations that are relevant to the subject of the consultation to support the Committee’s position.

Economic Outlook

In 2018, London continued to experience job growth at a faster rate than seen in any other part of the UK. The number of jobs in London increased to 5.919 million in Q2 2018, an increase by 88,000 jobs (1.5 per cent) from 2017.² Annual labour market figures from the Office for National Statistics (ONS) showed a steady increase in employment in Great Britain in Q3 and Q4 2018.³ The economic inactivity rate, representing the number of individuals within working age who are not economically active was estimated at 20.9 per cent, the lowest figure since 1971. The ONS statistics also reported an increase in average weekly

¹ Low Pay Commission, ‘Consultation on April 2020 National Minimum Wage Rates’, (LPC May 2019)

² GLA Economics, ‘London’s Economic Outlook: Autumn 2018 The GLA’s medium-term planning projections’, (GLA Economics 2018)

³ Office for National Statistics, ‘UK Labour Market’, (ONS 2019)

earnings in real and nominal terms. Despite continued job growth, the main risks in London and in the UK more widely are associated with the ongoing Brexit process.⁴

Nevertheless, according to Trust for London, London continues to witness a significant rise of in-work poverty. Household income has stalled and one in five Londoners are being paid less than the LLW. The latest living standard statistics from the Institute of Fiscal Studies (IFS) suggest that the key driver for stalling income has been employee earnings growth being lower than inflation rates in the last few years.⁵ Lowest paying sectors include hotels and restaurants, retail, arts and manufacturing.⁶ (see Appendix 1 for graphs).

Impact of the National Living Wage

The primary metric that the Committee uses to judge the impact of the NLW is the standard of living which it affords Londoners. This is measured by a person's ability to afford food and accommodation, as well as other basic amenities; often referred to as the "minimum income standard" (MIS).⁷ Hence, the Committee considers that the impact of the increase in the NLW since April 2016 has been positive but can be improved through achieving the London Living Wage (LLW). In its 2014 report on Low Pay in London, the Committee recognised that the increase in the NMW and NLW did benefit Londoners, considering the gap that exists between these and the current LLW.⁸ Despite this, the recent IFS report showed that London still boasts the highest rate of headline poverty across all poverty measures.⁹ There is an even greater prevalence of severe poverty in the capital, up to 47 per cent higher than the rest of the UK.¹⁰ Hence, the MIS is unlikely to be achieved by low paid Londoners until the LLW is normalised in the capital.

However, the 2014 investigation also acknowledges, as does the current one, the difficulties faced by certain sectors, groups and firms in achieving better remuneration. As part of its current investigation, the Committee is exploring the role which better procurement, investment and commercial decisions can play a role in normalising the LLW in the capital. The Committee recognises that the success of London-based Small and Medium-sized Enterprises (SMEs) is integral to the growth of London's economy and so ensuring their stability must be considered in arguments around low pay.¹¹

Studies have shown that women in part-time work form the majority of low paid workers.¹² Women tend to gravitate towards jobs that can fit around their family life, these job often

⁴ GLA Economics, 'London's Economic Outlook: Autumn 2018 The GLA's medium-term planning projections', (GLA Economics 2018)

⁵ Institute for Fiscal Studies, 'Living Standards, Poverty and Inequality in the UK: 2019', (IFS 2019)

⁶ Trust for London, 'Presentation: Low Paid London', (May 2019)

⁷ The minimum income standard is the minimally acceptable standard of living in any given city or country.

⁸ London Assembly, 'Fair pay: Making the London Living Wage the norm', (Economy Committee 2014)

⁹ The UK poverty line is 60 per cent of median income.

¹⁰ Institute for Fiscal Studies, 'Living Standards, Poverty and Inequality in the UK: 2019', (IFS 2019)

¹¹ London Assembly, 'Helping SMEs to thrive', (Economy Committee 2017)

¹² London Assembly, 'Fair pay: Making the London Living Wage the norm', (Economy Committee 2014)

pay less.¹³ Low-paying industries recruit a high number of BAME workers, making this group particularly susceptible to low pay in London. There are higher rates of unemployment and economic inactivity within BAME communities, these pressures contribute to their entry into easily accessible work in low paying sectors.¹⁴ Once in these roles, there is very little prospect of progression.¹⁵ The Mayor, through the Living Wage Foundation (LWF) has started focusing on implementing the LLW in 'low-pay sectors' such as hospitality and retail. In the 2014 report, the Committee recommended that the Mayor, through the LWF should develop a cohort of employer champions across low pay sectors who will advocate for the living wage in their sectors which he has agreed to do.¹⁶ The current mayor aims to progress this idea through his Good Work Standard which is still being developed.

April 2020 rates of the NLW and other minimum wage rates

The Committee recognises the reasoning which accompanies the post-April 2020 NLW increase, but would recommend that the NLW should mirror the LLW.¹⁷ The Committee has explored this issue as part a number of investigations and agrees that it is important that this happens for more Londoners to be able to afford necessities such as rent and Council Tax¹⁸, mortgage payments¹⁹ and travel.²⁰ Minimum wage levels for apprentices, 16-17 year olds, 18-20 year olds and 21-24 year olds should also increase to meet the LLW.²¹ Many Accredited Living Wage Employers already offer these rates in the capital, as does the Greater London Authority.²² ONS figures showed that between October 2017 and October 2018, the number of young people (those aged 16 to 24) in employment in the UK increased by 16,000 to 3.83 million, demonstrating job growth for these groups despite increased rates.²³ Research on the effects of a minimum wage increase on the labour market has been inconclusive.²⁴ Accordingly, the Committee intends to explore this matter in its upcoming report.²⁵

¹³ Oxfam Discussion Paper, 'Why is women' work low paid?', (November 2017)

¹⁴ Joseph Rountree Foundation, 'Poverty and inequality in the labour market', (September 2017)

¹⁵ *ibid*

¹⁶ London Assembly, 'Fair pay: Making the London Living Wage the norm', (Economy Committee 2014)

¹⁷ The GLA Conservative Group does not agree that the NLW should mirror the LLW. See Dissenting Note on page 14-15.

¹⁸ London Assembly, 'Response to the Mayor's draft consultation budget 2018-19', (Budget and Performance Committee 2018)

¹⁹ London Assembly, 'Home Ownership First Steps on the Ladder', (Housing Committee 2017)

²⁰ London Assembly, 'TfL Finances: The end of the line?', (Budget and Performance Committee 2018)

²¹ The GLA Conservative Group does not agree that the minimum wage levels for apprentices should increase to meet the LLW. See Dissenting Note on page 14-15.

²² 'Accredited Living Wage Employers | Living Wage Foundation' (*Livingwage.org.uk*, 2019)

<<https://www.livingwage.org.uk/accredited-living-wage-employers>> accessed 26 June 2019

²³ Office for National Statistics, 'UK Labour Market', (ONS 2019)

²⁴ London Economics, 'Impact of the minimum wage on young people', (London Economics 2015)

²⁵ The Economy Committee is currently investigating low pay and in-work poverty in London and will produce its report in late summer 2019.

The minimum wage beyond 2020

Since 2016 to present, the employment landscape in London has changed significantly. The labour market now includes a higher number of zero-hour contracts that, combined with a rise in the gig-economy, has resulted in economic insecurity for many Londoners. In 2015/16, the Committee investigated London's 'Hour Glass economy', highlighting persistent income gaps, low social mobility and low productivity of London's workforce as long-standing structural challenges.²⁶

The report recommended that the incoming Mayor should continue to pursue the standardisation of the LLW across the capital, with an ambition to extend this to all large multinationals, with comparable pay rates in other countries by 2018. Furthermore, the incoming Mayor was asked to consider the viability of mandating the LLW for London businesses by 2020. To inform this, the new Mayor could commission analysis to establish the likely impact of the LLW on job creation and loss in London. The current Mayor continues to work toward these recommendations.

A decline in mid-skilled jobs, coupled with lower investment in workplace training have reduced opportunities for progression out of low pay, while skills shortages across low paying sectors such as catering and healthcare have contributed to subdued productivity rates. The Committee also signalled to these issues in its response to the Mayor's Economic Development Strategy in 2018, stressing the need for rapid intervention. Getting more Londoners into skilled work that suits both the needs of employees and business, and that pays as close to the London Living Wage as possible, will support the Mayor's good growth agenda and help lift people out of poverty.²⁷

For the reasons set out in the above section, the Committee welcomes the increased rates post 2020, with the recommendation that the NLW should mirror the LLW. (see Appendix 1 for graphs).

Young people and apprentices (includes evidence on 21-24 year olds)

Employment prospects and diversity

Despite an increase in the minimum wage, ONS statistics show that the estimated number of economically inactive young people in the UK fell by 76,000 to 2.62 million between Q3 2017 and Q3 2018. The Committee has consistently recommended that young people are paid at least the LLW in whichever type of employment they are engaged in.

As part of its 2017 investigation into apprenticeships, the Committee identified a diversity issue in that the record of progression into more advanced roles was poor for both BAME and female apprentices. This was followed by a recommendation for an increase in quality apprenticeships and greater diversity across all sectors.

²⁶ London Assembly, 'The Hourglass Economy', (Economy Committee 2016)

²⁷ London Assembly, 'Letter from the Chair: Economy Committee response to the Mayor's draft Economic Development Strategy', (Economy Committee 2018)

The Committee also found that businesses that pay young people a higher wage have a wider pool of talent to recruit from.²⁸ For example, the results of an investigation into access to internships in London found that only 37 per cent of young adults would be able to undertake a 3-month internship which paid less than the minimum wage. This rose to 60 per cent if they were paid the National Minimum Wage, and 77 per cent if they were paid the London Living Wage. These results evidence the positive relationship between paying the LLW and attracting the best talent.²⁹ (see Appendix 1 for graphs).

Apprenticeships, Internships and the apprenticeship levy

The adult education budget has now been devolved to London and the Committee has called for the Mayor to play an expanded role in driving standards in apprenticeship training in the future.³⁰

Following its 2017 investigation into apprenticeships,³¹ the Committee concluded that the financial support offered to apprentices is largely inadequate. Another Committee investigation into the financial health of Londoners found that young Londoners are more exposed to economic uncertainty than generations before and need support to access the right services and resources to be financially healthy.³²

Since the introduction of the apprenticeship levy in April 2017, apprenticeship starts have fallen by 14 per cent in London,³³ and by nearly a quarter (24 per cent) across England.³⁴

The 2018 Business 1000 survey commissioned by London Councils and the London Chambers of Commerce and Industry found that 31 per cent of employers responding did not have adequate resources to support or manage an apprentice. In its review of the first year of the apprenticeship levy, the Open University reported that ‘at a time of uncertainty, where efficiency and productivity are crucial for an organisation’s ongoing success, the additional time required to set up an apprenticeship programme can be a significant drain on resource’.³⁵

The same Open University report found that just eight per cent of businesses questioned believed that the apprenticeship levy did not need any amendments and is working well in its current incarnation. In light of this evidence, the introduction of additional flexibilities to the apprenticeship levy system would mean London’s employers would be more likely to create new apprenticeship opportunities.

²⁸ To increase employment prospects, the Committee have been advised that there needs to be more of a focus on encouraging young people to engage in London’s Night Economy.

²⁹ London Assembly, ‘Internships in London’, (Economy Committee 2014)

³⁰ London Assembly, ‘Apprenticeships: an un-level playing field’, (Economy Committee 2017)

³¹ *ibid*

³² London Assembly, ‘Financial health of Londoners’, (Economy Committee 2018)

³³ GLA Economics, ‘London’s Economic Outlook: Autumn 2018 The GLA’s medium-term planning projections’, (GLA Economics 2018)

³⁴ Apprenticeship Statistics England, House of Commons Library, (February 2019)

³⁵ Open University, *The apprenticeship levy: one year on*, (April 2018)

The Mayor, London Councils, London First and London Chamber of Commerce and Industry have set out joint proposals for making the apprenticeship levy system work better for London.³⁶

These proposals include:

- Allowing for pooling and joint purchasing of transferred apprenticeships
- Allowing some levy funding to be used for pre-employment training to get people ready for an apprenticeship
- Allowing up to ten per cent of levy funding to cover administration costs
- The government should also provide additional support to SMEs including administration costs.

The introduction of the apprenticeship levy, and the broader policy of increasing employer ownership of apprenticeships could pose challenges for both large businesses and SMEs. There continues to be a large degree of uncertainty in the business community about how the levy will operate in practice, and whether the system has the appropriate capacity to meet their needs. The Committee has recommended that the Mayor should help large organisations in London make the most of the apprenticeship levy,³⁷ by offering advice and guidance, and promoting best practice within the GLA Functional Bodies which are Transport for London (TfL), The Mayor's Office for Police and Crime (MOPAC) and the London Fire Brigade.³⁸

The Committee's report on apprenticeships advised that the Mayor should consider the role which these can play in closing the long-term skills gap in London, help identify gaps in provision and ensuring that currently disparate programmes and funding streams, across the public, private and voluntary sectors, work in concert.³⁹

Compliance and enforcement

The Committee's 2014 report into low pay recommended partial devolution of enforcement powers to local authorities with HMRC retaining central functions. The Committee welcomes HMRC enforcement action, with particular reference to cases in the care sector as well as non-payment of the minimum wage to interns.⁴⁰

The Mayor has published the 'Good Work Standard', a benchmark on which he aims to collaborate with London's employers, professional bodies and experts to bring together employment best practice and to direct employers to resources which can help them to

³⁶ London Councils, 'Mayor of London, London first et. al. Improving apprenticeship delivery in London: a submission by London local government and business', (London Councils 2018)

³⁷ The Committee's report also advised that the Mayor should consider the role which apprentices can play in closing the long-term skills gap in London.

³⁸ Additionally, the Mayor was advised to take the needs and concerns of SMEs into account when developing his skills strategy given that they employ 98 per cent of all workers in London and have raised concerns about the levy.

³⁹ London Assembly, 'Apprenticeships: an un-level playing field', (Economy Committee 2017)

⁴⁰ London Assembly, 'Fair pay: Making the London Living Wage the norm', (Economy Committee 2014)

reach these.⁴¹ One of the aims of this policy is to normalise the LLW in the capital. The Committee welcomes the idea and looks forward to seeing the detailed proposals. The Good Work Standard could be pivotal in tackling low pay and the poor working conditions that often come with it, in the capital.

The Living Wage Foundation's LLW Accreditation Regime has encouraged employers to publicise their new status as London Living Wage employers.⁴² However, the Committee has emphasised the importance of ensuring that these accreditations maintain their value through other compliance measures.

The Committee has yet to consider in any detail, the effect of the "Accommodation Offset" on low paid workers but can acknowledge its merits. The provision of accommodation to low paid workers is particularly advantageous for Londoners due to the disproportionately high living costs experienced in the capital.⁴³ Unfortunately, the incremental increases in the NLW and NMW are not felt by low paid Londoners as they should be, due to the extent of these living costs. The gap between the NLW and LLW is still too wide for many low paid Londoners to satisfy the MIS.⁴⁴ According to a London Assembly report, London's temporary accommodation crisis has worsened, with households living in temporary accommodation rising by 50 per cent in the last five years to 56,560 households.⁴⁵

The Committee's view is that the Accommodation Offset addresses London's housing dilemma for low paid workers but fails to combat the issue of low pay in London which would be better served through the normalisation of the LLW.

To conclude, the Committee agrees that the NMW and NLW should be increased in the proposed manner. However the Committee's position is that Londoners will benefit most if the NLW is increased to match the LLW.

⁴¹ What Is The Mayor's Good Work Standard?' (*London City Hall*, 2019) <<https://www.london.gov.uk/what-we-do/business-and-economy/supporting-business/what-mayors-good-work-standard#acc-i-54386>> accessed 17 June 2019.

⁴² 'Accredited Living Wage Employers | Living Wage Foundation' (*Livingwage.org.uk*, 2019)

<<https://www.livingwage.org.uk/accredited-living-wage-employers>> accessed 27 June 2019

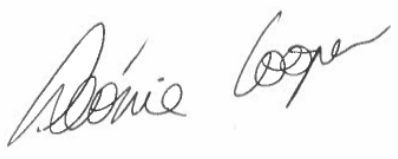
⁴³ London Assembly, 'Home Ownership First Steps on the Ladder', (Housing Committee 2017)

⁴⁴ Economy Committee, 'Transcript – Low-paid work and in-work poverty in London', (Economy Committee 2019)

⁴⁵ Housing Committee, 'Living in Limbo: London's Temporary Housing accommodation crisis', (Housing Committee 2019)

Yours sincerely,

Léonie Cooper

A handwritten signature in black ink, reading "Léonie Cooper". The signature is written in a cursive style with a large initial 'L' and a long, sweeping underline.

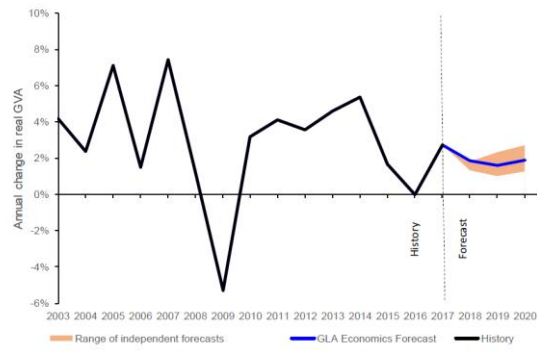
Chair, Economy Committee, London Assembly

Appendix 1

Economic Outlook

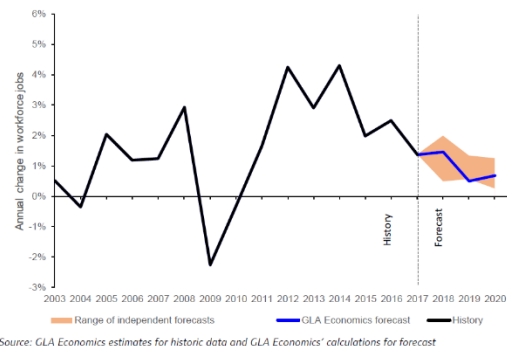
Employment, London labour market, wage growth and inflation⁴⁶

Figure 1: Trend and forecast output growth



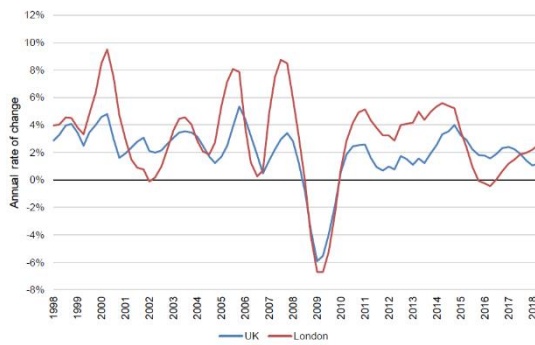
Source: GLA Economics estimates for historic data and GLA Economics' calculations for forecast

Figure 2: Trend and forecast output growth



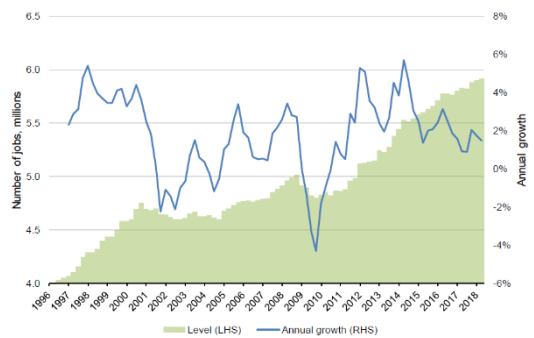
Source: GLA Economics estimates for historic data and GLA Economics' calculations for forecast

Figure 3: Annual rate of Gross Value Added London (GVA) growth for London and the UK, constant prices



Source: ONS Regional GVA, GLA Economics

Figure 4: Number of workforce jobs in



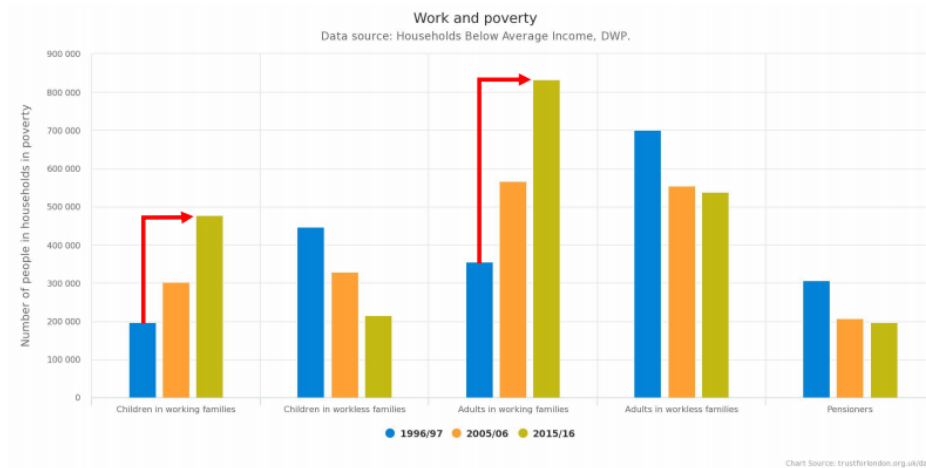
Source: ONS Workforce Jobs

⁴⁶ GLA Economics, 'London's Economic Outlook: Autumn 2018 The GLA's medium-term planning projections', (GLA Economics 2018)

The minimum wage beyond 2020

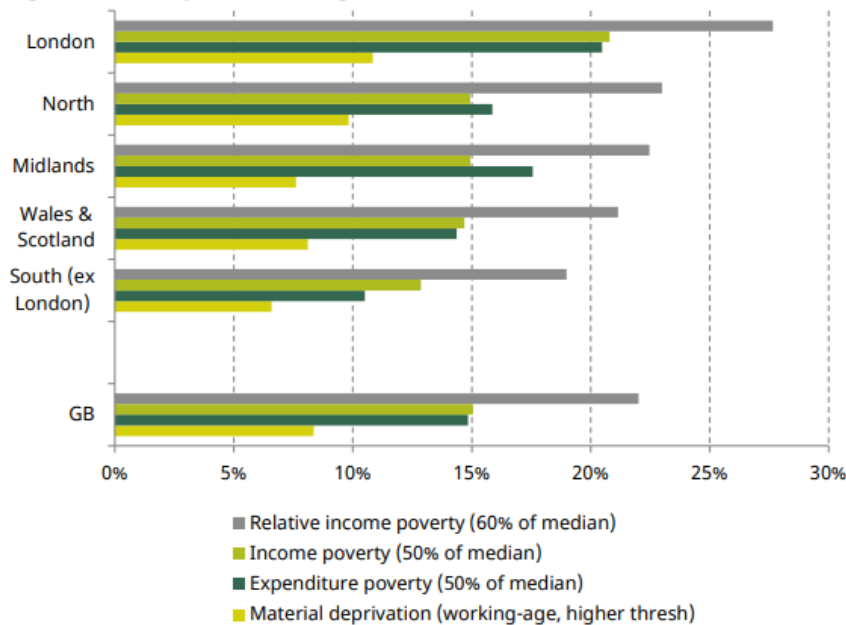
In-work poverty in London

Graph 1: Households below average income, DWP⁴⁷



Graph 2: Poverty rates in GB regions and nations⁴⁸

Figure 4.9. Poverty rates in GB regions and nations

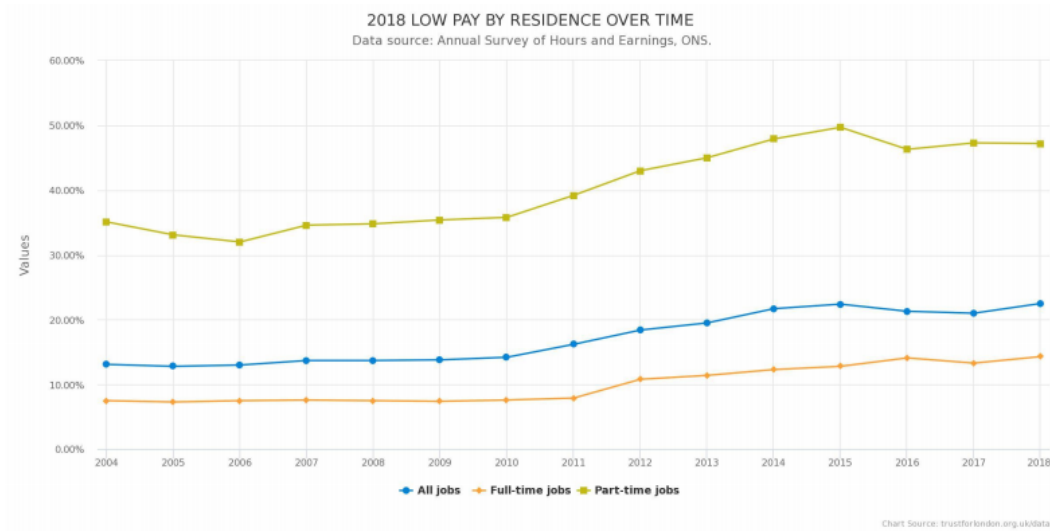


Note and source: See Figures 4.3, 4.4 and 4.6. Relative income poverty (60% of median) and income poverty (50% of median) are measured using HBAI. The material deprivation measure is the 'higher threshold' measure discussed in the note to Figure 4.6. Figures show average poverty rates between 2015-16 and 2017-18.

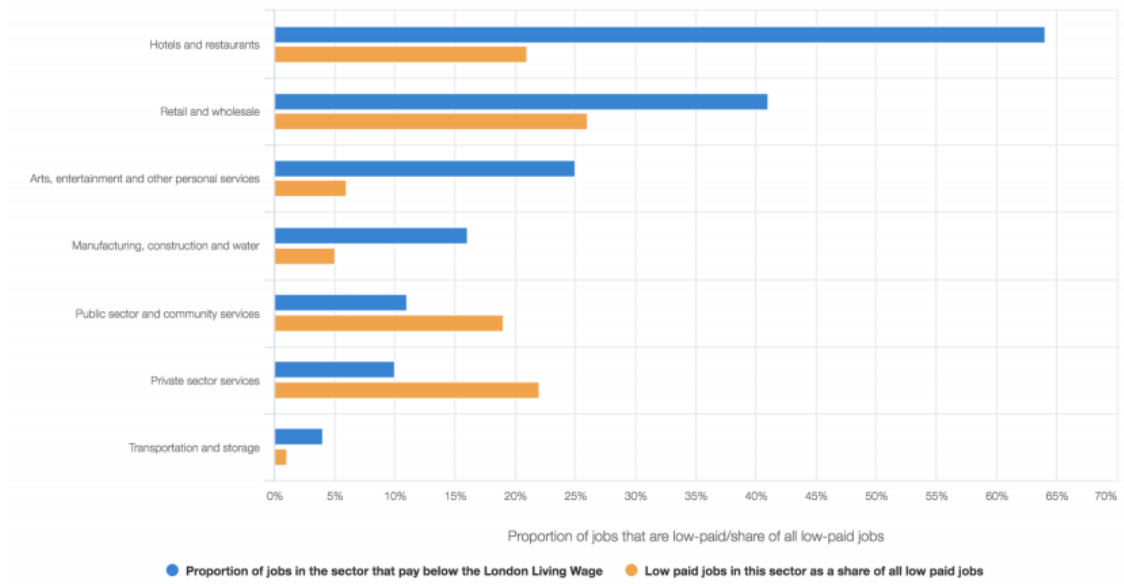
⁴⁷ Trust for London, 'Presentation: Low Paid London', (May 2019)

⁴⁸ Institute for Fiscal Studies, 'Living Standards, Poverty and Inequality in the UK: 2019', (IFS 2019)

Graph 3: Low pay by residence over time⁴⁹



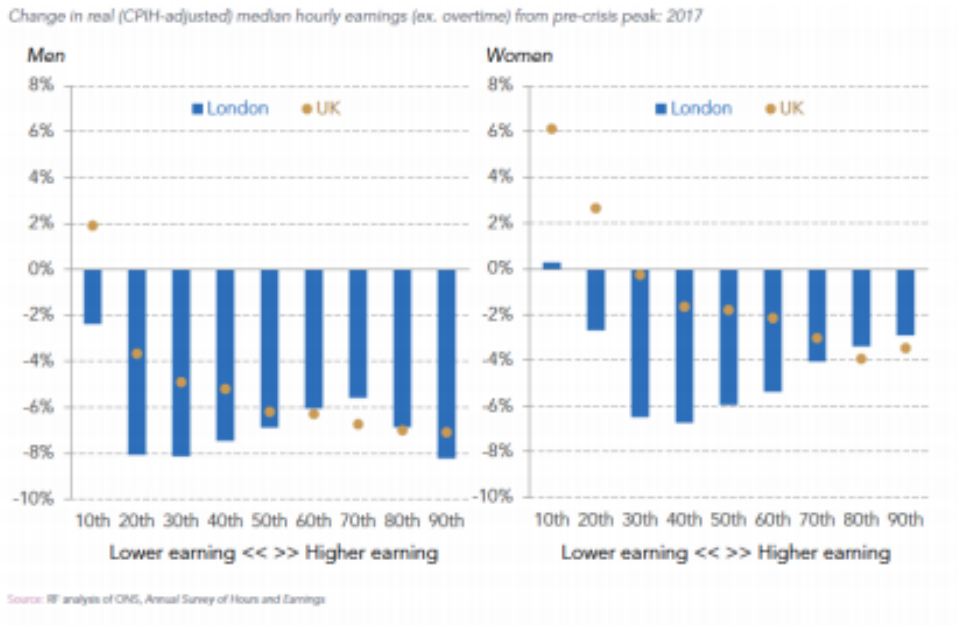
Graph 4: Proportion of jobs that are low-paid⁵⁰



⁴⁹ Trust for London, 'Presentation: Low Paid London', (May 2019)

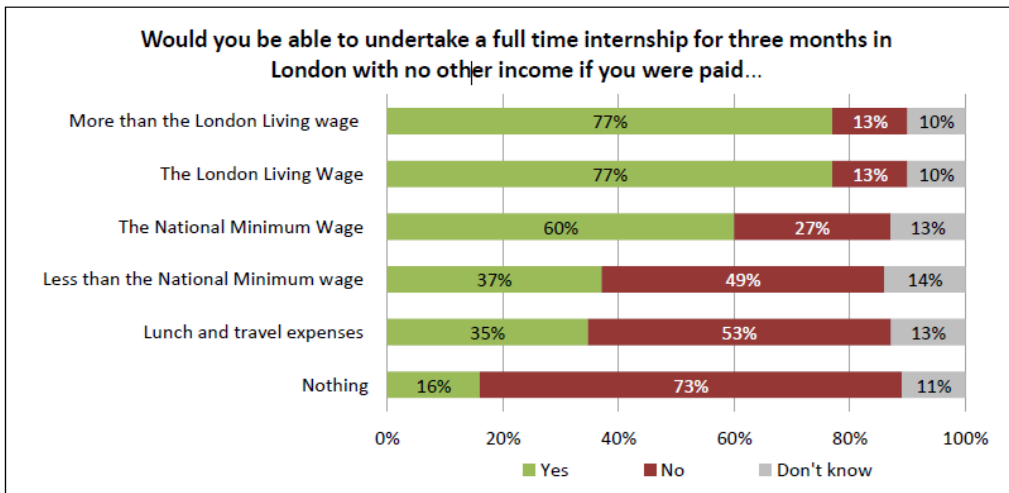
⁵⁰ *ibid*

Graph 5: Change in real median hourly earnings :2017⁵¹



Young people, apprentices and 21- 24 year olds

Graph 6: Access to internships and higher pay



⁵¹ *ibid*

Chart 1: Apprenticeships taken at intermediate, advanced and higher level for each sector in 2015-2016⁵²

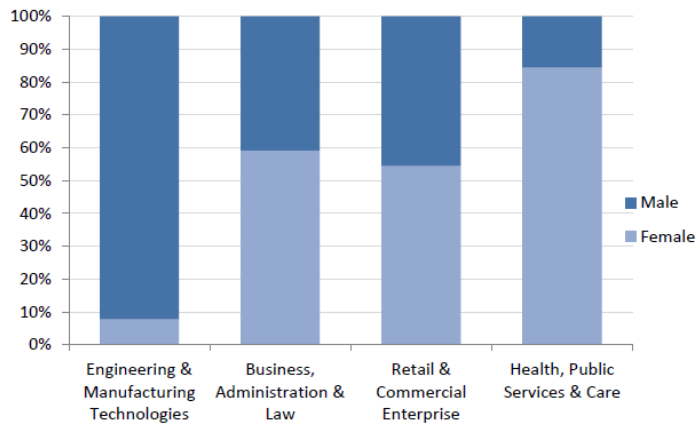


Chart 2: Apprenticeship achievement rates, by age, 2010-14⁵³

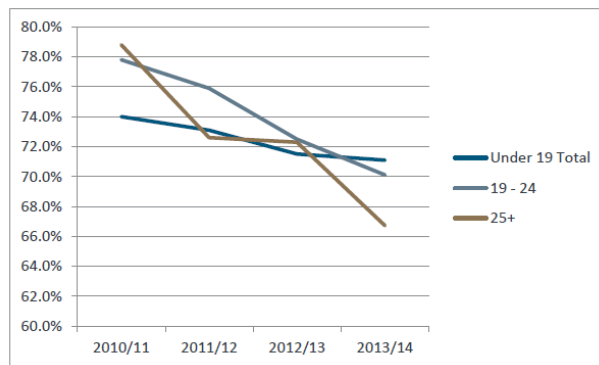
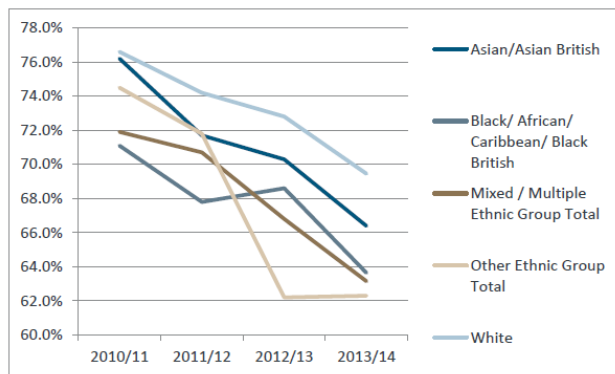


Chart 3: Apprenticeship achievement rates by ethnicity, 2010-14⁵⁴



⁵² *ibid*

⁵³ *ibid*

⁵⁴ *ibid*

DISSENTING NOTE: THE GLA CONSERVATIVE GROUP

The GLA Conservative Group fundamentally disagree with the conclusion that the National Living Wage (NLW) should mirror the London Living Wage (LLW). The GLA Conservative Group also disagree with the statement that “minimum wage levels for apprentices, 16-17 year olds, 18-20 year olds and 21-24 year olds should also increase to meet the LLW”.

The position of the Group is that a drastic hike in the wage rate as stated in the consultation response would damage the labour market and lead to higher unemployment levels as it would not be feasible for employers to continue to pay this higher rate to all of their current employees. Furthermore, this increase would be the most damaging to the lowest skilled and lowest paid whose skills and value to the employers do not meet the LLW and therefore this would hurt the most vulnerable.

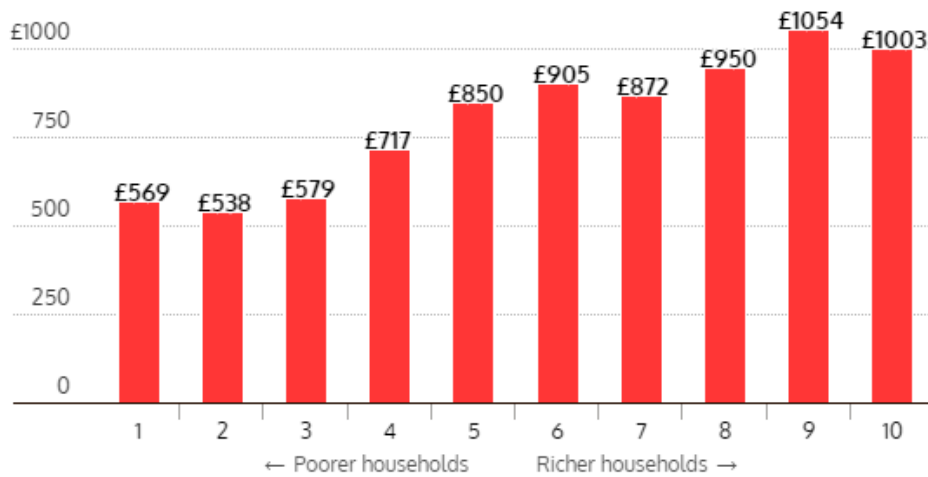
The Conservative Group does not believe that there should be a lottery for the lowest paid where those that are lucky enough to have an employer who can afford to hike their wages get one whilst the rest are consigned to unemployment. It would also further exacerbate the move towards the automation of the workplace, especially when it comes to the low-skilled and the low paid as if this policy was to be implemented it would be more feasible for many employers to invest in machinery for the lower skilled jobs. This policy would almost certainly kill off apprenticeships as very few employers would be able to afford paying apprentices the LLW and the same applies to 16 – 17 year olds who would find it almost impossible to find a job.

It is a drastic step to take without further independent impact assessments looking at exactly how many jobs will be lost due to this. The Conservative Group would be happy to support further research looking at what impact this would have, which income groups would be the most impacted and how much unemployment it would cause.

The consultation response seems to imply that increased unemployment is seen as a price worth paying for a pay rise for others. It’s simplistic to imagine that the minimum wage is the salary given to the poorest households. It’s also given to the spouses of the wealthy, to second earners – and many people who are nowhere near poverty.

As the chart for the Office for Budget Responsibility (OBR) demonstrates – the richest benefit the most from the Living Wage.

Average annual gains to gaining households in 2020



Source: Office for Budget Responsibility, July 2015. Wealth deciles: so 1 = poorest 10%, 10= richest 10%.

As the OBR explains: “Although the [£9 minimum wage] boosts individuals’ earnings towards the lower end of the individual income distribution, it is expected to have a more even effect on the distribution of household incomes, since many workers affected will be households’ second earners. Indeed, around half the cash gains in household income may accrue to the top half of the household income distribution, in part because workers in higher income deciles that do gain from the measure will receive a larger average cash amount”.