

Rising wage rates?

With an election now set for December 2019, wage rate announcements will be deferred until at least mid-December, if not January.

04 November 2019

November traditionally sees announcements in respect of the applicable rates for both the National Minimum Wage and the National Living Wage to apply from April 2020, following recommendations from the Low Pay Commission in October.

However, with an election now set for December 2019, wage rate announcements will be deferred until at least mid-December, if not January. It is unclear whether the Low Pay Commission's report will still be published later this month setting out its recommendations or whether this too will be withheld as a result of the "purdah" rules in place once a general election is announced.

The delays could mean that those employers with a 1 January pay review date in place may end up having to set their 2020 pay without knowing how this will relate to the minimum wage rates due to come into effect the following April.

Future Wage Rate Changes

As always, employment policy will be influenced according to our political system but the following changes have been mooted:

- At the Conservative Party Conference, Sajid Javid confirmed the government's intention to raise the National Living Wage to £10.50 an hour by 2024, and to increase the number of workers who are entitled to this by dropping the age threshold from 25 to 23 by 2021 and to 21 by 2024.
- Labour's employment policies suggest that, if it were to take office, the National Living Wage would increase to £10 by 2020, and that this would apply to all workers aged 18 or over.
- In Matthew Taylor's Review of Modern Working Practices, the possibility of applying a minimum wage premium for any hours which were not guaranteed was suggested. The government asked the Low Pay Commission to consider the implications of the same and, following the Low Pay Commission's response, it confirmed that these premium proposals would not be taken forward. Alternative methods for addressing "one-sided flexibility" were preferred.

Real Living Wage

For Living Wage employers, the Living Wage Foundation usually announces its real living wage and London living wage rates (voluntary hourly rates calculated according to the cost of living and based on a basket of household goods and services) on the first Monday of November. These rates are currently £9.00 across the UK and £10.55 in London. However, Living Wage employers will need to wait a little longer this year to find out about any increases – the announcement is not taking place until 11 November, as part of the Foundation's Living Wage Week.

In-work Poverty

report produced by think tank the Social Market Foundation in October 2019, highlights that despite all of the steps taken by successive governments to increase wage rates, the UK still has a very significant low pay problem with about a fifth of employees earning less than two thirds of the median hourly wage. This is contributing to high levels of in-work poverty, with many remaining stuck on low pay for considerable periods of time.

The reports considers two potential routes to higher living standards – wage progression (being pay rises for workers in a given job position) and career progression (being pay rises achieved through a change in job position). Employer behaviour in respect of wages and career progression is stated to be driven by a large number of different factors including, but not limited to, reputational concerns, pressure from consumers, and employee bargaining power.

The report also explores a number of legal changes which could be adopted to change corporate behaviour on pay and progression in the workforce. These include:

- Amending the existing section 172 of the Companies Act 2006 (which currently requires directors to act in the interests of various stakeholder – including the company’s employees) to require directors to ensure that employees share in the proceeds of growth of a company.
- Amending the extent to which courts are able to assess a Board’s decision-making processes in determining whether there has been a breach of section 172, beyond whether the decision was one no reasonable director could have made.
- Tailoring pay expectations to individual sectors – this reflects previous findings suggesting that certain sectors can afford to pay different minimum wages. The report does not suggest lowering minimum wage for certain sectors, but rather raising expectations in certain sectors.
- Requiring greater transparency in respect of pay progression and training – this is intended to change behaviours of those companies which may be more affected by reputational issues and resultant customer behaviour. It reflects an existing trend for greater transparency – such as the existing gender pay reporting requirements, the reporting of the ratio of chief executive pay to the average worker which will start to be seen from 2020, and the proposals in respect of ethnicity pay reporting.

Ultimately, at this stage, whilst the direction of travel (increasing wage rates) may well be a certainty, the rates chosen, the timescales and any other steps taken to reduce in-work poverty and change corporate behaviour on pay will very much be dependent upon the outcome of the general election.

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