

Press release: LPC welcomes acceptance of its recommended minimum wage rates

The Low Pay Commission, the body that advises the Government on the level of the minimum wage, today welcomed the acceptance of its recommendations for the rates to apply from April 2018. These include a 4.4 per cent increase in the National Living Wage, the rate for workers aged 25 and over, from £7.50 to £7.83.

The LPC welcomes the Government's acceptance of our recommendations, which we are required to make on the National Living Wage and the other rates of the National Minimum Wage. On the former we are asked to make recommendations such that the rate reaches 60 per cent of typical earnings by 2020. For the latter, which affect those below the age of 25 and apprentices, we recommend rates as high as possible without damaging employment.

The core decision was whether the most recent economic evidence met the condition of sustained economic growth to enable the NLW to be uprated in line with the path to 60 per cent of median earnings. Commissioners weighed the available evidence carefully, judged that it did, and agreed to keep a steady course to 2020. The recommended rate of £7.83 is in line with the indicative rate of £7.85 that we set out last October.

For young people aged between 18 and 24 years old, Commissioners judged that economic conditions warranted larger percentage increases. There have been ongoing improvements in their employment and unemployment position, and their earnings have been growing faster than those of workers aged 25 and over for three years.

This is good news for the millions of low paid workers who are paid at the minimum rates.

1. The Low Pay Commission is an independent body made up of employers, trade unions and experts whose role is to advise the Government on the minimum wage. The National Living Wage is the legally binding pay floor for workers aged 25 and over. The other minimum wage rates comprise: the 21-24 Year Old Rate, the 18-20 Year Old Rate, the 16-17 Year Old Rate and the Apprentice Rate.
2. The LPC's remit prescribes different requirements in relation to the NLW than for the four other bands of the minimum wage. For the NLW we are asked to make recommendations on the pace of increase towards a target: an 'ambition...that it should continue to increase to reach 60 per cent of median earnings by 2020, subject to sustained economic growth'. For the other rates we are asked to 'help as many low-paid workers as possible without damaging their employment prospects'.

3. Our full recommendations for April 2018 and underpinning analysis will be published today in our [19th report](#), once it is laid in Parliament, as will [a letter from the LPC Chair to the Secretary of State for Business, Energy and Industrial Strategy](#).
4. We said in our report in [March 2016](#) that, in the absence of economic shocks or other strong evidence, we thought that the default for the NLW would be a straight line rolling path to the 60 per cent target – evenly spreading our (annually updated) estimate of the increase in relative value needed to hit the target over the remaining years to 2020. Our recommendation today reflects this approach, and the cash level is in line with the indicative figure we set out last October – £7.85.
5. The new rate will increase pay for typical minimum wage workers (working 30 hours per week) by just over £500 per year. An increase of 4.4 per cent is, after the introduction of the National Living Wage in April 2016, the largest increase in the main rate of the minimum wage since 2006.
6. We estimate that the £7.83 rate will raise coverage – the number of workers paid at or below the NLW – by up to 530,000, from 1.6 million jobs (6.4 per cent of the cohort) in April 2017 to 2.1 million (8.6 per cent) in April 2018. Looking at progress towards the 60 per cent target, we estimate that the £7.83 rate will represent an increase in the relative value of the NLW for workers aged 25 and over of 1.1 percentage points, up from 56.9 per cent of the value of typical earnings (October 2017) to 58 per cent (October 2018).
7. Rates for workers aged under 25, and apprentices, are lower than the NLW in reflection of lower average earnings and higher unemployment rates. International evidence also suggests that younger workers are more exposed to employment risks arising from the pay floor than older workers. Unlike the NLW (where some consequences for employment have been accepted by the Government), the LPC's remit requires us to set the other rates as high as possible without causing damage to jobs and hours.
8. We have also provided an indicative rate for the National Living Wage from April 2019. This is inevitably uncertain because pay forecasts are likely to change, but using those available in October we project that the on-course rate will be £8.20. Using OBR forecasts published today, the projected figure is £8.18. For 2020, the LPC's projected rate for 60 per cent of median earnings is £8.61, within a range of £8.55 to £8.66. Using its forecasts published today, the OBR wage growth projections give a slightly higher estimated figure for 2020, of £8.57.
9. The National Living Wage is different from the UK Living Wage and the London Living Wage. Differences include that: the UK Living Wage and the London Living Wage are voluntary pay benchmarks that employers can sign up to if

they wish, not legally binding requirements; the hourly rate of the UK Living Wage and London Living Wage is based on an attempt to measure need, whereas the National Living Wage is based on a target relationship between its level and average pay; the UK Living Wage and London Living Wage apply to workers aged 18 and over, the National Living Wage to workers aged 25 and over. The Low Pay Commission has no role in the UK Living Wage or the London Living Wage.

10. The members of the Low Pay Commission comprise: