

# Croner Briefing

## The National Living Wage Research into Strategies

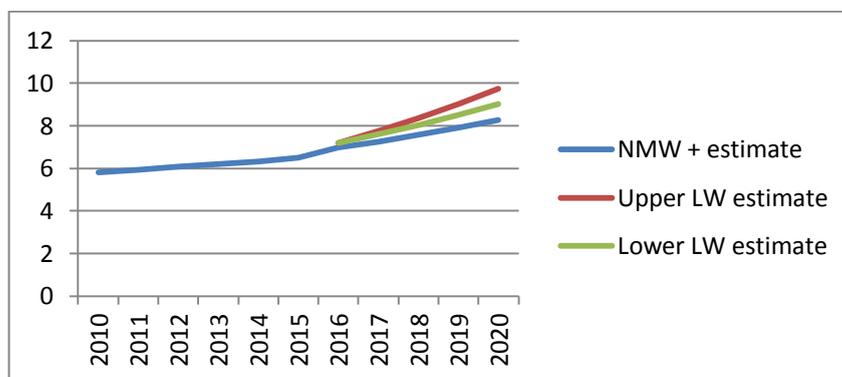
The introduction of the National Living Wage (NLW) has without doubt been one of the biggest game changers in recent employment history. It is estimated that around six million workers will benefit from the new legislation which is good news for them – but what about employers? How will they manage to increase pay for their workers over the age of 25, yet keep pay differentials for the rest of their employees? What strategies are they using to absorb or pass on the cost? It is these questions that prompted Croner to carry out research on the subject.

### The research

In February 2016, Croner, through its specialist pay and benefits team, surveyed over 100 organisations on a range of questions relating to the NLW. These organisations represented a range of businesses from SME privately owned companies to corporate businesses and charities and were based throughout the UK.

### NLW: the facts

The compulsory NLW rate for staff aged 25 or above is £7.20 per hour. The Government's target is for the NLW to reach more than £9.00 an hour by 2020. Note that this is different from the Living Wage promoted by the Living Wage Foundation, which is a voluntary rate, set independently and updated annually, based on the cost of living in the UK.



Source: Treasury based on OBR forecast

### What should be included in the National Living Wage?

A wide variety of factors contribute towards the National Living Wage including incentive pay, bonuses, income tax and employees' National Insurance contributions. However, overtime and shift premia, employer's pension contribution, tips and service charges are some examples of remuneration that are not covered.

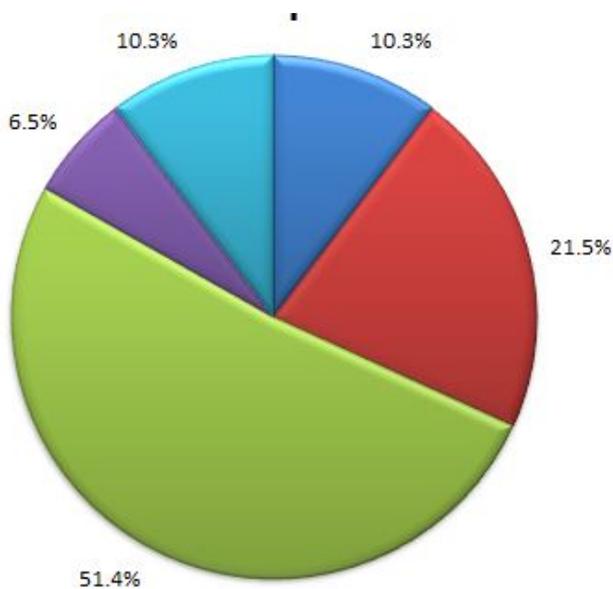
## Who should be paid the NLW?

Part-time and casual staff age 25 and over will be entitled to the NLW on exactly the same terms as full-timers. Freelancers and subcontractors will also have to be paid the NLW, as appropriate, unless they are genuinely in business on their own account. The definition of "worker" also covers agency workers and homeworkers. Agricultural workers are entitled to the Agricultural National Minimum Wage (a separate rate).

Examples of individuals who are not entitled to be paid the NLW are those on a Government employment programme; higher and further education students on a work placement up to 1 year; people living and working as part of a family and who aren't charged for meals or accommodation; such as au pairs; family members of the employer living in the employer's home; charity workers who are volunteers and only receive expenses rather than a regular wage.

## The findings

**Croner asked:** 'Will the introduction of the National Living Wage have an impact on your business?'



**10%** said it will have a massive impact on their business

**22%** said it will have a negative impact, but that they are not too concerned about it

**51%** said no, it will not have an impact on my business

**7%** said they didn't know what impact it would have on their business

A further 10% chose the 'other' option. Answers ranged from "A small impact as most staff are currently paid above this rate" to "Might have a positive impact as it could put competitors under financial pressure - meanwhile, we already pay above the National Living Wage".

**Croner asked:** 'How will the NLW impact your business?'

Most of the respondents said that it would mean an increase in wage costs, some had already noticed an increase in cost for services from suppliers and others had already committed to offering the living wage. On a positive note, a number of respondents said that it would lift morale, motivate staff and aid retention.

**Croner asked:** *'What will you be doing to absorb/pass on the costs?'*

	<b>Response Percent</b>
We will be discontinuing genuinely additional payments and putting savings towards pay increases	12.2%
We will be discontinuing elements of remuneration that don't count towards the NMW and redirect savings towards elements that do count towards the NMW such as reducing pension contributions currently over the legal minimum	4.1%
Introducing performance management/bonus schemes to increase productivity	8.2%
We will be reviewing our overall pay and grading structure to ensure that relative pay remains fair and differences justified	<b>59.2%</b>
We will be focusing on managing poor performance using PIPs, formal disciplinary action etc.	<b>20.4%</b>
We will be looking to achieve savings/efficiencies in other ways e.g. investment in equipment/technology	<b>32.7%</b>
We will need to make people redundant	6.1%
We are considering using apprentices and younger workers	18.4%
We are going to be raising the prices of our products/services	18.4%
We will be having a freeze on recruitment	4.1%

As you can see, the top three strategies to absorb or pass on the costs are:

1. Reviewing overall pay and grading structures
2. Achieving savings and/or efficiencies in other ways
3. Focusing on managing performance

**Croner asked:** *'Do you use pay as a differential/benefit?'*

There was not much difference here, with 40% answering 'Yes' and 60% answering 'No'. Of those that said yes, 20% said they were going to increase all salaries, 20% said they were looking at other benefits as a differential, another 20% said they were going to stop using pay as a differential. Other responses included: raising all pay rates and reducing the pay differential between bands.

**Croner asked:** *'Will the new legislation affect your recruitment plans?'*

Almost 90% of contributors towards our research said their recruitment plans would not alter due to the NLW.

**Croner asked:** *'Will you be using more self-employed workers instead of employing someone directly?'*

Just over 80% said that they will not use more self-employed workers but continue to employ people directly.

**Croner asked:** *'Will you have to make redundancies to accommodate the new legislation?'*

17% of organisations replying to the survey said that they will have to make redundancies to accommodate the new legislation; the remaining 83% said they wouldn't have to.

## Potential issues facing employers

The biggest challenge emerging from this research is how employers will fund the wage increases, especially where the costs cannot be passed on to customers. This is particularly an issue in the care sector.

One respondent in our research was understandably worried that the NLW “comes on the back of an increase in minimum wage in October 2015... then I'm sure there will be another rise in October 2016 and if that is not enough we also then fall into the Workplace Pensions in November 2016!! We are working hard to maintain employment but finding it already difficult to make a profit. These changes will only make matters worse.”

The Office for Budget Responsibility was quick to report that 60,000 jobs could be lost this year alone as a direct result of the NLW, especially considering that a penalty of 200% is to be introduced for non-compliance.

Other problems highlighted by participants in our research included:

*“Getting price increases is very difficult and we are actively considering the sale of the business.”*

*“Margin and profits will be affected.”*

*“We will be reviewing our contracts with third party suppliers to ensure we get the best deal.”*

## NLW and age discrimination

Paying people of different ages varying amounts to undertake the same role, on the face of it would represent direct age discrimination. However, the pay bands in the National Minimum Wage (NMW) legislation have a special exemption.

Staff under the age of 25 should be taken into consideration; it may be particularly demotivating to them if they see their older colleagues performing the same job at a higher wage rate.

Concerns have also been raised over organisations starting to favour recruiting people under the age of 25, particularly in low ranking operative jobs (nearly 20% of respondents in our research said that they were considering using younger workers and apprentices). Employment practices like this could have a negative impact on an organisations reputation, and expose businesses to the risk of a discrimination claim.

## Penalties for non-compliance

Tough new measures have been put in to place to ensure compliance with the National Minimum Wage and National Living Wage which includes increasing the penalty for underpayment from 100% of the underpayment up to 200%.

## Ideas for coping with the rise

Croner has put together some practical ideas for businesses to cope with the NLW:

- Review the overall pay and grading structure to ensure that relative pay remains fair and differences can be justified.
- Discontinue genuinely discretionary additional payments and putting savings towards pay increases.
- Discontinue elements of remuneration that don't count towards the NMW and redirect savings towards elements that do count such as reducing pension contributions currently over the legal minimum.
- If your pay reference is less than monthly and pay includes incentive pay or bonuses, change the pay reference period to monthly to allow smoothing out of contribution of additional payments to the calculated hourly rate.
- Introduce performance management or bonus schemes to increase productivity.
- Focus on managing poor performance using PIPs and formal disciplinary action.
- Look to achieve savings in other areas, such as investment in equipment or technology.
- Work with Unions, staff forums etc., present it as a shared problem to be solved and try to find solutions that everyone can buy into.
- Review and revise your current benefits packages

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## How Croner can help

Croner has been advising businesses and professionals on HR, pay, reward and benefits for over 70 years; offering a range of solutions from research and benchmarking, to information, advice and consultancy. We can offer practical and cost-effective solutions to help you manage the new National Living Wage regulations, including:

- **Balancing cost control:** against the need to retain and attract the best staff
- **Recommending strategies:** to introduce affordable, sustainable change
- **Reviewing your benefits packages:** to add value over the pay bill
- **Providing salary benchmark information:** to keep pay in line with the marketplace

Not only do we have the knowledge to provide guidance wherever it is needed, we can also offer external objectivity to leave emotions out of an already tricky equation. With financial penalties to consider, it is important to be doubly sure that the correct rates are being paid to the right staff, which is where our 70 years' experience can prove invaluable.

Croner is the UK's leading provider of workplace advice, information and software, serving HR, health & safety and business professionals for over 70 years. We work with companies of all sizes and offer a range of flexible services that can be tailored to suit your needs, budget and business goals.

**For more information visit  
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