

Resolution Foundation

BRIEFING

Paved with gold?

*Low pay and the National Living Wage in
Britain's cities*

Adam Corlett

January 2016



This work contains statistical data from ONS which is Crown Copyright. The use of the ONS statistical data in this work does not imply the endorsement of the ONS in relation to the interpretation or analysis of the statistical data. This work uses research datasets which may not exactly reproduce National Statistics aggregates.

Summary

The National Living Wage (NLW) will come into effect in April and is set to rise considerably over the rest of the parliament. This will mean a welcome pay rise for six million employees, but as an ambitious labour market policy it will present challenges. This short briefing focuses on the impact of the NLW in 11 large city regions. Together these sub-regional labour markets include nearly half of Britain's jobs and there is an ongoing devolution of economic powers from central government to city leaders, including directly elected mayors. They therefore have an increasingly crucial role to play in ensuring the NLW is as successful as possible.

The prevalence of low pay varies significantly between cities. The proportion of employees on low hourly pay relative to the national median ranges from 12 per cent in London – with Glasgow and Bristol also faring well – to 25 per cent in the Sheffield, Birmingham and Nottingham city regions. Similar patterns hold when we look at the numbers of workers paid less than the voluntary Living Wage or the proportion on only the minimum wage. The benefits and challenges arising from the NLW will therefore not be felt equally across the country.

The benefits will be significant. Even in the smallest of the city regions considered – Nottingham – 60,000 employees aged 25 or over are set to be lifted up to at least the NLW by 2020, and similar numbers again would already be above the NLW but are nonetheless expected to receive a boost as pay scales are adjusted to reflect the new wage floor. Workers in Sheffield are most likely to receive a pay rise as a result of the NLW, with 28 per cent of employees expected to gain in total. This is twice the proportion in London (14 per cent).

Because the benefits for workers will vary between cities, naturally so will the challenge of adapting to the NLW. In London, the total wage bill would (all else equal, and excluding non-wage costs) rise by 0.3 per cent, compared to 0.8 per cent in Birmingham and several other city regions. We can also consider how high the NLW will be relative to typical wages in each city region, as a measure of its local importance. In London, even by 2020 the legal wage floor will be only 47 per cent of the median – lower than the existing 'bite' of the minimum wage in other cities – compared to 71 per cent in the Sheffield and Nottingham city regions.

There are many ways employers across the country can react to these pressures, and helping guide these outcomes is a key early test for empowered city regions. We focus on a few broad steps:

- » First, further raising awareness, both of the upcoming introduction of the NLW and of the need to plan for the upward trajectory of the wage floor in coming years.
- » Second, the biggest determinant of success will be the ability of cities to raise their productivity, particularly of low-paying jobs. In part this will require sectoral approaches, and we present data on the differing industrial mixes of the biggest city regions.
- » Third, it's crucial that there is feedback from the city region level to national government and the Low Pay Commission to help set the levels of the NLW and National Minimum Wage, and to identify both best practice and obstacles to success.
- » Finally, the rising NLW increases the urgency of opening up pathways for people to progress beyond the legal minimum. Encouraging the higher, voluntary Living Wage where appropriate is one of the approaches that local leaders must pursue.

City regions and why they matter

In this briefing we look primarily at eleven city regions: the biggest city in each of England, Scotland and Wales together with the eight 'Core Cities' in England. Using the largest cities in these city regions as shorthand, they are, in order of size:

1. London
2. Birmingham
3. Manchester
4. Leeds
5. Glasgow
6. Newcastle
7. Cardiff
8. Liverpool
9. Bristol
10. Sheffield
11. Nottingham

The governance arrangements of many of these cities are in flux at the moment, with a concerted push by central government to devolve powers often in conjunction with governance reform. This means that, although many city regions have well-established boundaries, others are still under debate and are likely to change in future. More detail is provided in the Annex.

Together these eleven city regions account for near half (44 per cent) of all jobs in Great Britain.^[1] And the devolution of powers makes it all the more important that we understand the challenges that their leaders and deals with Westminster must address. With their extra powers these cities may also be test-beds for new policy, as well as sources of new ideas and industries.

At least five of these city regions – Manchester, Liverpool, Newcastle, Leeds and (in some form) Sheffield – are expected to directly elect a regional mayor for the first time in May 2017.^[2] London will of course have its next mayoral election in May 2016. One of the priorities for these mayors – as well as other leaders – must be to develop a low pay agenda, including helping their areas react to the National Living Wage. But the scale and form of the challenges in each city will certainly not be identical.

Where is low pay concentrated?

The UK is internationally a poor performer in terms of pay inequality.^[3] Using our key definition of low pay as being **below two thirds of median hourly pay**, 21 per cent of employees are low paid – a figure that has changed little in two decades. But there are significant differences across the UK.

[1] Detailed data on pay is not publicly available for Northern Ireland and so this is not included.

[2] There will also be a mayoral election in the Tees Valley Combined Authority in 2017, but as a smaller and only recently announced city region this has not been included in this report.

[3] A Corlett & L Gardiner, [Low Pay Britain 2015](#), Resolution Foundation, October 2015

Table 1 shows the proportion and absolute number of low paid employees in each major city region in 2014 (the latest year for which this data is available). It also shows the figures for two other measures of low pay: those **below the voluntary Living Wage** (or the London Living Wage in the capital) and those below, on, or up to 1 per cent above their age-appropriate **National Minimum Wage** (NMW).

Table 1: Low pay in April 2014

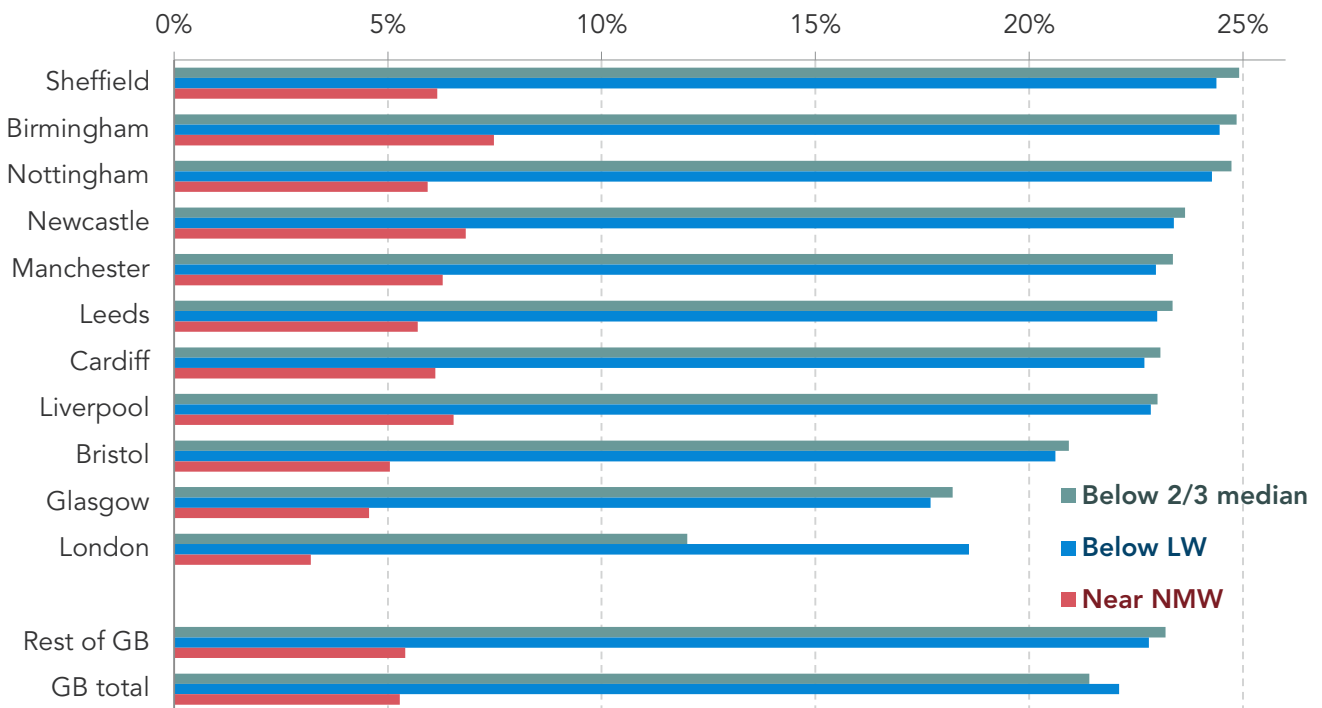
	Below 2/3 median		Below Living Wage		Near or below NMW	
	000s	Proportion	000s	Proportion	000s	Proportion
GB total	5,520	21%	5,700	22%	1,360	5%
Sheffield	130	25%	120	24%	30	6%
Birmingham	290	25%	280	24%	90	7%
Nottingham	110	25%	110	24%	30	6%
Newcastle	180	24%	180	23%	50	7%
Manchester	260	23%	250	23%	70	6%
Leeds	210	23%	210	23%	50	6%
Cardiff	130	23%	130	23%	40	6%
Liverpool	130	23%	130	23%	40	7%
Bristol	110	21%	110	21%	30	5%
Glasgow	150	18%	140	18%	40	5%
London	480	12%	740	19%	130	3%
Rest of GB	3,340	23%	3,280	23%	780	5%

Source: RF analysis of Annual Survey of Hours and Earnings 2014, ONS

Figure 1 shows the same proportions in chart form.

Figure 1: Low pay in April 2014

Prevalence of low pay by city region, based on hourly pay excluding overtime



Source: RF analysis of Annual Survey of Hours and Earnings (ASHE) 2014

In London, only 12 per cent of workers are paid less than two thirds of the *national* median.^[4] This is very different to every other city region, although a smaller prevalence of low pay does not necessarily translate to lower poverty or better living standards – given housing costs – nor to lower inequality within the region. Glasgow and Bristol also have less low pay than other cities. At the other end of the scale are Sheffield, Birmingham and Nottingham city regions where one in four jobs is low paid by this measure.

Looking at the voluntary Living Wage gives a similar picture, particularly as the non-London Living Wage is similar in value to two thirds of the national median. The existence of a separate, higher London Living Wage, however (reflecting its higher cost of living), means that there is more 'low pay' in London than is suggested by other measures. In fact, Glasgow is the city region with the lowest proportion of jobs paid less than the applicable Living Wage. The implications for the voluntary Living Wage are explored later in this note.

There are also significant differences in the proportion of workers paid only the legal minimum in different cities. In London 3 per cent are paid their age-specific NMW but employees in Birmingham, Newcastle and Liverpool are twice as likely to be – with 7 per cent paid the NMW. These differences are particularly important given the introduction of the National Living Wage (essentially a higher minimum wage) which will therefore have a greater impact in some cities than in others.

[4] If we were to look at inequality *within* cities by using regional medians the results would be very different. See *Low Pay Britain 2015*, *ibid.*, p. 33

Where will the National Living Wage bite hardest?

The NLW will be the legal hourly minimum for those aged 25 and over from April 2016. It is being introduced at a rate of £7.20, roughly equal to 55 per cent of the typical pay of those aged 25 or over nationwide. The intention is for this to increase to 60 per cent by 2020, meaning significant rises are likely across the rest of this parliament.

Given the current distribution of low pay and minimum wage receipt around the country, the impact of the NLW will naturally also vary significantly across the country. Using the latest pay microdata from 2014 and modelling the impact of the NLW, Table 2 shows the proportions of workers who should receive a pay rise in each city region as a result. This includes those 'directly' affected – those below the NLW (excluding the youngest and apprentices) who will necessarily see a pay rise – and many of those earning a little above the NLW who will also see a boost as employers seek to maintain pay differentials.

Table 2: Employees benefiting from the National Living Wage by 2016 and 2020

	2016				2020			
	Share of employees affected	Share of employees directly affected	Total affected (000s)	Directly affected (000s)	Share of employees affected	Share of employees directly affected	Total affected (000s)	Directly affected (000s)
GB total	18%	7%	4,510	1,880	23%	12%	6,000	3,200
Sheffield	22%	9%	110	50	28%	15%	140	80
Nottingham	20%	9%	90	40	27%	14%	120	60
Birmingham	21%	9%	240	110	26%	15%	310	170
Leeds	20%	8%	180	80	26%	14%	240	130
Cardiff	19%	9%	110	50	25%	14%	150	80
Liverpool	19%	8%	110	50	25%	14%	140	80
Newcastle	19%	9%	140	60	24%	14%	190	110
Manchester	19%	8%	200	90	24%	14%	270	150
Bristol	18%	8%	100	40	23%	12%	130	70
Glasgow	15%	7%	120	50	21%	10%	170	80
London	11%	4%	420	170	14%	7%	570	280

Source: RF analysis of ASHE

We find, for example, that employees in Sheffield (where 28 per cent are expected to gain by 2020) are twice as likely to receive a pay rise as a result of the NLW than those in London (with 14 per cent). Outside London the differences between cities are smaller, but Glasgow and Bristol will record lower impacts than most.

In absolute numbers, the largest numbers of beneficiaries are of course in the largest city regions – London, Birmingham, Manchester and Leeds – together accounting for almost one in four of the six million beneficiaries across the country.

With average gains nationwide of around £750 per beneficiary (or £1,200 for those directly affected)^[5] – before considering taxes or benefits – in most of these city regions additional sums of over £100 million will be flowing to lower paid workers due to the NLW. But of course with these gains for employees comes challenges for employers and localities.

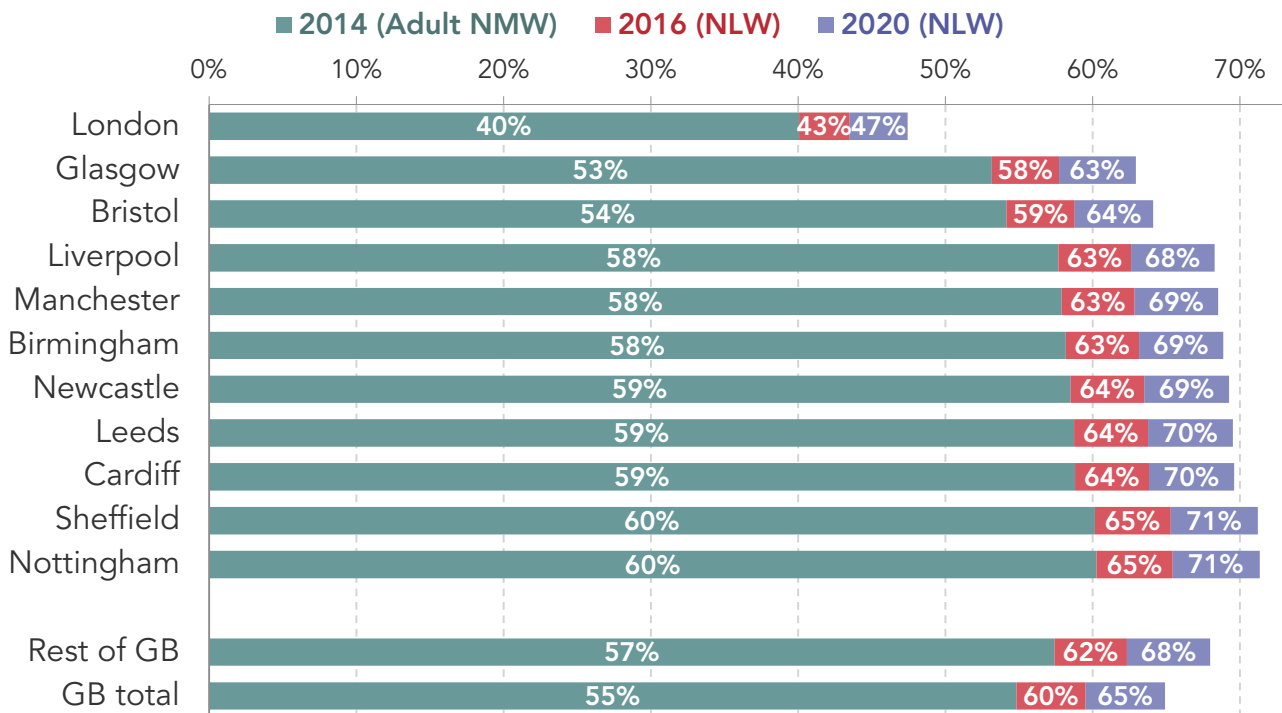
One key measure of the likely impact and challenge represented by the NLW in different places is its level relative to typical local pay. Nationally, if we compare the level of the NLW to the median of all employees – including the under 25s this time – then the 'bite' in 2020 is expected to be around 65 per cent (a considerable increase on the current 55 per cent). But Figure 2 shows the forecast bite of the NLW in each city region in 2016 and 2020, as well as the bite of the National Minimum Wage in 2014.

[5] C D'Arcy, A Corlett & L Gardiner, [Higher ground: who gains from the National Living Wage?](#), Resolution Foundation, September 2015

In London we estimate the NLW will be 47 per cent of median pay by 2020, up from 40 per cent in 2014. This is a lower bite in 2020 than any city region has in 2014. Glasgow and Bristol also have below-average bites. Our eight other city regions, however, are expected to have bites of around 70 per cent, up from around 60 per cent in 2014. It is also notable that the increase in bite between 2016 and 2020 is roughly just as large as that from 2014 to 2016, emphasising that April 2016 will not be the end of the story for adaptation to the NLW.

Figure 2: Bite of wage floor by city region

Wage floor as a proportion of median hourly pay



Source: RF analysis of ASHE

i What about smaller cities? Table 3: Proportion of workers affected by the National Living Wage in selected

cities outside the largest city regions

Table 3 looks at local authorities that have city status but which are not part of the city regions used in this briefing. Looking at this larger list of smaller cities introduces an even greater range in NLW impacts. For example, in Norwich one in three employees are expected to get a pay rise as a result of the NLW. In Oxford that figure is only one in eight.

Table 3: Proportion of workers affected by the National Living Wage in selected cities outside the largest city regions

	2016		2020	
	Share of employees directly affected	Share of employees affected	Share of employees directly affected	Share of employees affected
Norwich	10%	25%	19%	32%
Swansea	12%	23%	18%	31%
City of Kingston upon Hull	10%	23%	18%	31%
St Albans	9%	21%	14%	29%
Chelmsford	7%	17%	12%	27%
Lancaster	11%	20%	16%	27%
Canterbury	6%	20%	13%	26%
Leicester	10%	21%	15%	25%
Preston	7%	16%	13%	24%
Stoke-on-Trent	6%	18%	12%	22%
Peterborough	9%	17%	12%	22%
York	7%	18%	12%	21%
Plymouth	6%	15%	11%	21%
Portsmouth	6%	16%	12%	20%
Brighton and Hove	5%	14%	8%	18%
Dundee City	4%	12%	8%	18%
City of Edinburgh	4%	12%	7%	17%
Derby	7%	14%	11%	16%
Aberdeen City	4%	12%	7%	16%
Cambridge	3%	11%	7%	15%
Southampton	4%	11%	7%	15%
Oxford	2%	10%	5%	13%

Source: RF analysis of ASHE

Implications for the implementation of the National Living Wage

The National Living Wage raises challenges...

Of course, higher gross earnings for large numbers of low paid employees must come from somewhere. And in aggregate it is an appreciable amount of money. In Birmingham, Sheffield, Nottingham and Cardiff, total wage bills might increase by around 0.8 per cent, if all else were equal, while in Bristol and London the figures are 0.5 and 0.3 per cent respectively.^[6]

Traditionally, the concern has been that a higher wage floor would cost jobs (or hours). However, the experience of the National Minimum Wage provides considerable grounds for optimism. The Office for Budget Responsibility suggests a limited reduction in aggregate employment.^[7] But this is extremely uncertain and ongoing caution and scrutiny are needed, particularly in lower paying sectors and cities.

The ways in which employers might absorb the cost of the higher wage floor might be loosely divided into two groups. First, there are distributional changes that spread the burden: pay restraint elsewhere, reduced profits, higher prices, or reduced non-wage compensation. But, second and more optimistically, to some extent the NLW will also push employers (either individually or in aggregate) to cut down on waste, invest in training and invest in technology to boost output. All these different options have very different outcomes for low income workers, and local policy makers should therefore have a keen interest in these choices, although their role will naturally be focused on productivity.

[6] This excludes the effect on employer tax bills or pension contributions, and should be considered a useful comparator between cities rather than a precise absolute impact.

[7] OBR, [Economic and fiscal outlook - July 2015](#)

It seems very likely that the NLW will further increase the proportion of workers who are paid only the legal minimum. This has risen from around 2 per cent in the early years of the NMW to 5 per cent in 2014, and we forecast a rise to 12 per cent by 2020 due to the NLW.^[8] In the private sector, over one in seven employees are expected to be paid only the legal minimum by 2020. In some parts of the country this proportion will inevitably be even higher. This compression of the wage distribution, while an aspect of reducing inequality, does risk undermining career ladders and progression incentives. These reasons only add to the need for cities to ensure that as many people as possible are paid appreciably more than the legal minimum and do not become stuck on low pay.

And increases the need for strong national and local productivity agendas...

The implementation of the NLW is therefore a key test of economic leaders in city regions and of recent and proposed devolution packages. This test cannot wait for the introduction of some directly elected mayors in 2017 – although that will presumably add some impetus – and councillors, mayors, Local Enterprise Partnerships and many others all have important roles to play.

For one, local government can support national government in pushing awareness of April's NLW, its future path, and clarifying other likely sources of confusion (such as its age range and relationship to the voluntary Living Wage). Enforcing legal compliance will also grow further in importance given the increasing number of workers on the wage floor, and its increased value.

City regions are also ideal forums for learning from businesses and workers and feeding back to the Low Pay Commission and national government on the pace of NLW increases, the largest roadblocks and the most significant supporting moves that Whitehall could make.

Many obstacles will be general in nature. Improving education at all stages of life for (potential) low earners is of course a longstanding need and easier said than done, but even more important against the backdrop of the NLW. The same applies to fostering innovation, technology and infrastructure. But while national efforts to boost aggregate productivity remain crucial and should produce benefits across the economy, there is also a need to follow and consider the specific needs of low paying sectors and develop specific strategies for reducing the prevalence of low pay. In some the requirements are clear enough, such as the need to ensure the largely publicly-funded social care sector is sufficiently resourced to absorb the costs of the NLW.^[9] We will return to such agendas in future Resolution Foundation publications.

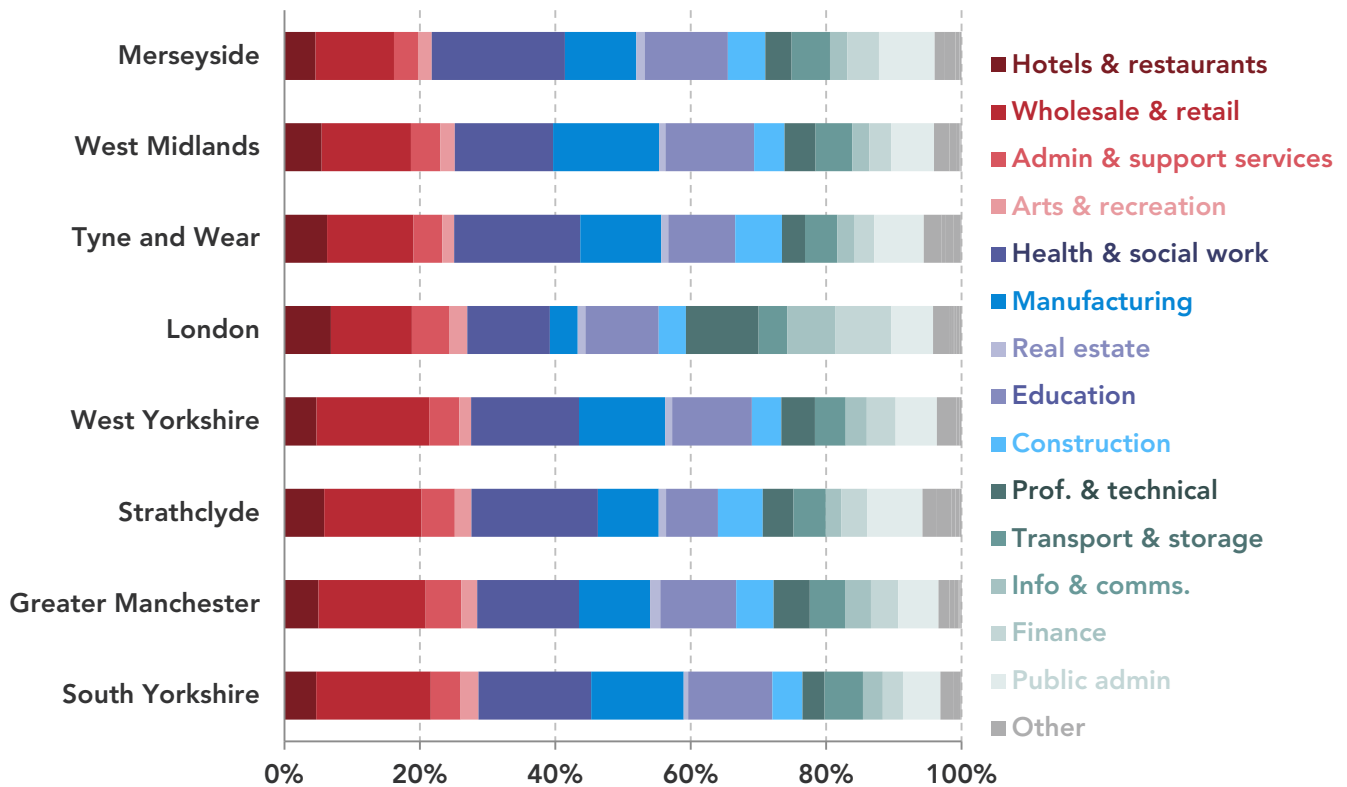
But the relative importance of different industries will of course differ from city to city. Figure 3 shows the industrial mix of certain regions broadly equivalent to the city regions used elsewhere but excluding the Nottingham, Bristol and Cardiff city regions. Industries are ordered from the lowest paying sectors on the left (such as hospitality and retail) – using the proportion of workers who are low paid – to the highest paying on the right (ending with finance and public administration).^[10]

[8] *Low Pay Britain 2015*, op. cit.

[9] L Gardiner, [Care to pay? Meeting the challenge of paying the National Living Wage in social care](#), Resolution Foundation, November 2015

[10] *Low Pay Britain 2015*, op. cit.

Figure 3: Industrial composition of selected regional employee workforces



Source: RF analysis of Labour Force Survey, 2014-15

Liverpool (Merseyside) for example, has the lowest proportion of employees working in low paying sectors but a large proportion in health and social work. London – which stands out as a distinct outlier – has fewer workers in health or manufacturing and more in high paying sectors. Sheffield, as well as having fewer workers in high paying sectors, has the largest proportion of employees in wholesale and retail, which helps explain its higher prevalence of low pay and the challenges the NLW will pose there.

As well as strengthening the case for the voluntary Living Wage

The voluntary Living Wage is one key tool that can be used to reduce low pay while accommodating those industries or businesses that can't afford it and – in the case of London – reflecting regional differences. It stands at £9.40 in London and £8.25 outside, compared to the coming £7.20 National Living Wage.

In the highest paying parts of the country, the case for going beyond the legal minimum is particularly strong and would help to reduce inequality within these cities. As shown earlier in Figure 2, the 'bite' of the NLW relative to median pay will be 63-65 per cent in most of our city regions in 2016, but only 43 per cent in London. The London Living Wage by comparison has a bite of 57 per cent. In Oxford and Cambridge the bite of the (non-London) Living Wage will be only 53-54 per cent in 2016. In these cities therefore, the effect of the voluntary Living Wage might be compared to that which the National Minimum Wage has *already* had in other, lower-paying cities.

But the Living Wage is not only for the highest paying cities, and in every part of the country there are sectors and businesses that can well afford to pay the Living Wage but aren't. Encouraging those employers is one of the many things city leaders can do to reduce the prevalence of low pay and ensure the NLW is not a wage ceiling as well as a wage floor.



Ensuring that the benefits of growth are spread across the workforce and across the country is as important a challenge as ever. Future work will look further at the problems and opportunities facing different city regions, at strategies for boosting low pay and low productivity and at the implementation by businesses of the NLW.

Annex

This briefing has looked at 11 city regions. The choice of these regions, as well as of their names and boundaries, is inevitably somewhat controversial. In this note we have used the 10 cities of the Core Cities Group, along with London.^[11]

In many cases there are well established boundaries for these city regions, increasingly as part of devolution deals and city region mayors. However, in some places these are new structures and a definitive agreement has not yet been reached. There is at present particular uncertainty around the geographical form that will be taken by a new Leeds City Region deal, a Nottinghamshire/ Derbyshire deal, and the relationship between South Yorkshire and the wider grouping of the Sheffield City Region.^[12] In these cases we have used divisions previously used by the ONS.^[13]

Table 4 sets out precisely which local authorities we have grouped to create city regions in the ASHE data, together with the total number of jobs in each area.

Table 4: City regions used in this report

Shorthand	Proper name	Local authority areas	# of jobs (000s)
London	Greater London	32 London boroughs and the City of London	3,980
Birmingham	West Midlands C.A.	Birmingham, Coventry, Dudley, Sandwell, Solihull, Walsall, Wolverhampton	1,160
Manchester	Greater Manchester	Bolton, Bury, Manchester, Oldham, Rochdale, Salford, Stockport, Tameside, Trafford, Wigan	1,110
Leeds	West Yorkshire	Bradford, Calderdale, Kirklees, Leeds, Wakefield	920
Glasgow	Glasgow and Clyde Valley	E Dunbartonshire, E Renfrewshire, Glasgow City, Inverclyde, N Lanarkshire, Renfrewshire, S Lanarkshire, W Dunbartonshire	790
Newcastle	North East C.A.	County Durham, Gateshead, Newcastle Upon Tyne, North Tyneside, Northumberland, South Tyneside, Sunderland	760
Cardiff	Cardiff Capital Region	Blaenau Gwent, Bridgend, Caerphilly, Cardiff, Merthyr Tydfil, Monmouthshire, Newport, Rhondda Cynon Taf, Torfaen, Vale of Glamorgan	580
Liverpool	Liverpool City Region	Halton, Knowsley, Liverpool, St.Helens, Sefton, Wirral	560
Bristol	West of England	Bath and NE Somerset, City of Bristol, North Somerset, South Gloucestershire	540
Sheffield	South Yorkshire	Barnsley, Doncaster, Rotherham, Sheffield	520
Nottingham	t.b.c.	Ashfield, Bassetlaw, Broxtowe, Gedling, Mansfield, Nottingham, Newark and Sherwood, Rushcliffe	450

Notes: C.A. = Combined Authority, not to be confused with the Regions of the same names. Number of jobs from ASHE 2014.

[11] <http://www.corecities.com/>

[12] Bassetlaw, included here in our Nottingham region, appears to have joined the broader Sheffield City Region which in total includes nine local authorities. [Reportedly](#), however, a directly elected mayor will only cover the four local authorities of South Yorkshire.

[13] ONS, [City Regions Article](#), July 2015

Resolution Foundation

Resolution Foundation is an independent research and policy organisation. Our goal is to improve the lives of people with low to middle incomes by delivering change in areas where they are currently disadvantaged. We do this by:

- » *undertaking research and economic analysis to understand the challenges facing people on a low to middle income;*
- » *developing practical and effective policy proposals; and*
- » *engaging with policy makers and stakeholders to influence decision-making and bring about change.*

For more information on this report, contact:

Adam Corlett

Economic Analyst

adam.corlett@resolutionfoundation.org

0203 372 2983