



National Living Wage – Who stands to benefit?

George Osborne surprised many commentators within his recent Summer Budget, with the announcement that from April 2016 employers will have to pay a new “National Living Wage” (“NLW”) to all employees aged 25 and over. The NLW will initially be set at £7.20 per hour, in comparison to the National Minimum Wage, which will be £0.50 less at £6.70 per hour.

The NLW is expected to have a significant impact, with an estimated 2.7m people directly benefiting from the announcement. There will also be a potential “knock on” benefit felt by people further up the earnings ladder.

Whilst for the millions of low paid workers in the UK the Chancellor’s NLW, which is set to reach a proposed level of over £9 per hour by 2020, will represent a welcome boost to household income. Many business leaders, however, are warning of the potential impact the additional costs will have on their business models.

These warnings are particularly prevalent in the following sectors which operate on tight margins and where labour costs represent a significant proportion of the operating cost base:

- Hotels, Bars and Restaurants;
- Health and Care;
- Charities / The Third Sector;
- Cleaning Contractors;
- Farming and Food Processing; and
- Security and Other Outsourcers.

Of course not all businesses will be unable to adapt to the NLW and many will seek to pass on the additional costs to the end user, however at the same time many businesses will be tied into long term supply contracts where there may not be the flexibility to renegotiate prices.

There is a particular concern for businesses which are reliant upon central or local government funding such as the care sector, where in the context of shrinking budgets and pressures to reduce fees, the NLW represents something of a perfect storm. This was emphasised in an open letter from five of the largest care home providers, which states that there is the possibility of a “catastrophic collapse” in the number of care homes within two years unless more money is found.

Consequently, whilst the NLW is welcome news for many of the UK’s low earners, there may well be severe consequences for some employers and they should be considering how the NLW will impact their business model now so that they can adapt to a change which is just around the corner.

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