NHF

Supporting the hair, beauty
and barbering industries

EVIDENCE ON THE NATIONAL MINIMUM WAGE / NATIONAL LIVING WAGE

BACKGROUND INFORMATION

The National Hairdressers' Federation (NHF) is the UK's biggest trade association, representing the owners of over 5000 hair salons, barbershops and beauty salons. The hair and beauty industry generates turnover of more than £7bn per year and across 40,000 salons the sector employs around 270,000 people.

Micro-businesses
NHF members are mostly micro-businesses, often family-owned salons, which are typical of the sector where 69% of businesses employ fewer than 5 people and 93% employ fewer than 10 people.

Self-employment trend
Many salons also rent out chairs (chair renting) to self-employed hairdressers or barbers who work in the owner's salon. There are also self-employed mobile and freelance hairdressers who work from their own homes or travel to a client's home.

This is a growing trend with 48% of people working in hairdressing and barbering and 57% of people working in beauty now being self-employed.

Apprenticeships
Apprenticeships are by far the most usual entry into the hair and beauty industry and hairdressing is always in the top 10 most popular apprenticeships. Using survey data drawn from NHF's member salons in 2016, 30% employ one apprentice, and a further 17% employ two. So, although the number of apprentices per business is small, taken as a whole, the sector is a major provider of apprenticeships, especially for young people aged 16 to 18.

Due to the lack of large employers in the sector, the Apprenticeship levy is an issue for only a tiny minority of businesses. However, for the first time, small employers will be contributing 10% towards the cost of training and assessing apprentices on top of the wages they pay.

Demographics
The industry's workforce is predominantly female (88%). Over half of the people working in hair and beauty are aged 16 to 34, and 25% are in the 16-24 age group. Consequently, the sector makes full use of all the age-related bands of the National Minimum Wage, as well as the apprenticeship rates.

Survey data
The data informing our response to the Low Pay Commission's consultation is drawn from responses from 271 NHF members to a survey carried out during June 2017. The survey included some of the standard questions suggested by the Low Pay Commission.

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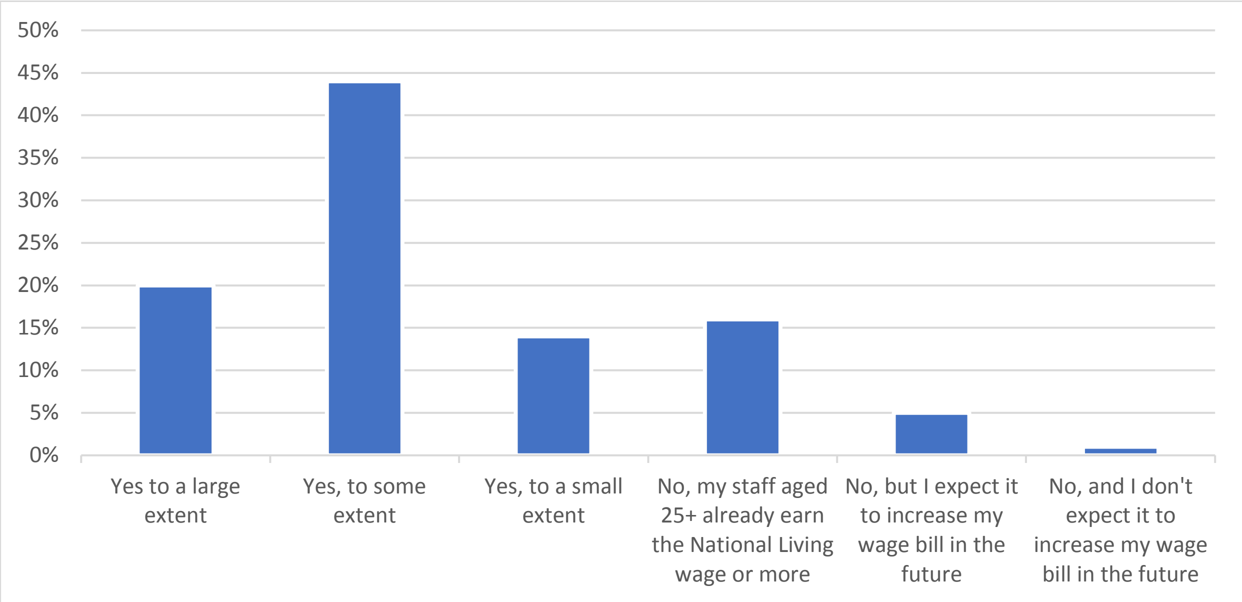
EXECUTIVE SUMMARY

- 78% of employers say their wage bill has been increased by the National Living Wage.
- At present, most are taking lower profits and absorbing costs, and many have raised prices. After that, they have reduced hours worked by staff, reduced the number of staff by recruiting fewer workers, and cut back on investment plans.
- If the rate goes up to around £7.75 per hour, they will raise prices, reduce hours worked by employees, take lower profits and absorb the cost, cut back on investment plans or reduce the number of staff by recruiting fewer workers.
- Trading conditions are worse in 2017 than they were in 2015 or 2016, with fewer businesses reporting increased turnover and more reporting decreased turnover.
- Raising prices is a risky strategy in a tough trading climate, with the potential loss of clients as they seek cheaper prices elsewhere
- Recruitment is difficult, both for apprentices and qualified, experienced staff, especially in more rural locations
- Competition is increasing, with growing numbers of directly competing businesses on the high street. This is contributing to recruitment problems.
- Self-employment is common within the industry, accounting for half of all workers. Some salon owners are choosing to have self-employed people working in their salons because of the cost savings (pensions, National Insurance, maternity/paternity pay, holiday pay etc). The current tax system, especially VAT, and the financial savings available to business owners choosing this option gives rise to the potential for 'bogus' self-employment where workers are treated like employees but with none of the benefits, including minimum wages.
- As an industry where a quarter of all workers are aged 16-24, the hair and beauty industry commonly use all the age-related bands and would not want to see any bands being merged.
- Pay differentials continue to be a problem, with rises in the minimum wage effectively giving rises to all employees to maintain differentials.
- Employers are deeply concerned and the size and the speed of increases, especially in an uncertain economic climate.
- Other costs are rising – pensions auto-enrolment, business rates in many areas, new employer contributions towards the cost of training apprentices
- Compliance is not as straight-forward as it seems at first glance, with grey areas when it comes to applying the right rates. The NHF would like to see more enforcement directed at those business which blatantly disregard the law, not just regarding minimum wages, rather than those employers making small mistakes.

In view of the trading conditions and the impact on employment, the NHF calls for increases to minimum wages to be in line with inflation, which is also rising.

IMPACT OF NATIONAL LIVING WAGE



78% of respondents said that their wage bill had been increased by the National Living Wage, with most (44%) reporting that it had increased to some extent.

Those who had reported an increase were asked how they had managed the additional wage costs. They were allowed to tick all the measures they had taken, so the 193 respondents to this question identified the following as the most frequently cited:

Measures taken	Number of times cited
Taken lower profits and absorbed the cost	112
Raised prices	77
Reduced hours worked by staff	58
Reduced number of employees by recruiting less workers	56
Reduced plans for investing in or expanding the business	56
Cut back on training	36
Reduced bonuses or commissions	21
Increased staff workloads	20
Recruited more workers aged 24 or under (excluding apprentices)	10
Recruited more apprentices	9
Taken on more chair renters	7
Reduced the number of employees through redundancies	5

The most frequent choices were taking lower profits and absorbing the costs and raising prices.

All survey participants were asked what they would do if the National Living Wage increase to around £7.85 per hour in April 2018. The most frequent responses were:

Raise prices	131
Reduce hours worked by staff	75
Take lower profits and absorb the cost	74
Reduce plans for investing in or expanding the business	70
Reduced number of employees by recruiting less workers	65
Cut back on training	43
Reduce bonuses or commissions	43
Increase staff workloads	37
Recruited more workers aged 24 or under (excluding apprentices)	26
Take on more chair renters	22
It won't affect my business	19
Recruit more apprentices	15
Reduce the number of employees through redundancies	15

ECONOMIC OUTLOOK, WAGE GROWTH AND BUSINESS CONDITIONS

Trading conditions increasingly difficult

It is clear that salons are not doing as well in 2017 as they were in previous years, with a drop of 9% in the number of salons reporting increased turnover, and a 5% increase in the number saying they had seen their turnover go down.

Turnover	2015	2016	2017
Gone up	43%	37%	28%
Stayed the same	32%	37%	42%
Gone down	24%	25%	30%

There were more respondents in some regions than others, with 27% of all respondents coming from the South East alone. The salons reporting decreased turnover were spread across all regions of the country, including the South East, but a disproportionate number of those reporting a decrease in turnover were based in the West Midlands, the South West, Scotland and the North West.

Unlike previous years, the salons reporting declining turnover were spread across all turnover bands, with one third of salons with turnover of £100k-£250k reporting a decrease. In the past, it has been those salons under the VAT threshold which have been more likely to report a decrease. This year only 26% of these smallest salons reported decreased turnover.

Consumer confidence

Brexit does not appear to have had a direct impact on trading conditions. As a sector hairdressing, barbering and beauty are not importers/exporters and are not major employers of migrant workers. Larger salons in London and the South East report recruitment difficulties which they attribute to fewer workers being available due to Brexit, but this is not an issue for the majority of salons.

However, any downturn in consumer confidence and consequent cutbacks in spending will have a major impact on salons and barbershops. This is especially important in a climate where one of the few realistic options to cope with increased wage costs and other rising costs is to raise prices. Many businesses expressed concern about the current climate and the negative impact of raising prices:

> *Customers see price increases as the salon profiteering and are not aware of the overhead increases that we are absorbing.*
>
> *How do we get clients who are paying very low prices for services realise those low prices are keeping wages low, in some cases illegally low?*
>
> *The more the minimum wage is increased, the more prices go up. The cost of living is lower in the south west but the NLW is the same as in London but our prices cannot be the same as in London. And if consumers resist price increases then how do we make a profit at all?*
>
> *We have an annual price increase, but there is a customer ceiling for this.*

Recruitment increasingly difficult

a) Apprentices

70% of respondents pay their apprentices at the NMW. 27% pay above the NMW and 3% pay significantly above the NMW, a total of 30% paying above the NMW which is more than last year (25%).

This may be in response to increasing difficulties in recruiting apprentices, with many employers reporting that they are finding recruitment difficult (39%) or very difficult (33%).

While the minimum duration for any apprenticeship is one year, typically it takes 18 months to 2 years to train a hairdressing or barbering apprentice to a salon-ready standard. An older recruit (aged 19 or over) will only receive the apprenticeship rate for the first year of their apprenticeship programme, and then will go onto the appropriate age-related rate for the second year of their training. However, until they are trained and qualified (an insurance condition), they do not make a direct financial contribution to the salon.

Most employers are therefore reluctant to recruit older apprentices because after the first year of their apprenticeship, it is uneconomical to employ them on the higher age-related or adult rates while they are not generating income for the business.

> *I can't employ an older woman who wants to train because she will be too expensive at over 25.*

The NHF has consistently called for the apprenticeship rate to be the same, regardless of age. The change in pay rates for apprentices aged 19+ in the second year of their training is also a major reason why employers pay their apprentices at the wrong rate.

b) Qualified and experienced staff
Employers are finding it even harder to recruit qualified and experienced staff in their area than it is to recruit apprentices. 43% say it is very difficult and 39% say it is difficult, especially those businesses in more rural locations:

> *We are in a village location, people want to be in a town. I train staff, they move to towns.*
>
> *The bright lights of Leeds beckon the young and working in a small town isn't as appealing.*

This could well be connected to increasing competition. Research from the Local Data Company shows that barbers, beauty salons, nail bars and hair and beauty salons are in the top 10 categories where net openings are higher than closings. As well as growing numbers of high street competitors threatening business survival, this is also impacting on recruitment:

> *It's difficult to find excellent hairdressers as there is so much competition from other salons looking for the same quality*
>
> *A lot more competition, many more salons have opened since we started over 30 years ago*

As well as record rates of employment, inflation is also growing faster than increases in wages, putting further pressure on employers to pay more to recruit and retain staff.

c) Self-employment
One consequence of rising employment costs and recruitment difficulties is the continuing trend toward self-employment. The growth of the 'gig economy' and the *Review of Modern Working Practices* has put this issue under the spotlight.

The NHF conducted a survey in May 2017 which attracted over 500 responses. Key findings were:

- The majority of self-employed workers are happy with this model, although they are concerned about loss of sick pay and pensions, but 14% felt there were treated like employees but with none of the benefits.

- Most self-employed people working in salons chose to do so as they believed they could earn more than if they were employed. Some salons owners responded to this by switching to self-employed contracts because they would lose qualified and experienced staff if they did not.

- Salon owners who had self-employed people working in their salons chose this model because it gives them significant savings in pensions, national insurance, maternity/paternity pay, sick pay so there is a real financial incentive. The NHF believes that the financial incentives encourage 'bogus' self-employment amongst unscrupulous employers.

Self-employed people are not affected by minimum wages. However, the salons that employ their staff are at a major disadvantage not only carrying the costs of employing people but also the risks of being found non-compliant leading to fines and 'naming and shaming'.

The current tax system also builds in inequalities as self-employed people will be under the VAT threshold, whereas a salon will be paying 20% tax on all their takings. This means that prices charged by salons with employees are likely to be higher, leading to unfair competition.

The NHF has long called for the inequalities in VAT to be addressed by setting a lower VAT rate but it would apply to everyone, regardless of turnover:

> *I think every business and self-employed person should pay VAT*
>
> *Everyone paying VAT at 5%-7% on all turnover up to £100,000 would be a leveller.*
>
> *The system has to be fair. We pay all our taxes, including VAT, then the employment costs, pension, NIC but self-employed people charge and declare what they like, avoid VAT and taxes and we just can't compete with them.*

One respondent neatly summarised the situation faced by employers in the sector:

> *We want to pay our staff enough to live and we want to pay them what they're worth for a job that they have trained for. Also, we don't want to lose staff to become self-employed and, actually we want our staff to work in an industry that they're happy to work in. So, we always pay our staff more than the minimum wage with commission on top of that. However, we're finding it increasingly difficult to keep the balance between paying staff, retaining clients, keeping costs down, keeping our prices at a price which doesn't price ourselves out of the local market (due to lower prices charged by self-employed stylists) and running a financially sound business.*

FUTURE RATES

a) Age-related bands

As noted above, a quarter of all workers in the hairdressing, barbering and beauty industries are aged 16-24. As a result, all the age-related bands are fully used by employers, including the 21-24 year old rate.

We would not want to see this rate merged with another age-related band, especially if people in this age-related band were then to be paid at the National Living Wage rate for 25 year olds and over.

b) Pay differentials

Because of the wide use of pay bands, pay differentials continue to be a problem:

Apprentices earning minimum wage and not bringing in money is difficult and then the junior stylists want more than minimum wage because they are qualified, then the stylists and senior stylists demand more too. It has a knock-on effect.

When the minimum wage went up by 30p an hour, all staff on a higher rate (£10.50) also expected the same rise.

The NMW has resulted in wage increases for ALL staff in order to keep the differential between the longstanding employees who are the busiest, and the new ones.

c) Impact of future increases

Salon owners are enormously concerned about the impact of Labour's policy of raising the National Living Wage for 18 year olds and over (or even 16 year olds) to £10.

Our research into the impact of the National Living Wage suggests that any cutbacks as a result affect junior staff rather than apprentices or older, more experienced workers.

The only way to maintain profit if there is another hike in NMW is to raise prices again or cut our junior staff hours. Clients won't put up with more price increases so it's the young staff that suffer.

If rates for all workers increase to the same rate, employers in hair and beauty will switch to recruiting older, more mature and experienced workers because they are much easier to manage than 16-18 year olds, even though there are incentives for apprentices in this age group. If the rates increase to £10 for apprentices as well, then employers in hair and beauty will simply stop taking on school leavers as apprentices.

d) Speed and scale of rate rises

While employers understand the need to pay staff fairly, they are deeply concerned not only by the size of the rises to NMW and NLW but also the speed and frequency of the rises:

It should be no more than inflation, how else can small businesses cope?

Although at present we are coping with the current rates, my concern is the constant rise year on year will eventually create a problem for us.

I agree everyone needs to be paid a fair wage but if they increase it too quickly a lot of small businesses will not be able to cope.

In an increasingly uncertain economic climate, the NHF calls for rises to minimum wages to be kept in line with inflation, which is also on the rise.

e) Other rising costs

It is important not to look at the National Living Wage and National Minimum Wage in isolation, as there are many other pressures on employers at present. These include pensions auto-enrolment, rising business rates, new compulsory employer contributions towards the cost of training and assessing apprentices:

We are a small business and we have had to cover pensions for our staff, followed fairly quickly by a significant increase in our business rates. It is not easy especially when more competitors are entering the marketplace and as our turnover continues to be under pressure so there is only one way to go and that is to reduce hours and/or make people redundant which we are reluctant to do.

COMPLIANCE

At first glance, paying the right rate of National Minimum Wage and the National Living Wage looks straightforward. But as we have seen, even large companies have been featured on recent 'name and shame' lists, which is evidence that it is a complex system that even those with dedicated payroll staff and systems get wrong.

Not only do rates change twice each year - on the date of an employee's birthday and also when the minimum rates change nationally - but apprentices are paid at a different rate depending not only on their age, but how far through their training programme they have progressed. Consequently, there are 6 different bands of minimum wage rates (ie two for apprentices) which can apply.

There are additional issues which apply to apprentices such as what counts as an apprenticeship, when an apprenticeship is completed, what happens when a learner progresses from one rate to another, what should they be paid before they start their programme and so on. There are also other issues such as what counts as working hours for the purposes of NMW, whether deductions can be made for uniforms or equipment and a complicated and not well-understood accommodation offset.

The NHF has updated its guide for employers on the common reasons why they pay the wrong rate of minimum wages. We have also run training sessions on this topic and covered it extensively using all our communication channels. Salons which do not have the benefit of free NHF legal and commercial advice or who do not read the trade press will undoubtedly make mistakes in applying the correct rate.

The NHF would like to see more resources targeted at unscrupulous employers who offer 'bogus' self-employment, those working in the 'cash in hand' black economy and those abusing illegal workers, rather than employers who are trying to do the right thing but make a genuine mistake when paying minimum wages. Many salon business owners feel that they are unfairly targeted for relatively minor infringements, while those that blatantly disregard the law get away with it.

Hilary Hall
Chief Executive, National Hairdressers Federation
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