



# National Minimum Wage

Low Pay Commission Report 2009

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# Chairman's Foreword

Life rarely presents an opportunity to retrace your steps. I was Chairman of the Low Pay Commission for five years – from its foundation in 1997 until 2002 – and I am pleased to be back this year on an interim basis. Paul, now Lord, Myners, from whom I took over, was a committed and effective Chairman who left big shoes to fill when he departed to become Financial Services Secretary.

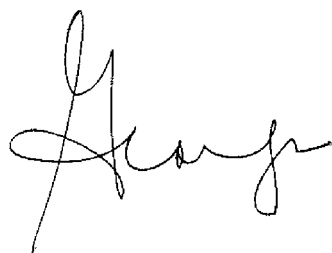
At its inception, the National Minimum Wage had its detractors. Many believed it would bring both unemployment and wage inflation. But a large volume of research has demonstrated that the minimum wage has not had a significant impact on either measure over its first ten years. The reality, as a newspaper headline once proclaimed, has been 'minimum wage, minimum fuss'.

Having helped millions of workers through its first decade, the minimum wage now faces the challenge of its first recession. After ten years of continuous economic growth, in spring 2008 the economy stalled and GDP forecasts for this autumn are now down 5 percentage points on those of last year (from 2.1 per cent to -3.1 per cent). Employment is falling and unemployment is rising. And commentators are suggesting that this recession may turn out to be the most severe since World War II.

Although the economic times have changed, I have returned to find that the Low Pay Commission remains largely unchanged. It retains its strong, evidence-based approach. After ten years of econometric and qualitative research, comprehensive consultation, and data analysis, that evidence base is more detailed and robust than ever before. I strongly believe that this approach makes the Commission the right body to ensure that the minimum wage continues, in these extraordinary times, to provide a wage floor that protects low-paid workers but does not endanger the economy. Indeed, this year we asked to postpone the deadline by which we reported to the Government so that, without risking delay to the implementation of any rate change, we had as clear a picture as possible of the breadth and depth of the recession on which to base our recommendations.

On the basis of that picture, we concluded that we must be cautious. Our recommendations on the rates seek to protect the real earnings of low-paid workers, taking account of inflation forecasts, as well as their jobs, bearing in mind the difficulties faced by employers. After a finely balanced discussion, we unanimously agreed to recommend a modest increase in the National Minimum Wage for 2009 – a recommendation that we believe is economically sound, sustainable across low-paying sectors, and will broadly keep pace with the modest growth in pay settlements and average earnings forecast for the coming year.

Responsibility for next year's programme of evidence gathering and research will fall to my successor, and I wish him well with what I am sure will be a challenging but rewarding tenure. I have certainly found it to be so in both my terms as Chairman of the Low Pay Commission.

A handwritten signature in black ink, appearing to read 'George Bain', written in a cursive style.

George Bain

May 2009

# Executive Summary

## Chapter 1: Introduction

- 1** This year sees the tenth anniversary of the introduction of the National Minimum Wage. During the decade that has passed since 1 April 1999, the UK has experienced record levels of employment and unprecedented consecutive quarters of economic growth. But this anniversary fell during the most turbulent economic times the UK has seen for decades. Growth stalled in the second quarter of 2008 and reversed in the third and fourth quarters, falling by a cumulative 2.2 per cent. This fall in output growth has been reflected in sharp increases in unemployment and a fall in total employment. The decline in economic activity has been much more pronounced than the mild slowdown that had been anticipated by independent forecasters when we held our deliberations for our 2008 Report in January 2008.
- 2** In our remit for this Report, the Government asked us to monitor and evaluate the impact of the minimum wage and to consider its effect on different groups of workers. In addition, we were asked to review the current apprentice exemptions and to advise whether they are still appropriate. We explain how we have set about fulfilling that remit and we describe the different parts of our work programme that have contributed to our conclusions and recommendations. We also look back and comment on ten years of the National Minimum Wage.
- 3** Consultation with employers, workers and their representatives continued to be an essential part of our work. We took written evidence from over 90 organisations and individuals, heard oral evidence over a two-day period and undertook a series of visits throughout the UK. As with previous reports, we commissioned a number of research projects and analysed a wealth of data and information on employment, earnings and the economic situation in the UK.

## Chapter 2: Aggregate Impact of the National Minimum Wage

- 4** Since the introduction of the National Minimum Wage, we have carefully monitored its impact on the economy in general and the labour market in particular. We have continued this work for the 2009 Report. In our 2008 Report, we recommended that the adult rate increase by 3.8 per cent in October 2008, expecting this rise to be just under average earnings growth but far greater than price increases. As it turned out, the minimum wage increased faster than average earnings growth but looks likely to be higher than price inflation averaged over the year. This would imply that the value of the minimum wage would increase in real terms, relative to prices, and that its bite, in relation to earnings, would also increase. Our latest estimates of coverage suggest that around 0.9–1.0 million workers would have been covered by the 2008 minimum wage upratings, similar to the coverage of the slightly lower 2007 upratings but fewer than the 1.1 million covered by the higher 2006 upratings (5.9 per cent).
- 5** The data available to date prevents us from assessing fully the impact of the October 2008 upratings and, although we have noted any effects that have already become evident, our focus has been on the impact of the October 2007 upratings and previous increases in the minimum wage.
- 6** As expected, we found that the bite of the minimum wage relative to average and median earnings following the 3.2 per cent increase in the 2007 upratings, was lower than the bite after the larger 5.9 per cent minimum wage increase in October 2006. But the bite relative to the lowest earnings decile increased.
- 7** We have again found that minimum wage jobs are more likely to be held by women, young workers, those of retirement age, ethnic minorities, those with a disability, and those with no qualifications. They are also more likely than better-paid jobs to be part-time and temporary. Higher incidences of minimum wage jobs are found in small firms, in the private sector, in particular areas of the UK, and in certain industries and occupations.

- 8** Prior to this report, much of the research that we had commissioned or that had been conducted externally had concentrated on the impact of the introduction of the minimum wage and its initial upratings. This time we commissioned a comprehensive research programme that focused on the impact of the large upratings in the minimum wage that were implemented between October 2003 and October 2006. Firms appear to have adapted to these increases in wage costs by changing pay structures, removing wage premia, and reducing non-wage costs. The research found little evidence to suggest that the increases in the minimum wage had led to reductions in employment or hours worked. There was also no evidence that the minimum wage had led to changes in productivity, but some evidence suggests that profits had been squeezed. In all, we conclude that the minimum wage continues to exert a benign influence on the economy.
- 9** Since that research was commissioned and much of our analysis was conducted, though, the economic climate has changed dramatically. The downturn in the labour market only starts to become apparent in the data from the spring of 2008. From this point, employment growth slowed, vacancies fell and redundancies rose steeply, leading to sharp rises in unemployment and, by the autumn, employment and the number of employee jobs had fallen. It is the first time that year-on-year aggregate employment has fallen since the introduction of the minimum wage. These adverse outcomes are observed across the whole economy, with nearly every sector and most groups of workers affected.

## **Chapter 3: Low-paying Sectors and Small Firms**

- 10** In previous years, the minimum wage has had the greatest impact on small firms and those sectors with either a large number or high proportion of jobs paying at or around the National Minimum Wage. We have again assessed the impact the minimum wage has had on these sectors by drawing on a variety of material, including multiple data sources, our commissioned research, other independent research, surveys of the market and employers, and our consultation.
- 11** The ten low-paying industries we have identified accounted for over 8.4 million jobs in December 2008, almost a third of all jobs in the UK. We have reviewed the number of jobs at and below the minimum wage,

employment trends and other measures that might indicate any impact from the minimum wage. We found that overall the proportion of jobs paid at the minimum wage in April 2008 remained at the same level as in April 2007. Some low-paying sectors, however, experienced a rise in the proportion of jobs at the minimum wage (e.g. cleaning, social care) and others a fall (e.g. retail, leisure).

- 12** The low-paying industries have experienced a fall in jobs of a similar proportion to the fall in jobs in the overall UK economy. The majority of the job losses in the low-paying industries, in the period December 2007 to December 2008, occurred in the two largest, retail and hospitality. These industries are sensitive to falling consumer discretionary spending and the decline of the economy into recession. And the fall in jobs is more likely a consequence of the general economic climate than as a result of increases in the minimum wage. Other industries which have experienced job losses are those that have faced a longer-term decline in jobs, influenced by factors that often pre-date the minimum wage, for example manufacturing. Small firms have, so far, only seen a marginal reduction in employment. Some low-paying industries, however, experienced an increase in jobs over the same period. Social care saw the largest rise in the numbers of jobs with other sectors (e.g. security, hairdressing) also experiencing increases. The low-paying occupational-based sector of childcare experienced a rise in employment in the year to the fourth quarter of 2008, while office work experienced a slight fall in employment in the same period.
- 13** Data continue to show that the minimum wage has had a different impact on each of the low-paying sectors, having a greater impact on some than others. Research shows that the lower increase in the National Minimum Wage in October 2007 has allowed for some restoration of wage differentials.
- 14** We continue to be concerned that in those sectors where the Government is a major purchaser, it should ensure that businesses receive payments that properly and fully reflect the cost of providing those goods or services. In line with recommendations we made in previous reports, we have recommended that the commissioning policies of local authorities and the NHS should reflect the actual cost of provision, including the National Minimum Wage, when purchasing care from social care providers in the independent sector.

## Chapter 4: Particular Groups of Workers

- 15** We are concerned with groups of workers that contain a large proportion of workers on low earnings and for whom, therefore, the National Minimum Wage is most likely to have an impact on employment. In addition, we have again reviewed the position of other groups of workers who, by the nature of their work, face issues around the application of the minimum wage that are of particular concern to us, for example voluntary workers and those provided with accommodation.
- 16** From the evidence gathered, we have found that the minimum wage has had a positive effect on the earnings of low-paid groups. For example, the upratings have helped to close the gender pay gap, which has generally reduced since the introduction of the minimum wage. We have also found that the pay gaps for ethnic minority workers and those with work-limiting disabilities have reduced at the lowest deciles. For older workers, we have estimated that those over State Pension age were significantly more likely to be covered by the October 2008 uprating compared with other adults.
- 17** We have drawn mixed conclusions about whether the labour market positions of these low-paid groups have been affected. Women have seen similar employment and unemployment trends to men since 1999, indicating that the introduction of the minimum wage and subsequent upratings have not had a negative impact on their employment prospects. For ethnic minority and migrant workers, their employment rates have increased faster than their white and UK-born counterparts. There have been less positive results for young people and those with no qualifications, although there may have been other contributory factors.
- 18** The Government accepted previous recommendations we have made and has updated the guidance on sleepovers, voluntary workers, and unpaid work experience. We welcome this move and will monitor the impact of this updated guidance, along with how the extended exemption from the minimum wage for work trials, from three to six weeks, operates. We hope that the Government will be able to reach and consult with those affected by the operation of fair piece rates as part of its review of this system.

- 19** Following campaigns from the media and trade unions, the Government has issued a consultation on proposals to no longer allow employers to use tips to make up minimum wage pay. We have responded to this consultation, and we will carefully monitor the changes to the law that are eventually introduced. The accommodation offset continues to be of concern to stakeholders and we look forward to receiving more detailed information on this next year so that we can better understand its impact.

## Chapter 5: Young People

- 20** We have always made the case that young people should be treated differently to their older counterparts. In reviewing the evidence again this year, we have continued to make a distinction between 18–21 year olds and 16–17 year olds, not least because each group is subject to a different wage floor. We have examined the earnings data for evidence of an impact from the minimum wage and then looked at whether it has affected participation rates in education and employment.
- 21** The data continue to show that the minimum wage has had a major impact on the earnings of young people. High proportions of young people are paid at the youth and adult minimum wage rates, and earnings at the lowest decile remain at least level with the minimum wage. The evidence suggests that the worsening labour market position of young people did not result from any detrimental impact from the minimum wage. For the latest 2008 uprating it is difficult to distinguish between a possible impact from the minimum wage and that from the recession. Young people have continued to do less well in the labour market than older workers and are particularly vulnerable in an economic downturn. Therefore, we believe that lower National Minimum Wage rates for young people are still justified in order to protect employment and at the same time reflect the training element attached to younger workers.
- 22** We continue to believe, however, there is a case for starting the adult rate at age 21. We recommend again that 21 year olds should be entitled to the adult rate of the National Minimum Wage. We believe this change would have a minimal impact on employers and would not have any marked impact on the employment prospects of 21 year olds.



## Chapter 6: Apprentices

- 23** Following recommendations in both our 2006 and 2007 Reports, the Government included a review of the apprentice exemptions from the National Minimum Wage in the Commission's work for the 2009 Report. In conducting our analysis we used a range of data and other evidence from various sources, including the current arrangements for apprenticeships in each country of the UK and the pay apprentices receive, although the available data on the latter were almost entirely restricted to England. We also reviewed the current relevant research, added to this with our own commissioned work, and conducted consultation with stakeholders.
- 24** We found that while average apprentice pay in England was well above the £80 weekly entitlement, it varied greatly by sector, with around ten per cent of apprentices in the early years (childcare) and hairdressing sectors earning less than this level. This raised the issue of a lack of effective enforcement of the existing wage rate. Female apprentices dominate the sectors that have lower average apprentice pay, and there remains a substantial gender pay gap. Apprenticeships do, however, offer those who undertake them the prospect of higher future earnings and better employment prospects. Although there are also longer term paybacks for employers, such as higher productivity, without a discount in the apprentice wage during training there is a danger that employers are less likely to make the investment. Fewer places would result and government targets could be missed.
- 25** We have concluded that the evidence has remained strong for continuing to give apprentices special treatment under the minimum wage. But, a number of factors have led us to recommend that there should be a change to the current arrangements, and that a minimum wage for apprentices should be introduced. These factors include the changes to public policy on apprentice wages since the minimum wage was introduced, with the contractual entitlement in England and encouragement of payment of particular wage levels in Scotland and Northern Ireland. The latter administration was also considering the introduction of its own minimum wage for apprentices. Our view is that if there is to be a minimum wage entitlement for apprentices set by public authorities, this should be operated under the National Minimum Wage framework. We concluded that effective enforcement of

apprentice pay arrangements was important, and that apprentices should be confident of receiving the pay they are due. Having an apprentice minimum wage, within the National Minimum Wage framework and applied across the UK, should help assist in this goal. We require more time and further information, however, to be able to consider adequately, and make recommendations on, the rate and the detailed arrangements. We therefore also recommend that the Government asks the Commission, as part of the work for its 2010 Report, to consider the detailed arrangements for an apprentice minimum wage under the National Minimum Wage framework, and to recommend the rate and arrangements that should replace the existing exemptions, together with the timing for its introduction.

## Chapter 7: Compliance and Enforcement

- 26** We continue to believe that effective enforcement of the minimum wage is essential to show employers that non-compliance will not be tolerated and to show workers that their complaints are taken seriously. While we believe most employers do comply with the minimum wage legislation, we have received evidence again this year of workers who have been exploited. In many cases these workers are migrant workers and are, therefore, more vulnerable. It remains difficult, though, to obtain a clear picture of the number of workers who are not being paid the minimum wage.
- 27** We are pleased to note that progress has been made in strengthening the enforcement regime. The additional funding allocated to enforcement in 2006 has enabled the recruitment of a number of additional compliance officers, and another extensive communications campaign has been undertaken this year. We also support the joined-up approach to tackling wider employment abuse through the results of the Vulnerable Workers Employment Forum.
- 28** April 2009 saw the introduction of a new system of penalties and fair arrears. Although we have been disappointed by the delay in the introduction of these new provisions, we believe that they will strengthen the enforcement regime and bring home to employers the importance of paying their workers their full wage entitlement.

- 29** Time will be needed to assess the impact of these new provisions. We believe, however, that there are further actions the Government could and should take now that will strengthen the enforcement regime. The number of errant employers prosecuted in a criminal court remains inadequate for it to act as a deterrent to those employers who persistently flout the minimum wage rules. We recommend that the Government allocates sufficient resources to HMRC to increase significantly the number of errant employers prosecuted in a criminal court. As another deterrent to non-compliance, we also recommend that a 'name and shame' policy is put in place to expose those employers who show wilful disregard for the minimum wage.
- 30** We have again received evidence about the ability of those operating in the informal economy to undercut legitimate businesses. During the economic downturn, the lure of the informal economy will become greater, so we recommend that the Government gives urgent consideration to measures that can be taken to effectively tackle employers in the informal economy.

## Chapter 8: Setting the Rates

- 31** In addition to our review of apprentices this year, we have considered the impact of the minimum wage on the economy, the position of those most affected and issues surrounding compliance and enforcement. In our final chapter we turn to the macroeconomic picture and the prospects for the economy in 2009, before setting out our recommendations on the rates and accommodation offset.
- 32** Since its first recommendations for April 1999, the Low Pay Commission has sought to balance the potential benefits of the National Minimum Wage to low-paid workers against the risk of adverse economic effects. The Commission has taken a cautious approach in difficult times, balanced with more generous recommendations when times were good. Given the scale of the change in the economic climate this year, the Commission asked the Government for a delay in its reporting deadline to allow us access to two months' additional data, and to conduct further in-house analysis of the current recession.

- 33** It is clear that the UK faces a significant economic challenge. When we met in March to agree our recommendations, forecasts for GDP growth in 2009 were at -3.1 per cent, down from 2.1 per cent at the time of our last report. The fall in employee jobs since the beginning of the recession is greater than the falls in both the 1980s and 1990s recessions. Consumer spending, vital to hospitality and retail, two of the largest low-paying sectors, has declined sharply since the beginning of 2008. Both sectors, employing around a half of all low-paid workers, are performing worse than the economy as a whole. In discussion about this year's recommendations, one argument was that the minimum wage should rise in line with forecast average earnings. On the other hand, an argument was also made for a freeze in the minimum wage.
- 34** These are unprecedented times for the minimum wage and the Commission has concluded that a cautious approach is the only option. We therefore recommend that the adult minimum wage rate should increase from £5.73 to £5.80 in October 2009. We have again recommended that 21 year olds be entitled to the adult minimum wage and believe that the evidence supports this conclusion. After careful consideration we recommend that the relative value of the youth rates to the adult rate should be maintained and recommend that the Youth Development Rate should increase from £4.77 to £4.83 and that the rate for 16–17 year olds should increase from £3.53 to £3.57. The Government asked us, as appropriate, to consider a recommendation for the minimum wage in 2010. As there is a great deal of economic uncertainty at this time, we do not believe it is appropriate to make a recommendation for 2010. We recommend that the accommodation offset should increase from £4.46 per day to £4.51 per day in October 2009.
- 35** The Commission is fully committed to ensuring that low-paid workers are treated fairly in these difficult economic times. Our recommendations were made this year in a climate of economic volatility and reflect the difficulty of making a judgement in such conditions. They were shaped by the need to help low-paid workers by protecting their jobs as well as their earnings. The minimum wage has been a huge success for ten years and is there to uphold the principle of fairness whatever the economic climate. After a finely balanced discussion, we reached the conclusion that the evidence pointed to the need for a modest increase.

- 36** In reaching our conclusions, we took account of a range of labour market forecasts. Our recommendations are based on the expectation that employment levels in the low-paying sectors will fall more sharply than those for the economy as a whole. We are aware that predictions for the growth in average earnings have continued to fall on a month-by-month basis, and so our recommendations are informed by the assumption that current predictions will prove to be too high. Our recommendations are also based on an assumption of falling prices during 2009, which means that even a very modest increase in the rates would lead to a real increase in the living standards of minimum wage workers. Finally, our recommendations are intended to ensure that the National Minimum Wage will broadly keep pace with the modest growth in pay settlements and average earnings forecast for the coming year.
- 37** The Commission is committed to protecting low-paid workers through the recession. As the Commission works on its 2010 Report this autumn, it will review whether these assumptions were upheld and will take this into account when considering the rates that should apply from October 2010. In doing so, the Commission will pay particular attention to the volatility of the current economic climate and how it can best communicate its thinking to employers and low-paid workers so as to help them with their forward planning.
- 38** This year's proposed rates should not be taken as a sign that we will continue to make such modest recommendations. In the period between 2003 and 2006, our evidence-based approach led to a series of increases that outstripped the growth of average earnings, since when our recommendations have become more moderate in order to take account of the higher probability of job loss in the cooling economy. It follows that, when economic conditions improve, the minimum wage could once again increase at a faster rate. In making its recommendations, the Commission's view will always be driven by the prevailing economic evidence.

# Recommendations

## **National Minimum Wage Rates**

We recommend that the adult minimum wage rate should increase from £5.73 to £5.80 in October 2009 (paragraph 8.75).

We recommend that the Youth Development Rate should increase from £4.77 to £4.83 in October 2009 and that the rate for 16–17 year olds should increase from £3.53 to £3.57 in October 2009 (paragraph 8.78)

## **21 Year Olds**

We recommend again that 21 year olds should be entitled to the adult rate of the National Minimum Wage (paragraph 5.31).

## **Accommodation Offset**

We recommend that the accommodation offset should increase from £4.46 per day to £4.51 per day in October 2009 (paragraph 8.81).

## **Apprentices**

We recommend that a minimum wage for apprentices should be introduced under the National Minimum Wage framework (paragraph 6.87).

We recommend that the Government asks the Low Pay Commission, as part of the work for its 2010 Report, to consider the detailed arrangements for an apprentice minimum wage under the National Minimum Wage framework, and to recommend the rate and arrangements that should replace the existing exemptions, together with the timing for its introduction (paragraph 6.93).

## **Social Care**

We recommend that the commissioning policies of local authorities and the NHS should reflect the actual costs of care, including the National Minimum Wage (paragraph 3.38).

## **Compliance and Enforcement**

We recommend that a 'name and shame' policy should be put in place to expose those employers who show wilful disregard for the minimum wage (paragraph 7.21).

We recommend that the Government allocates sufficient resources to HMRC to increase significantly the number of errant employers prosecuted in a criminal court (paragraph 7.41).

We recommend that the Government gives urgent consideration to measures that can be taken to effectively tackle employers in the informal economy (paragraph 7.45).

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# Chapter 1

## Introduction



- 1.1** This year sees the tenth anniversary of the introduction of the National Minimum Wage. During the decade that has passed since 1 April 1999, the UK has experienced record levels of employment and unprecedented consecutive quarters of economic growth. But this anniversary fell during the most turbulent economic times the UK has seen for decades. Growth stalled in the second quarter of 2008 and reversed in the third and fourth quarters, falling by a cumulative 2.2 per cent. This fall in output growth has been reflected in sharp increases in unemployment and a fall in total employment. The decline in economic activity has been much more pronounced than the mild slowdown that had been anticipated by independent forecasters when we held our deliberations in January 2008.
- 1.2** In this chapter, we set out a brief history of the minimum wage in its first ten years, specify the remit given to us by the Government for this year, and give an overview of the work we have undertaken to fulfil it.

## Ten Years of the National Minimum Wage

- 1.3** The Government established the independent Low Pay Commission in 1997, asking the Commission to work in social partnership and recommend a definition, structure and rate for a National Minimum Wage. In its First Report, and in each subsequent one, the Commission has made a unanimous recommendation to government on the level of the National Minimum Wage. The First Report set out the Commission's intentions for the minimum wage: that it should support a competitive economy, be set at a prudent level, be simple and straightforward, and make a difference to the low paid. These guiding principles, and the strong evidence-based, analytical approach the Commission adopted, have changed little in the succeeding years.

- 1.4** As shown in Table 1.1, the minimum wage was introduced at a conservative level, reflecting the Commission's guiding principles. The Government accepted our recommendation for the introductory rates but rejected our recommendation that the adult rate should be paid from age 21 onwards, setting the adult rate for those aged 22 and over.

**Table 1.1** Evolution of the National Minimum Wage, 1999–2008

	Age 22 and over		Age 18–21		Age 16–17	
	NMW	Change (%)	NMW	Change (%)	NMW	Change (%)
Apr 1999–May 2000	£3.60		£3.00			
Jun 2000–Sep 2000	£3.60	0.0	£3.20	6.7		
Oct 2000–Sep 2001	£3.70	2.8	£3.20	0.0		
Oct 2001–Sep 2002	£4.10	10.8	£3.50	9.4		
Oct 2002–Sep 2003	£4.20	2.4	£3.60	2.9		
Oct 2003–Sep 2004	£4.50	7.1	£3.80	5.6		
Oct 2004–Sep 2005	£4.85	7.8	£4.10	7.9	£3.00	
Oct 2005–Sep 2006	£5.05	4.1	£4.25	3.7	£3.00	0.0
Oct 2006–Sep 2007	£5.35	5.9	£4.45	4.7	£3.30	10.0
Oct 2007–Sep 2008	£5.52	3.2	£4.60	3.4	£3.40	3.0
<b>Oct 2008–</b>	<b>£5.73</b>	<b>3.8</b>	<b>£4.77</b>	<b>3.7</b>	<b>£3.53</b>	<b>3.8</b>

Source: Low Pay Commission.

- 1.5** After a period of caution in the early years, the Commission was able to take stock. Economic growth and the analysis of extensive research findings and data, which showed that the minimum wage had had no discernable adverse impact, enabled the Commission to increase the minimum wage faster than average earnings growth between 2003 and 2007. In the period since 2007, the Commission has again adopted a more cautious approach in the face of relative economic uncertainty. The recommended increases to the minimum wage have consequently been more modest. In every case, the recommendations to government have been based on thorough analysis of economic data and research, and the Commission is transparent in its process, setting out its thinking in each report.
- 1.6** From the outset, the Commission has argued that more caution is needed when considering the position of young people in the labour market than for adults. Young people, particularly those with poor skills, are more susceptible to unemployment than older workers, and any early experience of unemployment can have scarring effects throughout



the rest of their working lives. The Commission has not wished to encourage young people out of education or restrict training opportunities through the minimum wage youth rates. Faced with evidence of exploitation of young workers however, the Commission recommended the introduction of a minimum wage rate for 16 and 17 year olds in 2004.

- 1.7** Each year, the Government sets out the Commission's remit. In addition to monitoring and evaluating the minimum wage, in the last ten years the Commission has been asked to report on the impact of an extension to annual leave entitlement, the position of young workers in the workplace, benefit-in-kind and salary sacrifice schemes and, this year, to review whether the apprentice exemptions from the minimum wage remain appropriate. We look forward to continuing the Commission's work in the coming years.

## Terms of Reference 2009

- 1.8** In the terms of reference for the 2009 Report, the Government asked us to undertake the following work and report to the Prime Minister and the Secretary of State for Business, Enterprise and Regulatory Reform by the end of February 2009.

- Monitor, evaluate and review the National Minimum Wage and its impact, with particular reference to the effect on pay, employment and competitiveness in the low-paying sectors and small firms; the effect on different groups of workers, including different age groups, ethnic minorities, women and people with disabilities and migrant workers and the effect on pay structures.
- Review the levels of each of the different minimum wage rates and make recommendations for October 2009. The Commission is also asked to make provisional rate recommendations as appropriate for October 2010.
- Review the current apprentice exemptions and advise whether they are still appropriate. The Commission is asked to bear in mind the Government's ambition to increase the number of apprentices to 500,000 and the need to ensure that sufficient employed places are available when the education participation age is raised in 2013.

**1.9** On receipt of its remit, the Commission began gathering and analysing data to inform its recommendations, but the February deadline for our report and the timing of the economic downturn meant that little of the data covered the period of this recession. For this reason, the Commission believed it prudent to delay the submission of our 2009 Report until 1 May 2009 and asked the Secretary of State for Business for his agreement to an extension. This extension allowed the Commission to take account of two further months of economic data, taking us through the second quarter of negative GDP growth, without prejudicing the possibility of the Government implementing any changes on 1 October as usual. The remainder of this chapter sets out the work programme we undertook through the year.

## Consultation

- 1.10** In preparing this report, we have again consulted widely. The consultation has involved individuals, businesses and groups representing each of the low-paying sectors and the process remains a valuable source of information for the report, improving our understanding of the issues involved.
- 1.11** We carried out two formal written consultations over the summer and early autumn of 2008, inviting views directly from a large number of organisations as well as publishing the consultation on our website. The first consultation sought views on the current apprentice exemptions and whether they are still appropriate, to which we received 36 responses. The second consultation asked for views on the impact of the minimum wage and related issues, to which we received 80 responses. Responses included the views of employer organisations, trade associations, trade unions, voluntary organisations, individuals and the Government. As a result of extending the time limit by which we were to submit our report to the Government, we received additional written evidence from 14 organisations. This additional evidence was considered alongside the other evidence we had gathered throughout the year.
- 1.12** We also held oral evidence sessions over two days in early December and heard from a number of organisations, including the TUC, CBI, and those representing the hospitality, retail, care, and hairdressing sectors. This gave organisations the opportunity to expand on the written evidence they had submitted to the Commission.

**1.13** As ever, we are grateful to those organisations and individuals who took the time to respond to our consultation and to those who gave oral evidence. A list of those who responded to our consultation and who gave oral evidence can be found in Appendix 1.

## Research

**1.14** For this report, we commissioned through an open tender process five new research projects that would inform our work. Much of our previous research had concerned the impact of the introduction of the minimum wage and the initial upratings, particularly the increase in October 2001. The focus of the research programme for this report has been the impact of the large minimum wage upratings implemented between 2003 and 2006. We commissioned research from the National Institute of Economic and Social Research (NIESR) and the University of Glasgow to investigate the impact of the recent minimum wage upratings on competitiveness, business performance and sector dynamics. Two of the projects looked at the impact of the recent increases in the minimum wage on employment. The first, commissioned from NIESR and the University of Sussex, investigated the impact on employment and hours. The second, commissioned from Royal Holloway, University of London, looked at the geography of the minimum wage, using local area data to analyse the impact on employment and the distribution of earnings.

**1.15** Our research programme has generally concentrated on looking for adverse impacts of the minimum wage rather than any benefits. We attempted to address this gap by funding research in a new area. Experian has analysed the impact of the introduction, and subsequent upratings, of the minimum wage on staff turnover, retention and recruitment. We also commissioned Incomes Data Services to investigate the impact of the 2007 upratings and the then forthcoming 2008 upratings on businesses in the low-paying sectors, focusing on changes to pay structures but also covering employment, hours, profits, training and annual leave. Details of the research projects and a summary of the findings are set out in Appendix 2. Our research programme provides crucial evidence in support of our recommendations. In addition to this research, we also conducted a survey of employers in low-paying sectors.

## Survey of Employers

- 1.16** GfK NOP carried out our biannual postal survey of employers in low-paying sectors to assess the impact of the previous year's upratings of the minimum wage. Questionnaires were sent to over 35,700 businesses in 11 low-paying sectors in the UK. The response rate was 7 per cent. The survey provided some useful insights into the effect of the upratings in 2007 on those businesses on which the minimum wage has the greatest impact. It also enabled us to compare the views expressed this year with those from earlier surveys. However, the response rate was low and, because respondents are likely to be those most affected by the minimum wage, the survey cannot be assumed to be representative of the low-paying sectors as a whole. Further information about the survey and details of the results are set out in Appendix 3.
- 1.17** The Institute for Employment Studies undertook a follow-up survey on apprentices, conducting telephone interviews with 40 employers in the childcare, hairdressing, leisure, retail, and social care sectors. We would like to thank those businesses that took the time to complete the questionnaire and respond to the interviews. Further information about the follow-up survey and details of the results are set out in Appendix 2.

## Statistics

- 1.18** We have continued to work closely with the Office for National Statistics (ONS). The Commission bases its recommendations on a comprehensive evidence base and reliable data continue to form the foundations of our work. The ONS earnings series, Annual Survey of Hours and Earnings (ASHE) provides us with an important and consistent source of data. We made a recommendation in last year's report reflecting our concern that the reduction in the ASHE sample would jeopardise our ability to analyse the impact of the minimum wage on some individual low-paying sectors. We are pleased that ONS has reached an agreement with the Government to reverse the cut, guaranteeing a return to the original sample for at least the next three years, 2009 to 2011. We also welcome our involvement in consultations with ONS about the introduction of a new industrial classification system; and the release of a full back-series of Labour Force Survey calendar quarter data.

## Visits

- 1.19** As in previous years, we carried out a programme of visits across the country at which Commissioners met those directly affected by the minimum wage. The visits focused on groups in the low-paying sectors and, in particular this year, on those with an interest in the apprentice exemptions. We met business managers and workers, voluntary organisations, apprentices and organisations representing business sectors or groups of workers. For example, we heard from homeworkers, a number of staff and owners of hairdressing salons, and workers from different retail outlets. In order to better understand the issues affecting young people, particularly those not in employment, education or training (NEET), we met a number of apprentices and participants in the Prince's Trust programmes. Visits took place in Belfast, Cardiff and Llanelli, Dundee, Gravesend and Paddock Wood, Leeds, London, Manchester, Newcastle, and Nottingham. As in previous years, we found that talking to people directly added to our understanding of the issues.
- 1.20** The Commission Secretariat also held a large number of meetings throughout the summer and autumn with officials from government departments, employers' representatives and trade unions from all sectors of the economy. We list the organisations we met in Appendix 1.

## Timing

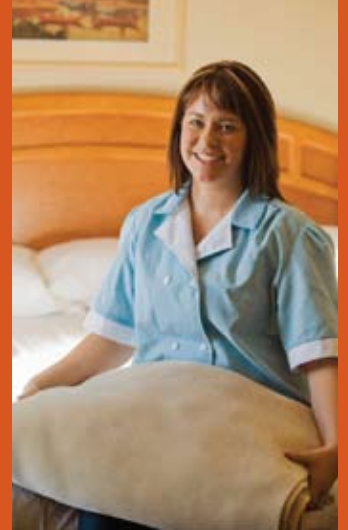
- 1.21** In addition to visits and meetings with stakeholders, oral evidence sessions and research workshops, the Commission met eight times during the year. These culminated in a meeting held over two days in mid-March to review the economic data, research findings and stakeholder evidence, and to agree the recommendations contained in this report.

## Conclusion

**1.22** This year, as the National Minimum Wage celebrates its tenth anniversary, the Government asked the Low Pay Commission to undertake once more a full programme of work. We were asked to monitor and evaluate the impact of the minimum wage, review the apprentice exemptions, and to make recommendations on the minimum wage rates for October 2009 and, as appropriate, 2010. To fulfil this remit, the Commission has commissioned research, analysed data, consulted widely, and travelled around the UK to build an evidence base to inform its recommendations. The chapters that follow provide a breakdown of our findings and set out our recommendations for 2009.

## Chapter 2

# Aggregate Impact of the National Minimum Wage



- 2.1** In this chapter we assess our most recent recommendations in light of the changing economic climate. We then look at the impact of the latest upratings on earnings. Having established that the minimum wage continues to exert a significant influence on wages at the bottom end of the earnings distribution, we turn our attention to assess whether this has, in turn, affected employment, hours, prices, profits, and productivity. We confine our main considerations in this chapter to the impact on the economy as a whole. More detailed analysis on specific workers, sectors, and on small firms follows in subsequent chapters.
- 2.2** Although we devote much of our attention in this chapter to the impact of the minimum wage since our last report, we are also concerned with the impact since its introduction and note such impacts where appropriate. We have commissioned a comprehensive programme of research for this report. Using the latest data available to researchers, these studies generally focus on the impact of the substantial upratings between 2003 and 2006.

## October 2008 Upratings

- 2.3** Our recommendations for the October 2008 upratings were made in January 2008 in light of analyses of the impact to that date, the evidence collated and the consensus of independent economic forecasts. Weighing these together, and taking particular note of the uncertain economic outlook but the general robustness of the labour market, we recommended that the adult minimum wage should increase by 3.8 per cent (see LPC 2008 Report, paragraphs 5.34–5.42 for more detail). Similar percentage increases were also recommended for both youth rates (3.7 per cent for 18–20 year olds and 3.8 per cent for 16–17 year olds). These upratings were expected to be a little below average earnings growth but higher than the predicted increase in prices and

marginally higher than the average level of pay settlements. The Government accepted these recommended rates but again rejected our arguments that the adult rate should encompass 21 year olds.

**Table 2.1** Actual Outturn and Revised Forecasts Compared with 2008 Report Forecasts, UK, 2008–2009<sup>a</sup>

		Forecasts used in 2008 Report (January 2008 and November 2007)		Actual outturn (data for whole year unless stated otherwise)	Latest forecast for 2009 (March 2009)
		2008 <sup>b</sup>	2009 <sup>c</sup>		
<b>GDP growth<sup>f</sup></b>		<b>1.8</b>	2.3	<b>0.7</b>	-3.1
<b>Employment growth<sup>f</sup></b>		<b>0.5</b>	0.4 <sup>g</sup>	<b>0.6</b>	-2.6
<b>Claimant unemployment (millions)<sup>h</sup></b>		<b>0.90</b>	0.95	<b>1.08</b>	1.98
<b>Average earnings growth (AEI including bonuses, GB)<sup>h</sup></b>		<b>4.0</b>	4.0 <sup>g</sup>	<b>3.2</b>	2.7
<b>Price inflation</b>	<b>Retail Price Index (RPI)<sup>h</sup></b>	<b>2.6</b>	2.6	<b>2.7</b>	-2.1
	<b>Retail Price Index excluding mortgage interest payments (RPIX)<sup>h</sup></b>	<b>2.9</b>	2.6	<b>3.8</b>	-0.1
	<b>Consumer Price Index (CPI)<sup>h</sup></b>	<b>2.2</b>	2.1	<b>3.9</b>	0.4

Source: HM Treasury (November 2007, January 2008 and March 2009) and ONS, GDP growth (ABMI); total employment as measured by Workforce Jobs (DYDC); claimant unemployment (BCJD); AEI including bonuses (LNNC), seasonally adjusted; RPI (CZBH); RPIX (CDKQ); CPI (D7G7), not seasonally adjusted, UK (GB for AEI), 2008–2009.

Notes:

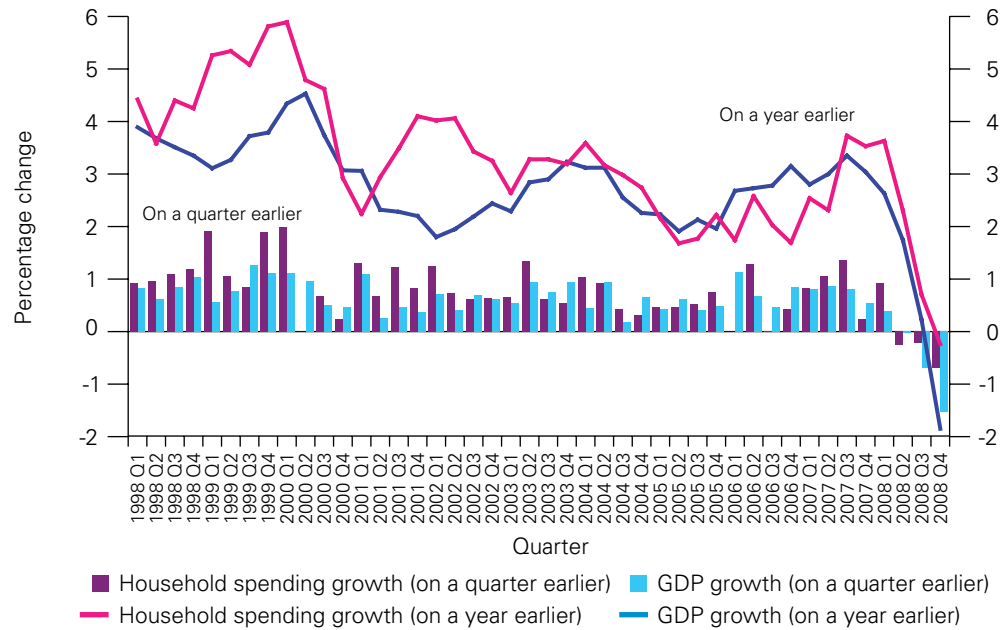
- Figures for actual data are consistent with the forecasts.
- Forecasts for 2008 were from HM Treasury (January 2008).
- Forecasts for 2009 were from HM Treasury (November 2007).
- Actual data (up to March 2009).
- Latest forecasts for 2009 are from HM Treasury (March 2009).
- Actual data and forecasts are for whole year growth.
- Forecast for 2009 not available in January 2008 so forecast from February 2008 used for this table.
- Data and forecasts are for Quarter 4.

**2.4** At the time we wrote our last report, as shown in Table 2.1, the consensus forecasts showed the economy slowing down from above trend growth of 3.0 per cent in 2007 to growth below trend, at around 1.8 per cent in 2008, before picking up slightly to 2.3 per cent in 2009. These forecasts turned out to be wrong. Problems in US sub-prime credit markets in the summer of 2007 and the financial crisis that ensued has fed into increasing global economic uncertainty and a deterioration in output growth throughout the world.



- 2.5** Output growth in the UK was considerably below the 1.8 per cent that was anticipated by the consensus of forecasts in January 2008. Average earnings growth, at 3.2 per cent, was more subdued than anticipated and while RPI was close to forecast, the other measures of inflation (CPI and RPIX) were above forecast. The lower output growth was associated with higher unemployment.
- 2.6** Output in the UK grew by just 0.7 per cent in 2008. Further, output fell by 0.7 per cent in the third quarter of 2008 and provisionally by 1.5 per cent in the fourth quarter, the largest quarterly fall since 1980. As a result, forecasts for 2009 have been revised significantly downwards to -3.1 per cent. Thus, instead of output growing by 4.1 per cent over the two years (2008 and 2009) that embrace the 2008 minimum wage upratings, it is now expected to have fallen by over 2 per cent across those two years.
- 2.7** Real disposable household income fell over the last two years as taxes increased and average wage increases failed to keep pace with price rises. Despite this, Figure 2.1 shows that consumer expenditure was remarkably buoyant up to the first quarter of 2008, as households used savings and housing equity withdrawal (borrowing) to fund their spending. Indeed, the savings ratio became negative in the first quarter of 2008; British consumers were spending more than their incomes. Such a situation is not sustainable in the long-run and consumers will require to cut back in order to rebuild savings. The credit crunch has reduced access to funding and, as a result, consumer spending fell back in the final three quarters of 2008, but over the year it was still 1.6 per cent higher than in 2007.
- 2.8** Further, inflation on some measures has been higher than anticipated, with price rises concentrated on essential items such as food, energy and fuel. This has given consumers less scope to spend on durable and non-essential items. This, in turn, has affected those sectors, such as non-food retail, hospitality and hairdressing, that rely on discretionary consumer spending. Prior to the third quarter of 2008, when annualised real household spending growth slowed to 0.7 per cent, it had not been below 1.6 per cent since the introduction of the minimum wage. In the last quarter of 2008, real household spending fell by 0.2 per cent compared with the last quarter of 2007.

**Figure 2.1** Growth in Output (GDP) and Household Spending, UK, 1998–2008

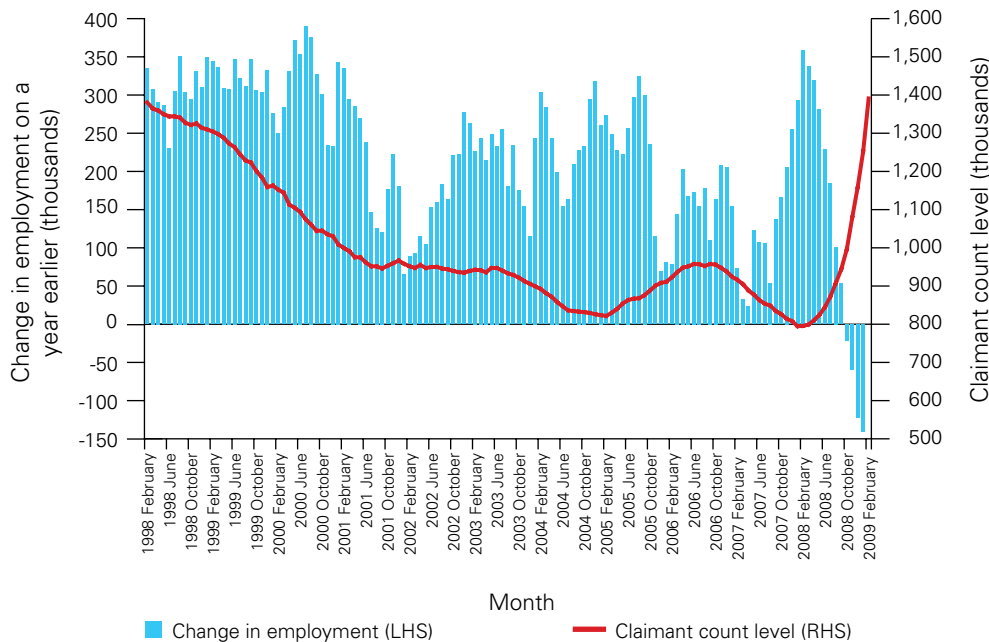


Source: LPC estimates based on ONS data, household final consumption expenditure (ABJR) and GDP (ABMI), quarterly, seasonally adjusted, UK, 1998–2008.

**2.9** The deterioration in output has had a knock-on effect on the labour market. Employment growth had been expected to slow to 0.4 per cent in 2008, half its rate in 2007, with claimant unemployment forecast to rise to around 900,000 in 2008 and 950,000 in 2009. Employment, whether measured by the number of jobs or the number in employment, held up in the first half of 2008, growing faster than expected. A sharp decline occurred in the second half of 2008, however, with total employment falling by 0.5 per cent and the number of workforce jobs declining by more than 1.0 per cent in the six months since June.

**2.10** Figure 2.2 shows that growth in the number of people in employment has fallen back sharply since February 2008. Total employment has actually declined since September 2008. Claimant unemployment and headline unemployment have risen sharply since the turn of the year. The 1.16 million registered as claimant unemployed in December 2008 is already higher than the original forecasts for the end of 2009. As we will discuss in more detail in Chapter 8, the forecasts for employment growth have been revised significantly downwards, suggesting that employment might fall by more than 0.8 million, with a corresponding rise in unemployment, by the end of 2009.

**Figure 2.2** Employment Growth and Claimant Unemployment Levels, Thousands, UK, 1998–2009

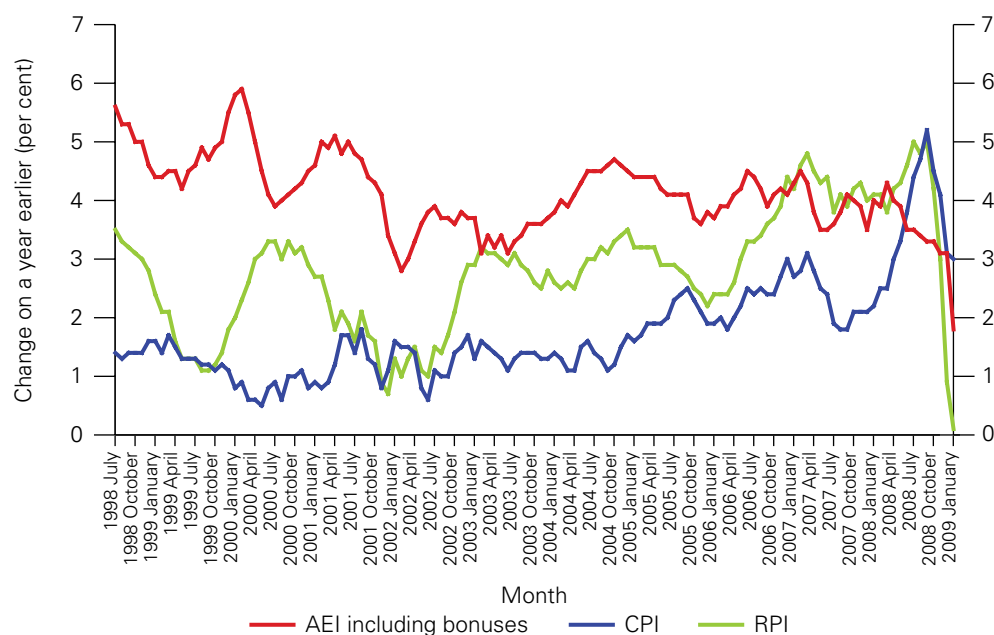


Source: LPC estimates based on ONS data, total employment (MGRZ) and claimant count unemployment (BCJD), monthly, seasonally adjusted, UK, 1998–2009.

Note: Employment is measured for the three months to the end of the month shown.

**2.11** When considering the 2008 upratings, inflation, as measured by the CPI, was forecast to remain around the Government's target level of 2 per cent. But the RPI and RPIX measures of inflation had been forecast to fall back from elevated levels at the end of 2007 to a rate consistent with the CPI target. Commodity and import prices rose sharply throughout most of 2008, however, forcing all three measures to increase rapidly: CPI peaking in September 2008 at 5.2 per cent and the RPI peaking at 5.0 per cent in the same month. It was the first time since April 2002 that CPI had been greater than RPI and it has remained higher into 2009. As shown in Figure 2.3, since September 2008 both measures of inflation have fallen sharply. RPI stood at 0.1 per cent and CPI at 3.0 per cent in January 2009. These falls are expected to continue over the next twelve months with recent reductions to VAT and interest rates, along with falling energy prices, likely to lead to a period of negative inflation, as measured by RPI, during much of 2009.

**Figure 2.3 Average Earnings Growth,<sup>a</sup> GB, and Price Inflation,<sup>b</sup> UK, 1998–2009**



Source: ONS, AEI including bonuses (LNNC), CPI (D7G7), RPI (CZBH), monthly, seasonally adjusted (AEI only), UK (GB for AEI), 1998–2009.

Notes:

- The AEI growth rates shown are three-month average percentage changes compared with the same period a year earlier.
- The RPI and CPI growth rates are percentage changes over a year earlier. These figures are not seasonally adjusted.

**2.12** Average earnings had been forecast to grow, in line with the growth observed in 2007, at around 4 per cent in both 2008 and 2009. Despite the squeeze on real disposable income as prices rose sharpest for essential items, such as food, petrol and energy, pressure on average earnings growth remained subdued. Average earnings including bonuses fell sharply to 1.8 per cent in January 2009 while average earnings growth excluding bonuses remained similar to median pay settlements, growing at 3.5 per cent a year. Indeed, in marked contrast to the previous ten years, Figure 2.3 shows that RPI had been consistently higher than average earnings growth between the end of 2006 and the end of 2008. Furthermore, from June 2008 to January 2009, average earnings including bonuses have grown more slowly than CPI, the first time that has happened since these series began in 1991.

**2.13** This situation is forecast to reverse. RPI fell below average earnings growth at the end of 2008 and is expected to continue falling throughout 2009. CPI is likely to follow. We thus expect to return to a period of real wage growth (wage growth exceeding price rises) in 2009.

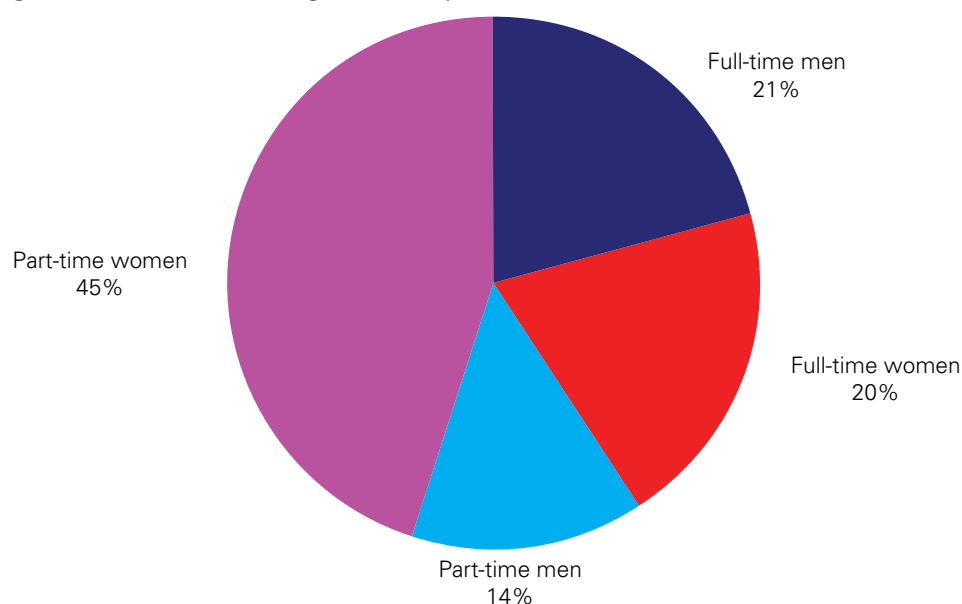
- 2.14** The recommended increases in the three National Minimum Wage rates of around 3.8 per cent in October 2008 were expected to be just under average earnings growth but far greater than price increases. As it turned out, the minimum wage looks to have increased faster than average earnings and, having been significantly below on 1 October, will be higher than price increases averaged over the year. This implies that the value of the minimum wage will increase in real terms and that its relativity, in relation to average earnings, will also increase.
- 2.15** As in previous years, the data available to analyse the impact of the most recent uprating (in this case October 2008) are limited. Therefore, in looking at the impact of the minimum wage, our focus will be on the 2007 upratings, although we will note any impact of previous upratings and any data available to investigate the impact of the 2008 upratings.

## Minimum Wage Jobs and Workers

- 2.16** In this section, we look at the types of workers who are low-paid and examine the sectors in which they work. We define a minimum wage job here to be one that, in April 2008, paid less than the equivalent of the forthcoming October 2008 minimum wage downrated by the growth in average earnings between April 2008, the date of the latest available data, and October 2008. On that calculation, we define a minimum wage job as one that is held by an adult aged 22 and over paying less than £5.63; by a young person aged 18–21 paying less than £4.69; and by a 16–17 year old paying less than £3.47. In April 2008, there were about 1.13 million minimum wage jobs defined in this way, roughly 4.3 per cent of all the jobs in the UK labour market. Figure 2.4 shows that the majority (58.4 per cent) of minimum wage jobs are part-time and that just under two-thirds (64.3 per cent) are held by women. These figures are similar to those in previous years.

**2.17** Using the Annual Survey of Hours and Earnings (ASHE), we also find that about 12 per cent of minimum wage jobs are temporary compared with only 6.4 per cent of all jobs in the whole economy. About 8 per cent of temporary jobs pay the minimum wage compared with around 4 per cent of permanent jobs. Around 40 per cent of workers in minimum wage jobs have been in their job for less than one year. This is nearly double the proportion of jobs of that duration in the economy (22.6 per cent). Therefore, three-fifths of workers have been doing the same minimum wage job for over twelve months.

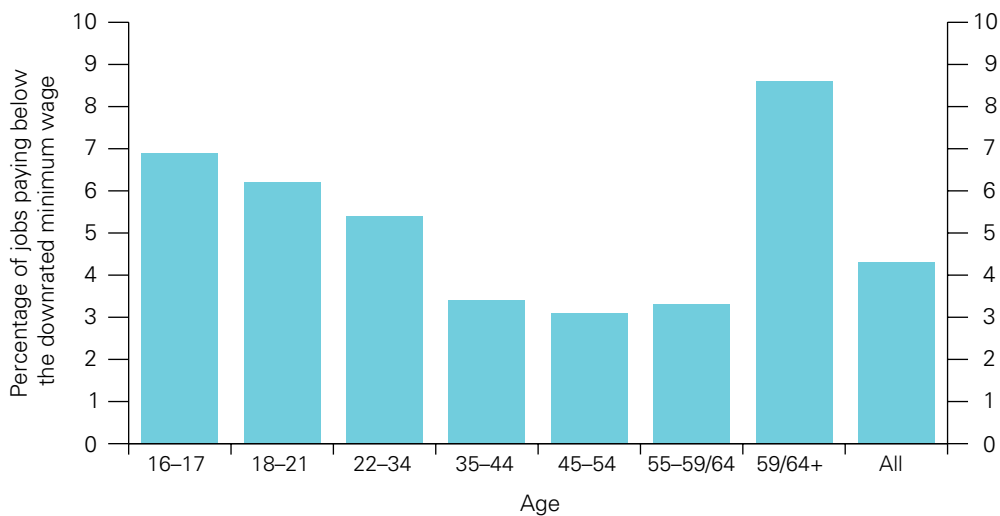
**Figure 2.4** Minimum Wage Jobs, by Hours and Gender, UK, 2008



Source: LPC estimates based on ASHE 2007 methodology, low-pay weights, UK, April 2008.

Note: Minimum wage jobs defined as those held by adults (aged 22 and over) paying less than £5.63, by youths (aged 18–21) paying less than £4.69 and by 16–17 year olds paying less than £3.47 in April 2008.

**2.18** We can see from Figure 2.5 that the distribution of coverage by age is generally U-shaped. That is, there is a higher proportion of young workers and older workers on the minimum wage than workers of middle age. About 6 to 7 per cent of jobs held by workers aged 16 to 21 are minimum wage jobs compared with around 3 to 3.5 per cent of jobs held by those aged 35 to retirement age. This percentage then rises again to about 9 per cent for those over the state pension age. If we considered only the adult minimum wage, the proportions of young people covered would be far greater.

**Figure 2.5** Minimum Wage Jobs, by Age, UK, 2008

Source: LPC estimates based on ASHE 2007 methodology, low-pay weights, UK, April 2008.

Note: Minimum wage jobs defined as those held by adults (aged 22 and over) paying less than £5.63, by youths (aged 18–21) paying less than £4.69 and by 16–17 year olds paying less than £3.47 in April 2008.

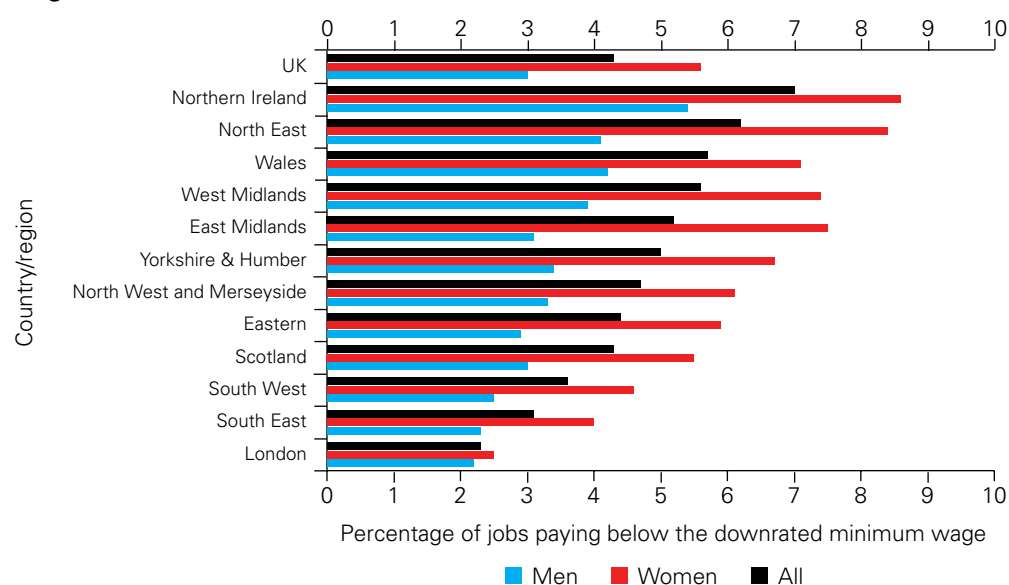
**2.19** A related grouping are the least-skilled, defined for our purposes as not having any formal qualifications. Many workers in this group will also be young. Using the Labour Force Survey (LFS),<sup>1</sup> we estimate that in the second quarter of 2008 the least-skilled workers were more than three times as likely to hold minimum wage jobs (17.5 per cent) as their more qualified counterparts (about 5 per cent).

**2.20** Coverage among employees from ethnic minorities is greater than among white employees. According to the LFS, in the second quarter of 2008 just under 8 per cent of jobs held by employees from ethnic minorities were minimum wage jobs compared with fewer than 6 per cent of jobs held by white employees. Using LFS, we find similar differences for those with and without disabilities. Over 8 per cent of jobs held by employees with disabilities paid less than the downrated forthcoming minimum wage compared with 5.6 per cent of jobs held by those without any disability.

<sup>1</sup> ONS regards ASHE as a more reliable data set than LFS for estimating earnings. Information on ethnicity, disability and educational qualifications are not available in ASHE, however, thus we need to use the LFS for these characteristics. The estimates from LFS suggest that 6.0 per cent of all jobs are minimum wage jobs, which is slightly higher than the 4.3 per cent estimated using ASHE.

**2.21** Figure 2.6 shows the proportion of minimum wage jobs in April 2008 by region, country and gender. The preponderance of women is again apparent. Unsurprisingly, the proportion of minimum wage jobs in the South East of England and London is lower than the national average. The areas with the highest proportions of minimum wage jobs are in Wales, the North East of England, and Northern Ireland. Similar patterns are found using residence-based regions. The geographical distribution of minimum wage jobs has changed little since 1999.

**Figure 2.6 Minimum Wage Jobs,<sup>a</sup> by Gender for Work-based Country and Region,<sup>b</sup> UK, 2008**



Source: LPC estimates based on ASHE 2007 methodology, low-pay weights, UK, April 2008.

Notes:

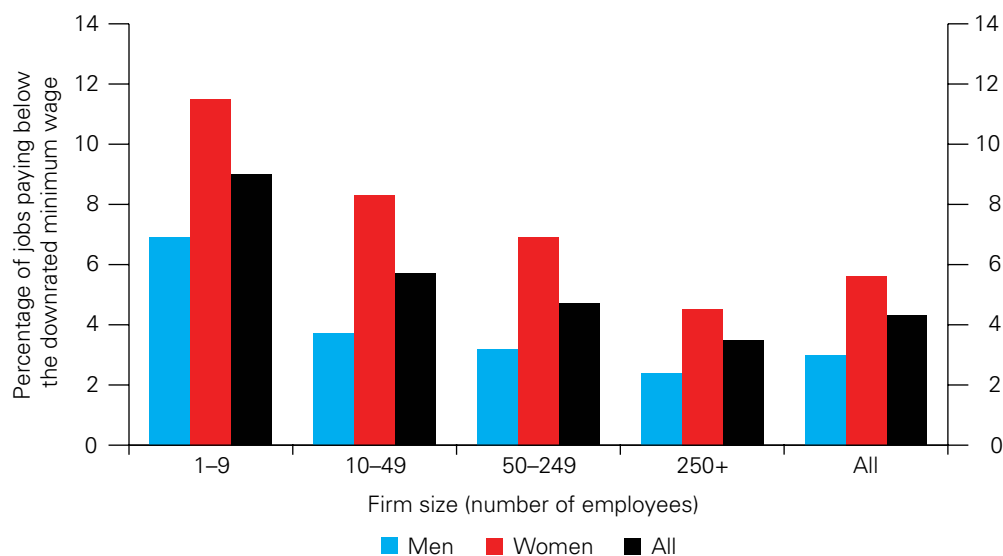
- Minimum wage jobs defined as those held by adults (aged 22 and over) paying less than £5.63, by youths (aged 18–21) paying less than £4.69 and by 16–17 year olds paying less than £3.47 in April 2008.
- Work-based countries and regions are defined by where one works.

**2.22** More than half, about 55 per cent, of minimum wage jobs are in large firms (those with 250 or more employees) although large firms employ two-thirds of all workers. Micro firms (those with 1 to 9 employees) employ fewer than 8 per cent of the total workforce but provide more than 15 per cent of all minimum wage jobs. Fewer than a fifth of all jobs are in small firms (those with fewer than 50 employees), but nearly a third (32 per cent) of all minimum wage jobs are in small firms.



**2.23** Figure 2.7 shows that the proportion of minimum wage jobs declines with size of firm. Around 9 per cent of jobs in micro firms and 6 per cent in other small firms (those with 10 to 49 employees) were estimated to be minimum wage jobs. Fewer than 4 per cent of employees in large firms were in minimum wage jobs. The gender pattern is similar across all firm sizes, with women more likely to be in minimum wage jobs than men.

**Figure 2.7** Minimum Wage Jobs, by Size of Firm and Gender, UK, 2008



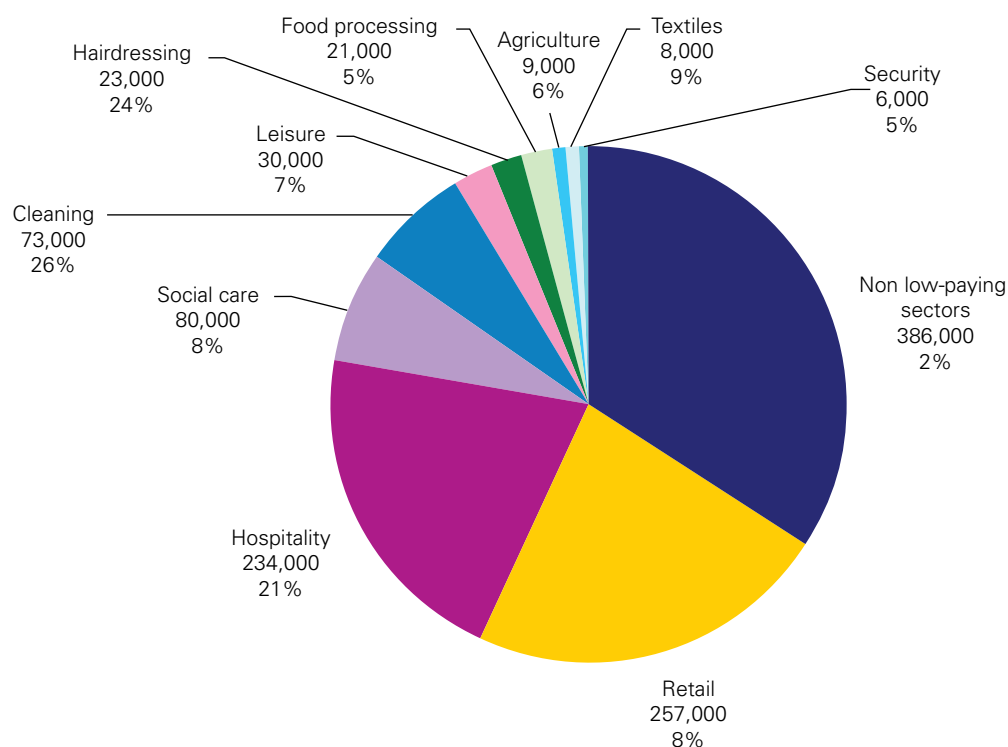
Source: LPC estimates based on ASHE 2007 methodology, low-pay weights, UK, April 2008.

Note: Minimum wage jobs defined as those held by adults (aged 22 and over) paying less than £5.63, by youths (aged 18–21) paying less than £4.69 and by 16–17 year olds paying less than £3.47 in April 2008.

**2.24** We look next at minimum wage jobs by industry and then by occupation. In our 2007 Report we reviewed and revised our definitions of low-paying industries and occupations.<sup>2</sup> We examine these in more detail in Chapter 3. Figure 2.8 shows that around two-thirds of minimum wage jobs are in the low-paying industries, as the Low Pay Commission defines them. About a third are spread throughout the rest of the economy.

<sup>2</sup> See Appendix 5 in our 2007 Report for a detailed description of this review.

**Figure 2.8** Number and Percentage of Minimum Wage Jobs, by Low-paying Industry,<sup>ab</sup> UK, 2008



Source: LPC estimates based on ASHE 2007 methodology, low-pay weights, UK, April 2008.

Notes:

- Minimum wage jobs defined as those held by adults (aged 22 and over) paying less than £5.63, by youths (aged 18–21) paying less than £4.69 and by 16–17 year olds paying less than £3.47 in April 2008.
- Percentages are the proportion of minimum wage jobs in each industry.

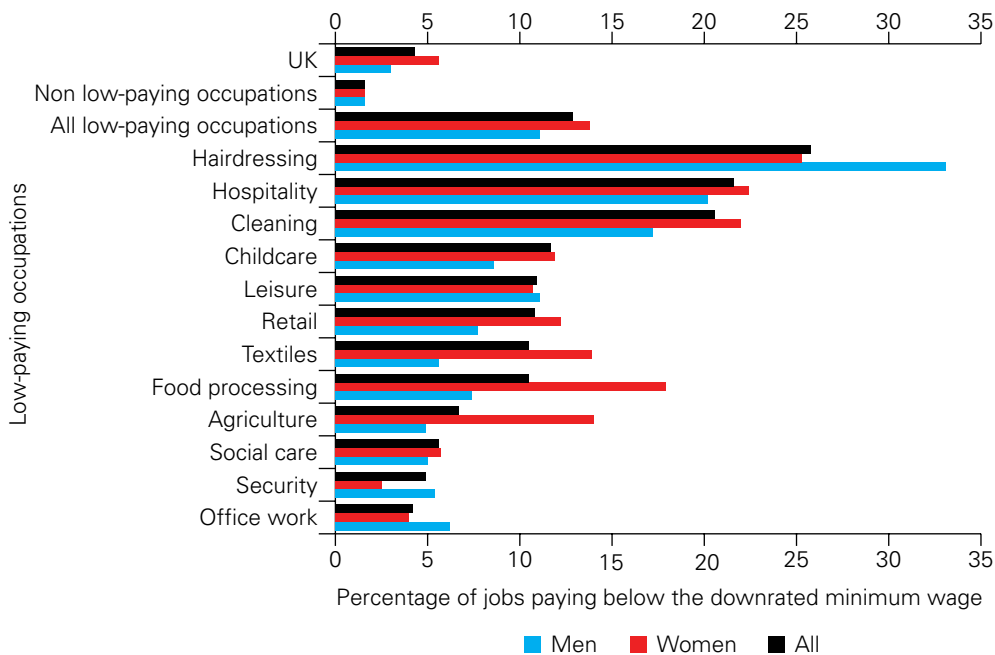
**2.25** The largest two industries, retail and hospitality, account for about 44 per cent of all minimum wage jobs. The next largest industries, social care and cleaning, each account for only 6 to 7 per cent. The remaining low-paying industries are quite small, between them providing fewer than 9 per cent of all minimum wage jobs.

**2.26** The industries with the largest proportions of jobs covered by the minimum wage were cleaning, hospitality, and hairdressing. In all three sectors, over 20 per cent of employees were in minimum wage jobs in April 2008. Hospitality had about 234,000 workers who were in minimum wage jobs. Compared with hospitality, the absolute numbers in hairdressing and cleaning were very small. But the retail sector has more minimum wage jobs than any other sector: just under 260,000 retail jobs (representing about 8 per cent of jobs in the sector) were estimated to be minimum wage jobs.

**2.27** The picture is similar when looking at low-paying occupations. That is removing managerial and supervisory posts and focusing on the lowest paid jobs in the sector (for example, in retail our definition includes checkout assistants, shelf fillers and trolley collectors). Hairdressing (barbers and stylists), hospitality (including bar and restaurant staff, hotel porters and catering assistants) and cleaning (cleaners) are the occupations that are most likely to be minimum wage jobs.

**2.28** Figure 2.9 shows that minimum wage jobs again account for over 20 per cent of all the low-paying jobs in the hairdressing, hospitality and cleaning occupations. Using this occupational definition, however, retail still has the largest number of minimum wage jobs (over 235,000) with hospitality the second largest (about 217,000).

**Figure 2.9** Minimum Wage Jobs, by Occupation and Gender, UK, 2008



Source: LPC estimates based on ASHE 2007 methodology, low-pay weights, UK, April 2008.

Note: Minimum wage jobs defined as those held by adults (aged 22 and over) paying less than £5.63, by youths (aged 18–21) paying less than £4.69 and by 16–17 year olds paying less than £3.47 in April 2008.

**2.29** Minimum wage jobs are most prevalent in the private sector. There are few minimum wage jobs in the public sector. According to ASHE around two-thirds of all jobs are in the private sector but over 86 per cent of minimum wage jobs are in the private sector. Whereas a quarter of all jobs are in the public sector, just 8.5 per cent of minimum wage jobs are found in this sector. The voluntary sector accounts for less than 8 per cent of all jobs but only 5 per cent of minimum wage jobs.

**2.30** In conclusion, minimum wage jobs are more likely to be held by women, young workers, those of retirement age, ethnic minorities, those with a disability, and those with no qualifications. They are also more likely than better paid jobs to be part-time and temporary. A higher incidence of minimum wage jobs are found in small firms, in the private sector, in particular areas of the UK, and in certain industries and occupations.

## **Impact of the National Minimum Wage on Earnings**

**2.31** We have carefully monitored the impact of the National Minimum Wage since its introduction in 1999 to determine its effects on the economy in general and on the labour market in particular. A minimum wage increase raises the wage costs faced by employers, and this may have consequences across a range of economic outcomes. We start our assessment by looking at the impact on employee earnings. After establishing an impact here, we go on to look at the consequences for other economic variables. We first examine the aggregate economy before proceeding to look at the impact of the minimum wage on the low-paying sectors and low-wage groups of workers in greater detail in the chapters that follow.

**2.32** As previously explained, our focus in this section is on the upratings in 2007 and, where data are available, 2008. The main earnings data set analysed in this section is the ASHE, which is conducted in April of each year. The latest data are from April 2008, when the adult minimum wage was £5.52 per hour, an increase of 3.2 per cent on the previous year. As employers often anticipate minimum wage upratings, though, the data may already reflect the October 2008 upratings to some extent. We also comment on any noticeable trends (or deviations from trends) over the lifetime of the minimum wage, noting from our initial analysis above that we might expect the impact to have been maintained since October 2006, when its value relative to earnings and prices rose to a peak. This value has remained high and, in October 2008, rose above the previous (October 2006) peak. Our analysis in this chapter will concentrate on those aged 22 and over. Chapter 5 will look in depth at the impact of the minimum wage on younger workers.

## Minimum Wage Upratings in October 2007

**2.33** Much of the data that have become available since our last report (LPC, 2008) relate to the minimum wage upratings in October 2007, which, as previously shown in Table 1.1, all increased by around 3.2 per cent to £5.52 for adults, £4.60 for 18–21 year olds and £3.40 for 16–17 year olds. This increase compared with average earnings growth of 3.9 per cent, and price inflation ranging from 2.1 per cent (CPI) to 4.2 per cent (RPI). Towards the end of 2007, output and employment were growing strongly with unemployment falling. The impact of the global financial crisis, initiating in the US in the spring of 2007, did not affect the real economy in the UK until 2008.

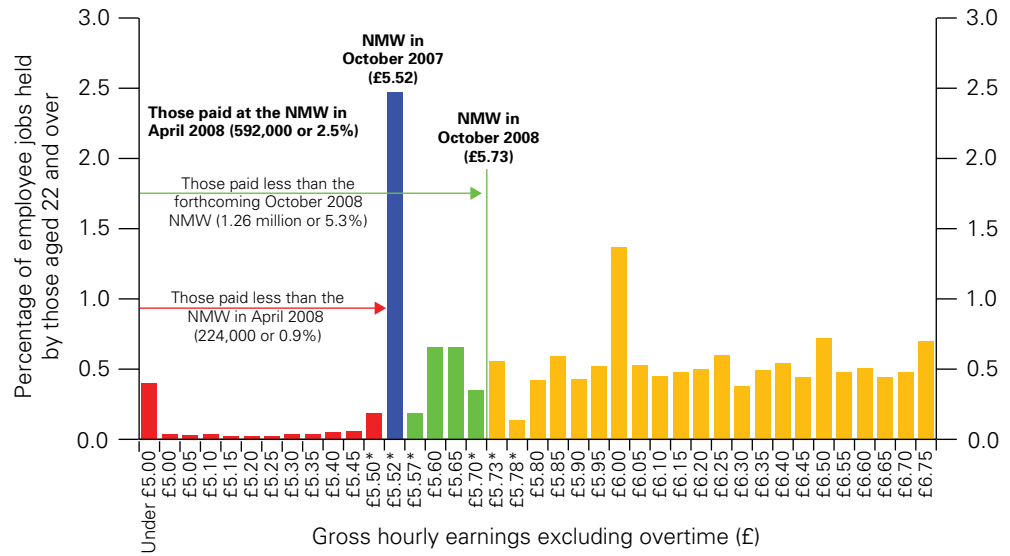
## Hourly Earnings Distribution

**2.34** In April 2008, as shown in Figure 2.10, about 0.9 per cent of employees aged 22 and over (around 224,000) were paid below the adult minimum wage.<sup>3</sup> This is slightly fewer than in 2007 but, as shown in Table 2.2, in line with numbers observed since 2000. There was a slight increase in the number (592,000) and proportion (2.5 per cent) of employees who were paid at the minimum wage rate in April 2008,<sup>4</sup> up from 577,000 (or 2.4 per cent) in April 2007.

<sup>3</sup> This is not to be regarded as a measure of non-compliance. There are legitimate reasons, such as apprenticeships and piece rates, that enable employers to pay less than the minimum wage.

<sup>4</sup> We define the minimum wage rate in Figure 2.10 as the five pence band that lies from £5.52 per hour to strictly less than £5.57 per hour. In Table 2.2 we will refer to the ten pence band that lies from £5.52 per hour to strictly less than £5.62 per hour.

**Figure 2.10** Hourly Earnings Distribution for Employees Aged 22 and Over, UK, 2008



Source: LPC estimates based on ASHE 2007 methodology, low-pay weights, UK, April 2008.  
 Note: \* Five pence bands except where stated otherwise (bands labelled by minimum pay amount).

**2.35** In April 2008, there were around 1.26 million jobs that paid less than £5.73 per hour, the then forthcoming October 2008 uprating (now implemented) that had been announced in March when our 2008 Report (LPC, 2008) had been published. Not surprisingly, as the increase in October 2008 (3.8 per cent) was greater than the October 2007 increase (3.2 per cent), this represented an increase of nearly 50,000 in the numbers paid below the forthcoming uprating. We might, therefore, expect that the impact of the October 2008 uprating would have been greater than that of the October 2007 uprating. Table 2.2 shows that the number and percentage of those paid below the forthcoming rate are higher than 2007 but they are lower than those covered by the 2001 or 2006 upratings.

**2.36** Looking at ten pence pay bands, for consistency with data published by ONS prior to 2004, Table 2.2 shows that ONS recorded the largest number of employees paid at the minimum wage in April 2008, and it was the highest proportion of employees affected since it was introduced in 1999. This supports the findings by Incomes Data Services (IDS, 2006b and 2007) and Swaffield (2008) that the minimum wage is having a greater impact on more and more firms and workers.

**Table 2.2** Jobs Held by Adults (Aged 22 and Over) Paying Below the Existing National Minimum Wage and the Forthcoming National Minimum Wage, UK, 1999–2008

Data year (April)	Adult minimum wage rate (in April) (£)	Number of jobs held by adults paying less than the adult rate in April (000s)	Percentage of jobs held by adults paying less than the adult rate in April	Number of jobs held by adults paying the adult rate (ten pence band) in April (000s)	Percentage of jobs held by adults paying the adult rate (ten pence band) in April	Forthcoming October adult minimum wage rate (£)	Number of jobs held by adults in April paying less than the forthcoming October rate (000s)	Percentage of jobs held by adults in April paying less than the forthcoming October rate
1999	3.60	460	2.1	723	3.3	3.60	458	2.1
2000	3.60	190	0.9	551	2.5	3.70	746	3.3
2001	3.70	210	0.9	394	1.8	4.10	1,326	5.9
2002	4.10	290	1.3	630	2.8	4.20	920	4.1
2003	4.20	210	0.9	445	2.0	4.50	1,022	4.5
2004	4.50	230	1.0	558	2.5	4.85	1,399	6.2
2004	4.50	233	1.0	408	1.8	4.85	1,209	5.3
2005	4.85	233	1.0	484	2.1	5.05	1,147	5.0
2006	5.05	239	1.0	544	2.4	5.35	1,289	5.6
2006	5.05	238	1.0	544	2.4	5.35	1,289	5.6
2007	5.35	231	1.0	696	2.9	5.52	1,215	5.1
2008	5.52	224	0.9	734	3.1	5.73	1,263	5.3

Source: ONS central estimates using ASHE without supplementary information and LFS, UK, 1999–2004; LPC estimates using ASHE with supplementary information, low-pay weights, UK, 2004–2006; and ASHE 2007 methodology, low-pay weights, UK, April 2006–2008.

Note: Prior to 2004, all our analyses were conducted in ten pence pay bands using the ONS central estimate methodology. In contrast to elsewhere in this report, where five pence pay bands are used, we use ten pence pay bands in this table.

## Coverage of the 2008 Upratings

**2.37** Not all those paid below £5.73 in April 2008 will have directly benefited from the minimum wage uprating. As explained in our previous reports (LPC, 2007 and 2008), we would expect some of these workers to have received pay rises that would have taken their pay above £5.73 before October. Estimating the coverage of the minimum wage requires us to make assumptions about how wages would adjust in the absence of a minimum wage. One assumption is that wages would have increased in line with average earnings. An alternative, though less plausible assumption in the light of recent evidence, is that they would have increased in line with prices. Assuming the former, we estimate that about 4.1 per cent of jobs (0.99 million) held by adults will have been covered by the 2008 uprating.

**2.38** Assuming that the wages of the lowest paid would have instead risen in line with prices, we estimate coverage between 0.86 and 0.99 million jobs (3.6–4.1 per cent), depending on whether CPI or RPI is used. These estimates for the 2008 uprating can be compared with our estimates that, using the wages or RPI price assumption, around 3.7 per cent of jobs held by adults (about 0.88 million jobs) were covered by the 2007 minimum wage uprating. Not surprisingly, we find that these estimates of coverage are greater for the 2008 uprating than the 2007 uprating. In contrast, using the CPI assumption, coverage falls from 4.2 per cent in 2007 to 3.6 per cent in 2008. But these estimates are much lower than our 2007 Report estimates of coverage for the October 2006 uprating, around 5 per cent of employees aged 22 and over (about 1.1 million such employees).

## **Bite of the National Minimum Wage**

**2.39** We define the bite of the minimum wage as its value relative to a specific point on the earnings distribution such as the mean, median or lowest decile. We would expect the bite on any of these measures to have fallen in April 2008 compared with April 2007 because the increase in the minimum wage relative to average earnings growth was greater in October 2006 than in October 2007. Table 2.3 confirms that is the case when the minimum wage is judged against the median or the mean of the hourly earnings distribution for employees aged 22 and over. The bite of the minimum wage does appear to have peaked at 51.0 per cent of the median and 39.6 per cent of the mean in April 2007, after the 5.9 per cent minimum wage increase in October 2006. The bite in April 2008 fell to 50.7 per cent of the median and 39.4 per cent of the mean.



**Table 2.3** National Minimum Wage as a Percentage of Various Points on the Earnings Distribution, Employees Aged 22 and Over, UK, 1999–2008<sup>ab</sup>

		Adult NMW (£)	Adult minimum wage as % of					
			Lowest decile	Lowest quartile	Median	Mean	Upper quartile	Upper decile
ASHE without supplementary information	1999	3.60	83.9	65.1	45.7	36.6	30.4	21.1
	2000	3.60	81.2	64.2	45.4	35.7	29.8	20.6
	2001	3.70	80.3	63.0	44.2	34.7	29.0	19.9
	2002	4.10	85.2	67.5	47.2	36.5	30.8	21.0
	2003	4.20	82.4	65.8	46.5	35.9	30.5	20.8
	2004	4.50	84.9	67.6	47.5	37.2	31.3	21.4
ASHE with supplementary information	2004	4.50	85.6	68.3	48.1	37.7	31.6	21.7
	2005	4.85	88.0	69.9	49.4	38.5	32.3	22.1
	2006	5.05	87.5	69.9	49.4	38.4	32.3	22.1
ASHE 2007 methodology	2006	5.05	87.5	70.0	49.7	38.5	32.5	22.3
	2007	5.35	89.2	71.7	51.0	39.6	33.6	22.9
	2008	5.52	89.8	71.7	50.7	39.4	33.3	22.9

Source: LPC estimates based on ASHE without supplementary information, standard weights, UK, April 1999–2004; ASHE with supplementary information, standard weights, UK, April 2004–2006; and ASHE 2007 methodology, standard weights, UK, April 2006–2008.

Notes:

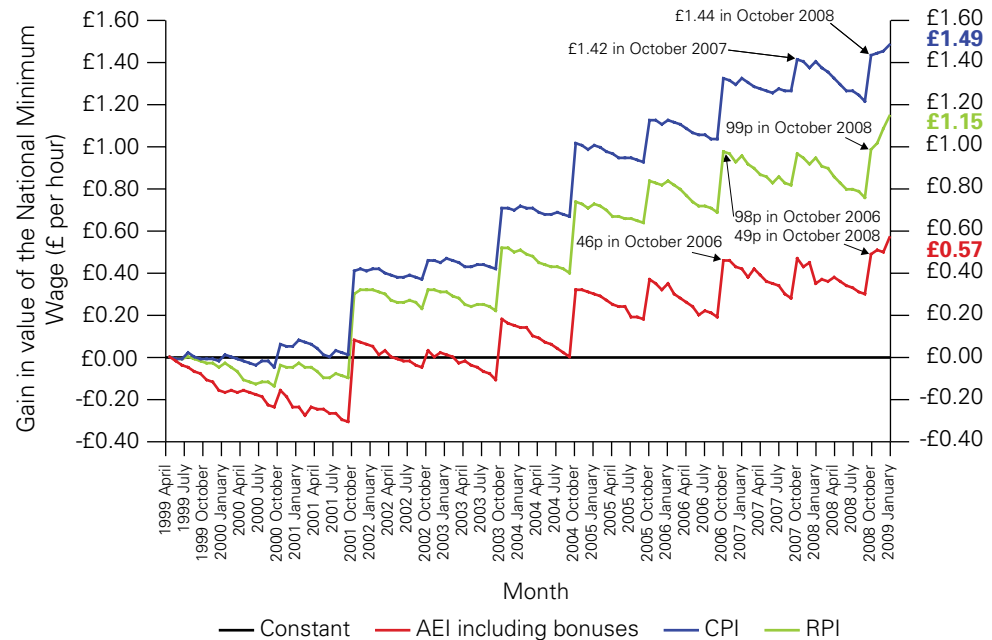
- Direct comparisons before and after 2004 and those before and after 2006, should be made with care due to changes in the data series.
- Those jobs where pay was affected by absence in the reference period were removed before the percentiles were calculated.

**2.40** Surprisingly, we find that the uprating in October 2007 that was expected to be modest (an increase of 3.2 per cent compared with average earnings growth of 3.9 per cent) has not affected the bite against the lowest quartile and, in fact, the bite has actually increased relative to the lowest decile. This provides further support for the research findings that the minimum wage is having a greater impact on wages at the bottom end of the distribution. We might expect this effect to have increased as a result of the 2008 upratings (up 3.8 per cent) given that average earnings growth has been much slower (up 3.2 per cent in the year to the fourth quarter of 2008).

**2.41** An alternative way of looking at this is to examine how the value of the minimum wage has changed over time relative to both prices and average earnings. Using £3.60 in April 1999 as the base, we calculate what the minimum wage would have been had it been uprated in line with price inflation or average wage growth. We then take the value of the minimum wage and compare it with what it would have been following either of these formulaic approaches. Figure 2.11 shows this difference between the actual minimum wage and what it would have

been had it been uprated by the growth in CPI, RPI or average earnings. Figure 2.11 therefore shows that the National Minimum Wage has advanced more rapidly than prices and average earnings over the period as a whole. In October 2008, the adult rate at £5.73 was 49 pence higher than it would have been, had it been indexed to earnings growth (£5.24), 99 pence greater than if it had been indexed to RPI (£4.74) and £1.44 greater than if indexed to CPI (£4.29). On these measures the value of the adult minimum wage was greater in October 2008 than it had previously been. Since that time the average earnings index and the price indices have all fallen resulting in a further increase in the value of the minimum wage relative to both wages and prices.

**Figure 2.11** Increases in the Real and Relative Value of the Adult National Minimum Wage, 1999–2009



Source: LPC estimates based on ONS data, AEI including bonuses (LNMQ), RPIX (CHMK), RPI (CHAW) and CPI (D7BT), monthly, seasonally adjusted (not seasonally adjusted for RPI and CPI), UK (GB for AEI), 1999–2009.

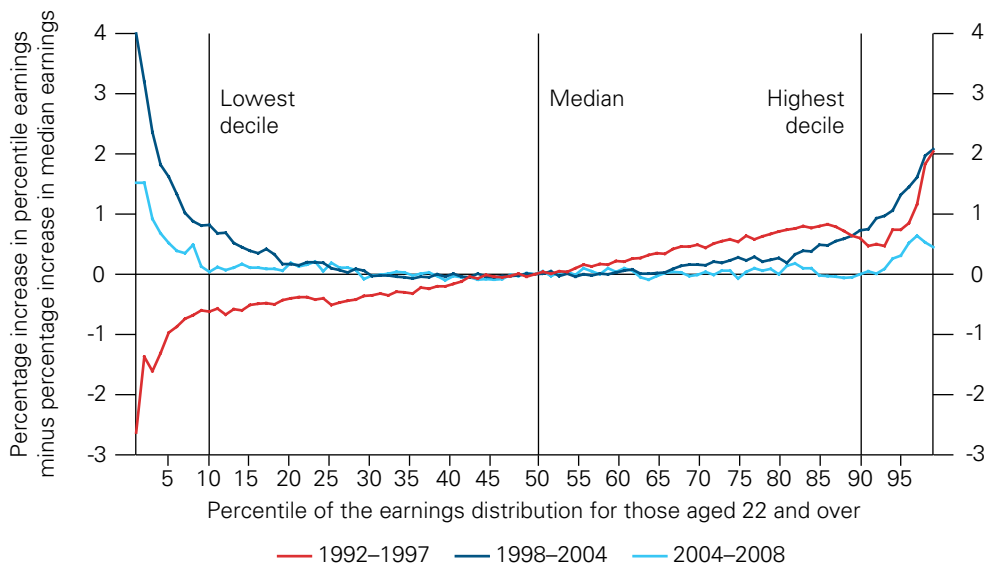
## Impact on Wage Differentials

**2.42** Our analysis above confirms that the October 2007 upratings maintained the bite of the minimum wage and had a significant impact on the earnings distribution. We now look in more detail at the impact on wage differentials.

**2.43** Dividing employees into 100 equally sized groups (percentiles) and ranking these groups by their hourly earnings from the lowest paid on the left to the highest paid on the right, Figure 2.12 shows how the earnings at each of these percentiles have changed on average each

year compared with those at the median (earners in the middle of the distribution at the 50<sup>th</sup> percentile) for three periods: 1992–1997 (prior to the introduction of the minimum wage), 1998–2004 (covering the introduction of the minimum wage) and 2004–2008 (covering the more recent minimum wage upratings). The earnings at the median are normalised to zero. For example, over the period prior to the introduction of the minimum wage, 1992–1997 (depicted by the red line), the lowest decile (those employees at the tenth percentile) had wage increases that were, on average, 0.6 per cent lower per annum than the wage increases for those at the median. In the period from 1998 to 2004 (depicted by the dark blue line), however, the earnings of the lowest decile increased on average by 0.8 per cent more each year than for those in the middle of the distribution, while between 2004 and 2008 (represented by the light blue line), the annual increase was just 0.04 per cent higher on average than the increase at the median.

**Figure 2.12** Annual Increase in Hourly Earnings Minus the Increase in Median Earnings, by Percentile for Employees Aged 22 and Over, UK, 1992–2008<sup>ab</sup>



Source: LPC estimates based on New Earnings Survey (NES), unweighted, UK, April 1992–1997; ASHE without supplementary information, standard weights, UK, April 1998–2004; ASHE with supplementary information, standard weights, UK, April 2004; and ASHE 2007 methodology, standard weights, UK, April 2008.

Notes:

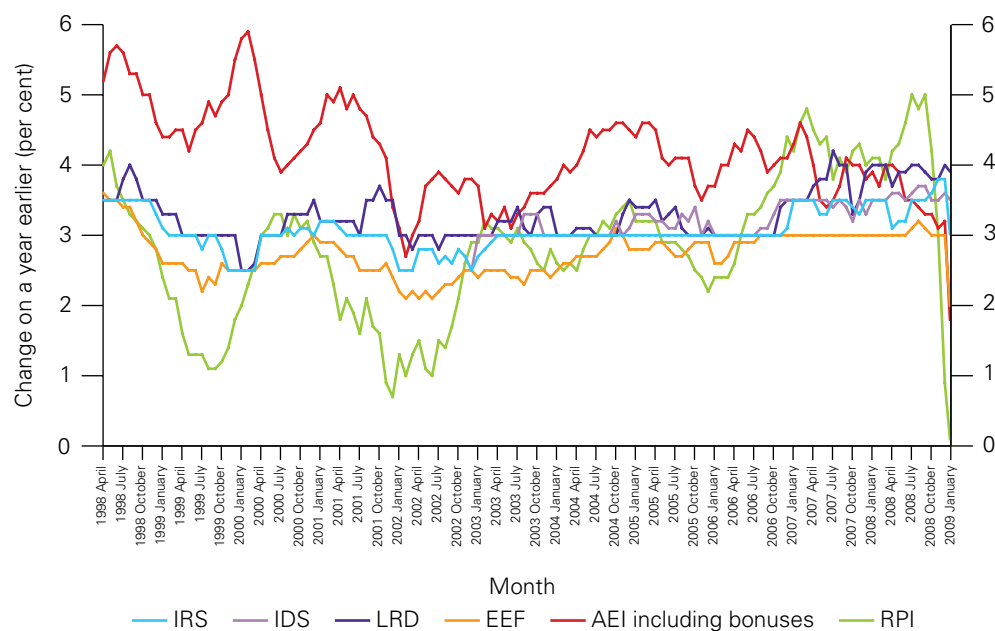
- Comparisons have been made here for illustrative purposes only as no consistent earnings time series data are available from 1992 to 2008. This analysis uses ASHE with supplementary information for 2004 and ASHE new 2007 methodology for 2008. These two series are not strictly comparable although the data for 2006 from the separate series are similar.
- Those jobs where pay was affected by absence in the reference period were removed before the percentiles were calculated.

- 2.44** Over the period prior to the introduction of the minimum wage, 1992–1997, the wages of the lowest paid increased by less than those at the median, whose wages in turn increased by less than the wages of those at the top of the earnings distribution. Following the introduction of the minimum wage, over the period 1998–2004, those at the bottom of the earnings distribution received higher pay rises than those at the middle of the distribution. Since 2004, the increases in the minimum wage appear to have had a smaller effect than the increases in the earlier period (1998–2004). But those at the bottom of the earnings distribution still received higher pay rises than those at the middle of the distribution.
- 2.45** Moreover, the minimum wage increases appear to have had a knock-on effect up the earnings distribution to about the 30th percentile. The size of the impact declines as we move away from minimum wage earners (in the bottom 5th percentile), however, falling to zero by the 30th percentile. In other words, those earning just above the minimum wage have seen their earnings rise faster than those at the median but not as fast as the earnings of those on the minimum wage. The more recent minimum wage increases (2004–2008) appear to have had a much smaller impact. This provides some evidence of spill-over effects of the minimum wage on the earnings distribution. It also suggests that differentials just above the minimum wage may have been squeezed, but beyond the lowest decile (the tenth percentile), there has been little further squeezing between 2004 and 2008. Despite this, the cumulative effect of the large pay rises for the low paid that squeezed differentials may remain.
- 2.46** As in previous years, we commissioned work to assess the impact of the latest upratings and employers' ongoing responses to the minimum wage. Previous research, for example IDS (2007), had found that the minimum wage, particularly the 2003 to 2006 upratings, had had an impact on relative pay levels in many low-paying sectors, either through narrowed differentials, or by precipitating changes to pay structures in response to the narrowed differentials. In contrast to these findings, IDS (2009) found that the more modest 2007 National Minimum Wage uprating led to a partial restoration of differentials in several sectors, most notably retail.

## Impact on Pay Settlements and Average Earnings

**2.47** We next look at average earnings growth and pay settlements in the economy. Generally, pay settlements deal with consolidated increases in basic pay while average earnings growth more fully captures increases in all aspects of pay, including promotion and bonuses. Wage inflation has failed to keep pace with the recent rise in price inflation. Indeed, as shown in Figure 2.13, the official ONS earnings measures – the Average Earnings Index (AEI) including or excluding bonuses – suggest that average earnings growth has been stable at around 3.6 per cent (the excluding bonus series) or has actually been slowing down from 4.1 per cent in September 2007 to 3.2 per cent in December 2008 and to 1.8 per cent in January 2009 (the including bonus series). In contrast, as also shown in Figure 2.13, pay settlement data from independent private sector sources (IDS, Industrial Relations Services (IRS), the Labour Research Department (LRD) and EEF, the manufacturers' organisation) generally tracked the increase in RPI through the second and third quarters of 2008, rising from 3–3.5 per cent to 3.5–4 per cent, still below the RPI which peaked at 5.0 per cent in September 2008. RPI has since fallen sharply, and there are signs that both pay settlements and wage growth have also started falling.

**Figure 2.13** Comparison of Growth in Average Earnings<sup>a</sup> (GB) with Median Pay Settlements<sup>bc</sup> and Price Inflation<sup>d</sup> (UK), 1998–2009



Source: ONS, AEI including bonuses (LNNC), RPI (CZBH), and IRS, IDS, LRD, and EEF pay databank records, monthly, seasonally adjusted, UK (GB for AEI), 1998–2009.

Notes:

- The AEI growth rates shown are three-month average percentage changes on a year ago.
- Pay settlements are medians over three months.
- The IDS monthly series began in December 2002.
- The RPI growth rates are percentage changes over a year earlier. These figures are not seasonally adjusted.

## Impact on Household and Take-home Earnings

**2.48** In this chapter so far, we have focused on the impact of the National Minimum Wage on an individual's gross earnings. In this section, we give a brief account of how the minimum wage interacts with the tax and benefit system and show how the distribution of household income might be affected by the minimum wage.

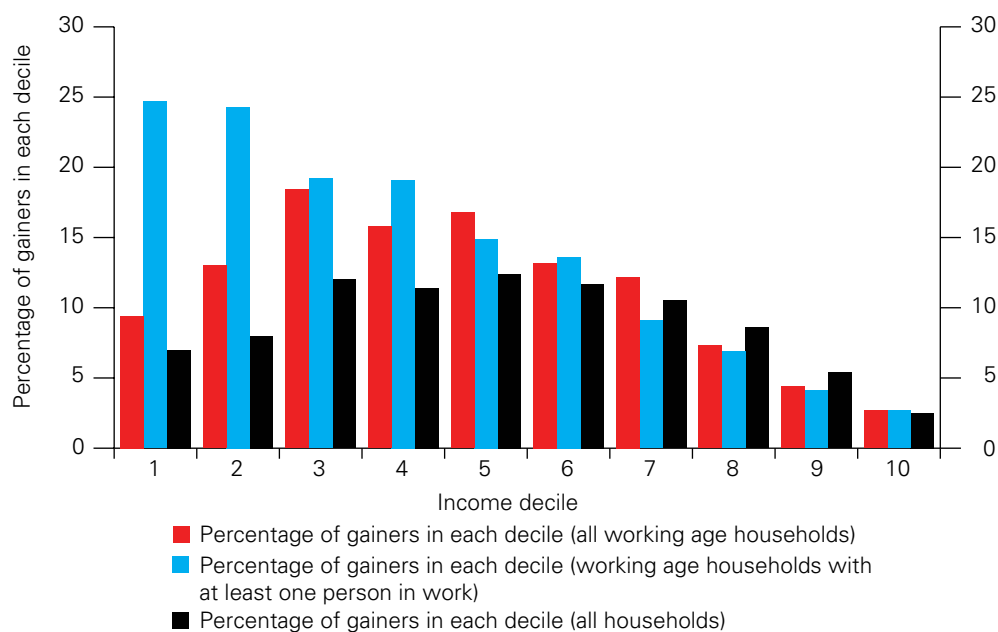
**2.49** An individual's gross pay is subject to deductions for tax and National Insurance Contributions (NICs). Individuals may, however, be entitled to in-work benefits, such as Working Tax Credit and Child Tax Credit, and a range of other state benefits, such as Housing Benefit, Child Benefit, and Council Tax Benefit. Most of these benefits are means tested based on household income. Therefore, an individual's income will depend on their own earnings, the earnings of others in the household and on household circumstances, such as the number and age of children, childcare costs, and whether any household member is entitled to disability payments. It is thus not easy to generalise about the impact of the minimum wage on the net income of individuals and households.

- 2.50** The Chancellor announced in the 2007 Budget that the basic rate of tax would be reduced from 22 pence to 20 pence in the financial year 2008/09. In addition, the 10 pence tax band would be abolished; tax credits and child benefit made more generous; and personal allowances for pensioners raised. These changes were confirmed in the 2008 Budget. Following much public debate, the Chancellor announced a further increase in personal tax allowances on 13 May 2008. Without changes to these personal tax thresholds, the income tax changes would have led to losses for all those earning between £5,225 and £18,605 a year. That is, many minimum wage workers (roughly those working more than 18 hours a week) would have lost out. The biggest loss would have been £223 a year for those earning exactly £7,455 a year.
- 2.51** But changes were made to personal tax allowances. The initial increase from £5,225 to £5,435 was equivalent to giving back £42 a year to basic rate taxpayers. The additional £600 increase announced on 13 May gave back a further £120 a year to basic rate taxpayers. This reduced the range of those worse off to people earning between £6,845 and £10,505 a year. The largest loss would then be £61 a year for those earning £7,455 a year.
- 2.52** Changes were also made to National Insurance thresholds. Taking account of these, only those earning between £7,082 and £9,317 a year were worse off. Overall, therefore, the losses peak at £37 a year for those earning £7,455 a year. We estimate that up to 12 per cent of minimum wage employees (275,000) would have been adversely affected by these tax changes. The impact might be mitigated, however, depending on household circumstances because Working Tax Credits and child benefits were made more generous. We estimate, however, that around 105,000 of these losers would have been under 25 years old and not eligible for tax credits.
- 2.53** The increase in the minimum wage was effectively greater than the loss in earnings as a result of the tax changes, but many minimum wage workers would not have received any gain until October 2008, midway through the tax year. The Government has since raised the personal allowances for the 2009/2010 tax year so that there should no longer be any losers.

- 2.54** When the adult minimum wage was £5.52 in September 2008, gross weekly income would have been £193.20 for a 35 hour week. Using HM Treasury estimates, this gross income would have been equivalent to a net income of around £189.66 for a single person working full-time with no children (a net wage of £5.42 an hour for a 35 hour week). The corresponding amount for a couple with one child (one partner working and the other not) was £292.95 (equivalent to a wage of £8.37 an hour for a 35 hour week). Again assuming a 35 hour week, gross weekly income would have increased to £200.55 following the minimum wage increase to £5.73. The net weekly income for a single person would have risen by around £2.22 in October 2008 and then by a further £4.69 to reach £196.57 in April 2009 taking into account the new tax regime. This increase is just below the £7.35 increase in gross weekly income. For the one child family, net income would rise by around £24.22 to £317.17 a week (equivalent to an hourly wage of £9.06). The effective hourly rate for the single person would be £5.62. In conclusion, the minimum wage increased by 3.8 per cent but changes in taxation led, on average, to an increase of 3.6 per cent in net take-home pay for a single person and an increase of 8.3 per cent for a couple with one child.
- 2.55** In line with research findings from Bryan and Taylor (2004) and the Institute for Fiscal Studies (2003), analysis by HM Treasury, as shown in Figure 2.14, shows that the minimum wage is not particularly well-targeted at the poorest households in the UK. But the poorest households (which include pensioners and benefit recipients) do not generally have anyone in work. The minimum wage is only able to help those in work. Once the analysis is restricted to those households where at least one member is in work, it appears that the minimum wage is targeted most at the lowest household earnings deciles. The analysis used in Figure 2.14 was generated to demonstrate the effects of a 10 pence rise in the minimum wage, however, similar results are gained for the actual minimum wage increase of 21 pence.



**Figure 2.14** Distributional Impact of a 10 Pence Increase in the Minimum Wage, UK, 2008



Source: HM Treasury estimates based on Family Resources Survey (FRS), UK, 2006/07 updated to 2008/09.

Note: These figures take account of changes in tax credits, benefits, taxes and National Insurance but do not take any account of likely behavioural change caused by a rise in hourly pay, such as changed levels of employment or hours worked. They also do not include the effect of the £25,000 disregard in tax credits, which allows income to rise between one year and the next by up to £25,000 before tax credits begin to be withdrawn. This means that the reductions in tax credits would in practice be significantly smaller, at least in the initial tax year.

## Impact on Labour Costs

**2.56** Despite pay settlements and average earnings growth being relatively subdued throughout 2007 and 2008, Figure 2.15 shows that unit wage costs for the whole economy have increased since the middle of 2007. October 2007 saw an increase in both annual leave entitlement and the minimum wage. The increase in the minimum wage in October 2007, less than average earnings growth and lower than the level of most pay settlements does not, however, appear to have been a significant factor in driving up wage costs. From the end of 2007, non-wage labour costs have risen at a slightly slower pace suggesting that firms have not been overly affected by the change in statutory leave entitlement from 4 weeks (20 days) to 4.8 weeks (24 days) in October 2007. Research from IDS (2009) suggested that the annual leave changes had generally had minimal impact, although some sectors (such as fast food, pubs and restaurants; and the care sectors) were more affected than others. Evidence from the leisure and hospitality sectors supports the finding that firms had been affected but the additional cost had been less than 1 per cent of the wage bill. The periods in which unit labour costs were

greater than unit wage costs, 2002–2004 and 2005, were times when either National Insurance Contributions had increased or when employers were putting extra resources in to their pension schemes.

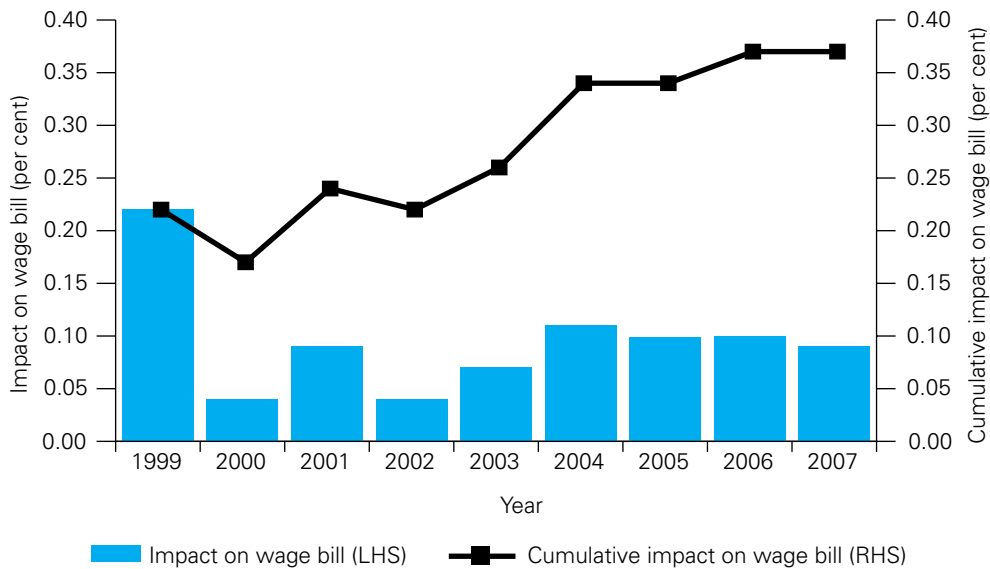
**Figure 2.15 Unit Wage and Labour Costs, UK, 2001–2008**



Source: ONS, unit wage costs (LOJE) and unit labour costs (DMWN), quarterly, seasonally adjusted, UK, 2001–2008.

**2.57** Research from Forth, Harris, Rincon-Aznar and Robinson (2009) confirmed that the initial introduction of the minimum wage had the largest impact on the whole economy wage bill, an increase of 0.22 per cent, as the pay in a number of very low-paid jobs was raised to at least match the new minimum. Figure 2.16 shows that the small upratings in 2000 and 2002 generally had a muted effect on the overall wage bill, while the larger upratings increased the wage bill by about 0.1 per cent a year, approximately half the impact of the initial introduction.

**Figure 2.16** Impact of the Minimum Wage on the Wage Bill for the Whole Economy, UK, 1999–2007



Source: NIESR estimates based on ASHE, UK, 1999–2007.

**2.58** We can assess the cumulative impact of the minimum wage by calculating the value of the different adult minimum wage rates in April 1999 prices and looking at each of these rates as if it were the first ever minimum wage rate. Figure 2.16 depicts these cumulative impacts. For example, Forth, Harris, Rincon-Aznar and Robinson (2009) calculated that the 2007 minimum wage of £5.52 per hour would have been equivalent to £4.36 in April 1999 prices. On this basis, they estimated that coverage had increased from around 4.5 per cent in April 1999 to over 7 per cent in 2007 and that there was a notable change in the proportion affected between 2002 and 2004. As a result, the cumulative impact on the wage bill nearly doubles between 1999 and 2007, from just over 0.2 per cent in 1999 to just under 0.4 per cent in 2007. This provides further evidence that the minimum wage is having a greater impact on firms over time.

## Impact of the National Minimum Wage on the Economy

**2.59** The above discussion and analysis have demonstrated that the minimum wage has had a significant impact on the bottom of the earnings distribution. We can now investigate how firms have coped with the resulting impact on labour costs. In the face of an increase to the National Minimum Wage, employers have a number of options to limit the impact on their wage bill. We have seen that some firms have attempted to absorb these costs by cutting other aspects of the remuneration package such as pension provision, unsocial hours payments, overtime and shift premia, bonuses and non-wage considerations such as perks and staff discounts. Employers can also, for example, adjust the numbers employed, the number of hours worked, or seek to increase the productivity of the workforce through various means. If they fail to limit the impact, they might squeeze profit margins or increase prices. The magnitude of these adjustments will determine the extent of any adverse impact from the increase to the minimum wage. It is in these areas, and on minimum wage earners in particular, that we focus our attention in analysing the impact of the minimum wage.

### Impact on the Labour Market

**2.60** Over the period of the minimum wage, the labour market had fared well, with employment growing from 27.04 million in April 1999 to 29.50 million in April 2008, an annual rate of growth of about 1 per cent. But recently things have changed. The labour market has been affected by the current credit crunch and the subsequent downturn in the economy. The total number of people in employment reached 29.54 million in May 2008, the highest on record, but has since fallen by 0.5 per cent to 29.38 million in January 2009.

**2.61** There were around 29.30 million people in employment when the minimum wage increased by 3.2 per cent in October 2007. By the time that the minimum wage was next raised (by 3.8 per cent) in October 2008, employment, affected by the economic situation, had grown by only 135,000 (0.5 per cent). Table 2.4 shows that this is the slowest growth in employment experienced between minimum wage upratings. In stark contrast to the 239,000 increase in the number of employee jobs

experienced between September 2006 and September 2007, there was a fall of 22,000 between September 2007 and September 2008. Growth in the total number of employees (0.6 per cent), however, was marginally higher than in the two previous years. The labour market looks to have deteriorated further since the October 2008 upratings were implemented.

**2.62** Since the October 2007 upratings, there has also been a sharp increase in unemployment. On both measures, the claimant count and headline ILO unemployment, the increase, as shown in Table 2.4, had been faster than at almost any time since the introduction of the minimum wage in 1999. The exception being the sharp rise in ILO unemployment between September 2005 and September 2006. There was an increase of over 10 per cent in both the claimant count and the ILO measure between September 2007 and September 2008. This increase in unemployment has continued at a faster pace since October 2008; the ILO measure rising above 2 million to hit 2.03 million in January 2009 and the claimant count reaching 1.39 million in February 2009.

**Table 2.4** Change in Employment, Jobs and Unemployment in Each National Minimum Wage Period, UK, 1999–2008

Thousands, per cent	NMW rise	LFS total employment		LFS employees		Employee jobs		ILO unemployment		Claimant count	
		000s	%	000s	%	000s	%	000s	%	000s	%
Change	%	000s	%	000s	%	000s	%	000s	%	000s	%
Mar 1999–Sep 2000 <sup>a</sup>	–	347	1.3	375	1.6	427	1.7	-151	-8.6	-168	-13.0
Sep 2000–Sep 2001	2.8	163	0.6	154	0.6	285	1.1	-59	-3.8	-99	-9.4
Sep 2001–Sep 2002	10.8	194	0.7	183	0.8	73	0.3	68	4.6	-2	-0.3
Sep 2002–Sep 2003	2.4	309	1.1	-5	0.0	73	0.3	-55	-3.6	-15	-1.6
Sep 2003–Sep 2004	7.1	252	0.9	314	1.3	255	1.0	-101	-6.8	-96	-10.3
Sep 2004–Sep 2005	7.8	374	1.3	320	1.3	422	1.6	31	2.2	43	5.2
Sep 2005–Sep 2006	4.1	230	0.8	127	0.5	76	0.3	243	17.1	81	9.3
Sep 2006–Sep 2007	5.9	195	0.7	124	0.5	239	0.9	-43	-2.6	-123	-12.8
Sep 2007–Sep 2008	3.2	135	0.5	158	0.6	-22	-0.1	177	10.9	109	13.1
Sep 2008–Jan 2009	3.8	-28	-0.1	-38	-0.1	-249	-0.9	201	11.2	308	32.6

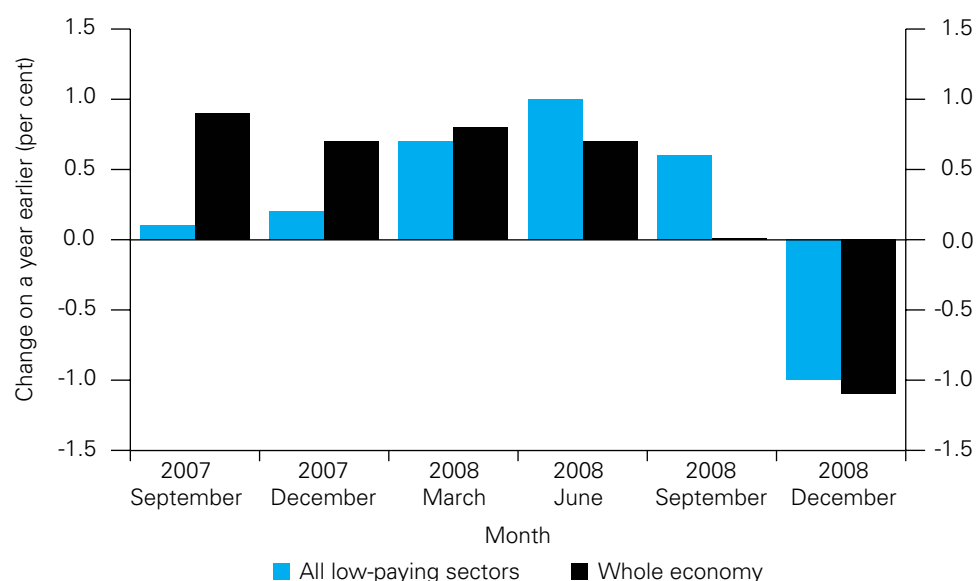
Source: ONS, total employment (MGRZ), LFS employees (MGRN), employee jobs (BCAJ), working age ILO unemployment (YBSH), and claimant count (BCJD), UK, seasonally adjusted, 1999–2008.

Note:

a. To be comparable with other periods, growth has been adjusted to represent twelve months.

**2.63** But Figure 2.17 suggests that the low-paying sectors have been less affected by the recession than the economy as a whole. Job growth in the whole economy outpaced that in the low-paying sectors in 2007 and the beginning of 2008; but between March and September the number of employee jobs in the low-paying sectors grew faster than in the economy as a whole. The number of employee jobs fell in both the low-paying sectors and the whole economy in the year to December 2008, although the job loss in the low-paying sectors was proportionately less.

**Figure 2.17 Annual Change in Employee Jobs in the Whole Economy and the Low-paying Sectors, GB, 2006–2008**

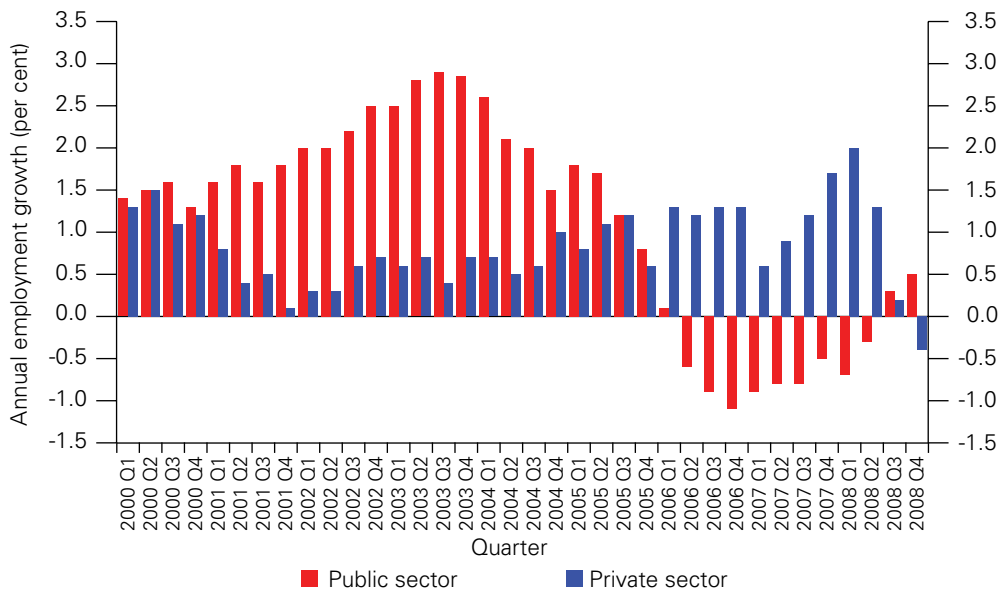


Source: LPC estimates based on ONS employee jobs series, three-monthly, not seasonally adjusted, GB, 2006–2008.

## Private and Public Sector Employment

**2.64** We showed earlier that the minimum wage affected the private sector more than the public sector, although there does not appear to be any relationship between the size of the changes in the minimum wage and private sector employment in aggregate. The strong growth in employment since the beginning of 2006 has been an entirely private sector phenomenon. Indeed, compared with the year earlier, public sector employment fell in every quarter between the second quarters of 2006 and 2008. Private sector employment appeared at first resilient to the initial impact of the credit crunch that originated in the US sub-prime markets in the summer of 2007; however, private sector employment growth slowed rapidly in the third quarter of 2008 before falling in the fourth quarter. At the same time, public sector employment actually increased, having fallen for nine consecutive quarters.

**Figure 2.18** Change in Levels of Private and Public Sector Employment, Thousands, UK, 2000–2008



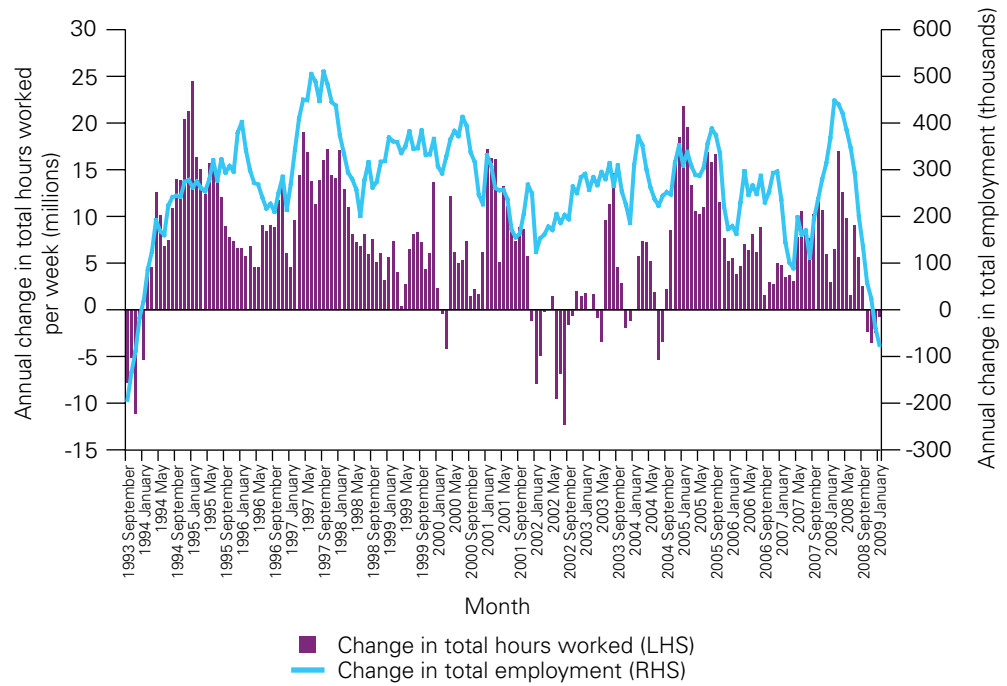
Source: LPC estimates based on ONS data, public sector employees (G7AU) and private sector employees (G7K5), quarterly, seasonally adjusted, UK, 2000–2008.

Note: The chart shows the difference in the number of jobs in the quarter shown compared with the same period of the previous year.

## Hours

**2.65** As would be expected from economic theory, the recession appears to have affected hours before employment. Firms might be expected to adjust hours before they start to make people redundant. The total number of hours worked per week peaked at 948 million in March 2008, an increase of 17 million hours on March 2007. Since that time, as shown in Figure 2.19, the annual growth in hours worked has slowed. The figure also shows that hours have been more sensitive to the recession than employment. The October upratings of the minimum wage coincided with a fall in the number of hours, compared with a year ago. This fall has continued. In December 2008, only 934 million hours were worked, the lowest since April 2007.

**Figure 2.19** Change in Actual Hours Worked, Millions, and Total Employment, Thousands, UK, 1993–2009



Source: LPC estimates based on ONS data, total hours worked (YBUS) and total employment (MGRZ), monthly, seasonally adjusted, UK, 1993–2008.

## Self-employment

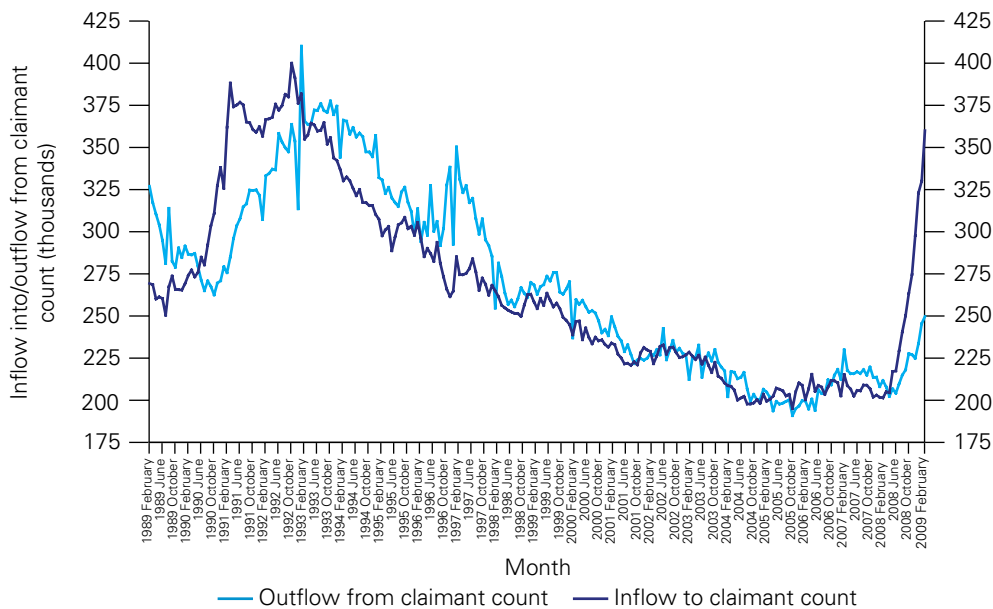
**2.66** When the minimum wage was introduced, we were concerned that self-employment might be used as a ruse to evade the regulations. We have thus regularly monitored self-employment to see whether there were any causes for our concern. The evidence to date does not suggest that this has been the case. Since the introduction of the minimum wage, self-employment in the economy has grown by 13.0 per cent while it has fallen by 1.0 per cent in the low-paying sectors. Over the last year (between the third quarters of 2007 and 2008), however, self-employment in the low-paying sectors has increased by 29,000 (about 2.9 per cent), faster than the growth in self-employment for the whole economy (0.9 per cent).



## Unemployment

**2.67** When the October 2007 upratings came into force, the stock of claimant unemployment was falling as claimant outflow was greater than inflow. By March 2008, however, this had reversed with those becoming unemployed outnumbering those leaving the claimant count. Since then, as shown in Figure 2.20, the monthly inflow has increased from 205,000 to 360,000 in February 2009. Over the same period, the outflow from the claimant count has also increased, but at a slower rate, from 202,000 to 250,000.

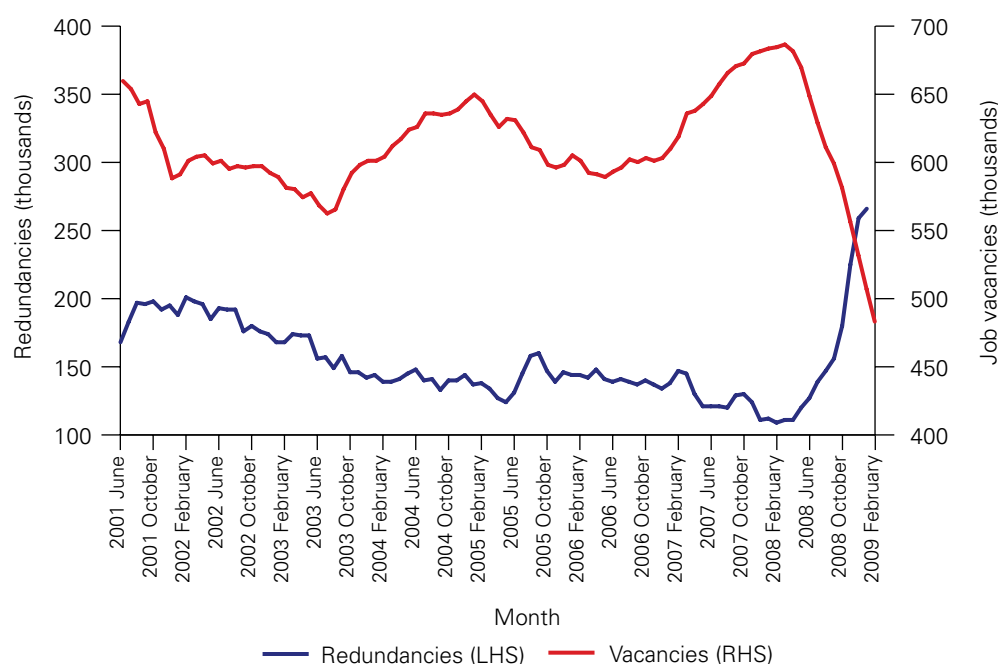
**Figure 2.20** Claimant Unemployment Inflow and Outflow, Thousands, UK, 1989–2009



Source: ONS, claimant count inflows (DPRD) and outflows (DPRE), all aged 18 and over unemployed, monthly, seasonally adjusted, UK, 1989–2009.

## Vacancies and Redundancies

**2.68** Vacancies and redundancies can also be used to gauge the health of the labour market. Figure 2.21 shows how the recession has had an impact on both redundancies and vacancies. Like hours, the number of vacancies in the economy peaked in March 2008. At the same time, the number of redundancies started to rise, creating a mirror image.

**Figure 2.21** Job Vacancies and Redundancies, Thousands, UK, 2001–2009

Source: ONS, redundancies (BEAO) and vacancies (AP2Y), monthly, seasonally adjusted, UK, 2001–2009.

## Research on the Labour Market

**2.69** The research undertaken for this report is, for the most part, based on data up to the end of 2007. The downturn in the labour market only becomes apparent in the data from the spring of 2008. From this point, employment growth slowed, vacancies fell and redundancies rose steeply, leading to sharp rises in unemployment and, by the autumn, employment and the number of employee jobs had fallen. Although the research summarised below provides an informative addition to our knowledge of the impact of the minimum wage, it should be noted that it does not take account of the most recent downturn.

**2.70** Dickens, Riley and Wilkinson (2009) examined the employment effects of the 2003–2006 upratings to the minimum wage. The researchers built on previous work by Stewart (2002, 2003, 2004a and 2004b) and Dickens and Draca (2005) to investigate the impact of the recent large upratings on individual employment transitions. Their analysis of job retention finds mixed evidence, for both men and women, that the minimum wage had affected the probability of remaining employed. They do, however, find a generally negative impact of the minimum wage on job entry for women, but it is not robust and is not statistically significant. The research from the local area analysis also fails to find

strong evidence of an adverse employment effect, but they found some weak evidence that increases in the minimum wage may have led to increases in unemployment.

- 2.71** Dickens, Riley and Wilkinson (2009) also investigated the impact of the minimum wage on hours, developing the work by Connolly and Gregory (2002) and Stewart and Swaffield (2004). They too found evidence that hours have been reduced in some years and in some econometric specifications but, unlike the findings of Stewart and Swaffield, the latest research findings were not robust. In conclusion, Dickens, Riley and Wilkinson (2009) could find no compelling evidence that the recent large minimum wage upratings had led to an adverse impact on employment, but some effects were detected on hours.
- 2.72** Dolton and Wadsworth (2009) also built on earlier work by Stewart (2002), which pointed out how the minimum wage reaches further up the wage distribution in certain parts of the country than in others and used these variations to investigate the impact of the minimum wage on employment growth. They found that areas where the minimum wage has greater effect were associated with a significant fall in wage inequality in the bottom half of the wage distribution. Although they found little impact of the minimum wage on employment over its entire period of operation, examination of yearly effects suggests a small but significant positive effect of the minimum wage since 2003. Like Dickens, Riley and Wilkinson (2009), however, they also found that areas where the minimum wage bite is greatest experienced higher unemployment but noted that unemployment rates fell more in these areas in the latter part of the period under study.
- 2.73** Experian (2009) examined the impact of the introduction of the minimum wage, and subsequent increases in its level, on staff turnover, retention and recruitment. They found some evidence that the introduction of the minimum wage and the early upratings may have been associated with reduced job search activity and reduced pay-related search activity among minimum wage workers, but they could find no evidence of any effects from the subsequent large upratings. Their econometric analysis of hard-to-fill vacancy data suggested a number of statistically significant changes in reported recruitment problems coinciding with minimum wage upratings but no clear pattern was established. They concluded

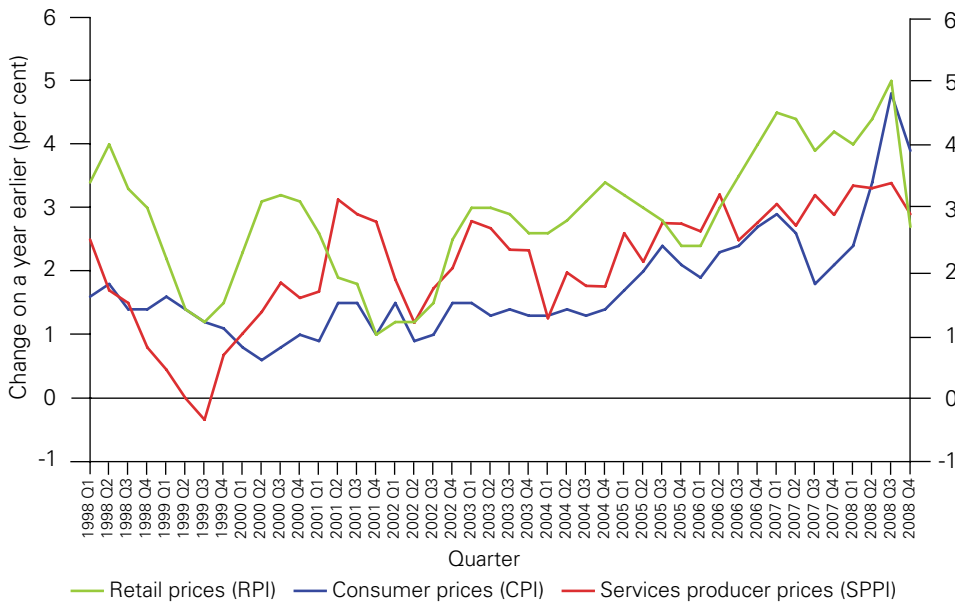
that there was no evidence that the minimum wage has had any significant effect on job-to-job moves among low-paid workers, or on recruitment difficulties among their employers.

- 2.74** In conclusion, as the research conducted for this report does not cover the current economic downturn, further research will be required to see if its benign conclusions continue in this period of economic uncertainty.

## Impact on Prices

- 2.75** As noted previously, firms affected by the minimum wage might increase prices as a way of dealing with increased costs. Figure 2.22 shows that inflation generally rose throughout 2006, fell back in the early part of 2007 before rising again as food, energy and oil prices rose sharply. This sharp rise peaked at the end of the third quarter of 2008 before falling steeply as oil prices fell from nearly \$150 a barrel in July to less than \$40 a barrel at the end of 2008. Heavy price discounting from retailers, particularly in clothes and household goods, the temporary reduction in VAT from 17.5 per cent to 15.0 per cent, and the reduction in interest rates led retail price inflation to fall back from a peak of 5.0 per cent in September 2008 to just 0.1 per cent in January 2009. The fall in the CPI was not as sharp as the fall in RPI because housing costs are excluded from the CPI. In general, it does not appear that firms have been able to pass on the large increases in fuel, energy and food costs to their business customers. The Services Producer Price Index (SPPI) has followed the upward trend since 2006, but it has remained below retail price inflation, at a rate around 3.0 per cent. Like CPI and RPI, it also fell in the fourth quarter of 2008, to 2.9 per cent.

**Figure 2.22** Consumer, Retail and Services Producer Price Inflation, UK, 1998–2008



Source: ONS, CPI (D7G7), RPI (CZBH) and SPPI (DZZ8), quarterly, not seasonally adjusted, UK, 1998–2008.

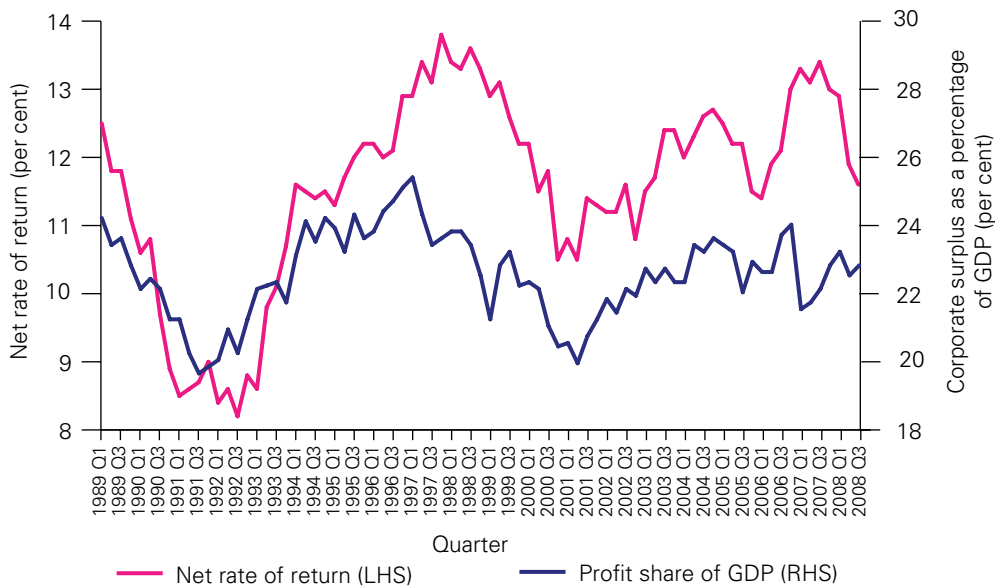
**2.76** For many of the low-paying sectors affected by the downturn in the economy, service producer inflation has been more subdued, with prices for hotel services falling by 1.4 per cent over the year in 2008. Prices for cleaning services, security services, employment agencies, and hospitality all rose by less than the general rise (3.2 per cent) of prices in business services in 2008.

**2.77** Although we did not commission any specific research on prices for this report, we can draw on two recent studies that give an insight into whether employers have passed on the costs of the minimum wage to their customers in the form of higher prices. Wadsworth (2007) found some tentative evidence that the introduction and subsequent uprating of the minimum wage may have led certain industries and services to raise prices. In a subsequent study, Wadsworth (2008) found no evidence of a significant change in prices in the month in which the minimum wage changed, but he concluded that prices in several minimum wage industries (those in which the workforce contained a high proportion of minimum wage workers) appeared to have risen relatively faster than prices in non-minimum wage sectors in the period after the minimum wage was introduced.

## Impact on Profits

- 2.78** As discussed above, firms subject to an increase in labour costs resulting from an increase in the minimum wage may be forced to accept a squeeze on profits. There is little evidence that the minimum wage has had an impact on profits at the whole economy level, although analysis in the 2007 Report showed that the non-oil profit share had been below its long-run average (the average since 1980) since the introduction of the minimum wage in 1999.
- 2.79** One measure of profitability is the rate of return on capital employed. Another is the profit share, defined here as corporate surplus as a percentage of GDP. Figure 2.23 shows that these two indicators of profitability have tended to move in a similar direction since 1989. Their paths diverged at the end of 2006, however, and they no longer appear to tell the same story. The net rate of return on capital rose from 10.5 per cent in the first quarter of 2001 to peak at 13.4 per cent in the third quarter of 2007, before falling back to 11.6 per cent a year later. The rate of return to non-oil and non-financial services (17.1 per cent on average) has consistently been greater than to manufacturing (8.7 per cent) since the introduction of the National Minimum Wage. But the current rates of return in both sectors are below these averages. In the third quarter of 2008, the net rate of return to manufacturing was just 4.4 per cent compared with 15.5 per cent in non-oil and non-financial services. In contrast to the rate of return measure, profit share peaked at 24 per cent in the last quarter of 2006 and has remained at around 23 per cent in 2008.

**Figure 2.23** Profit Share and Rate of Return on Capital Employed, UK, 1989–2008



Source: ONS, net rate of return on capital employed for non-UK Continental Shelf private non-financial corporations (LRXP) and corporate surplus as percentage of GDP (IHXM), current prices, quarterly, seasonally adjusted, UK, 1989–2008.

**2.80** Draca, Machin and Van Reenen (2005 and 2006) found some significant and robust evidence that profits had been reduced in the care home sector as a result of minimum wage increases, although Georgiadis (2006) found no such relationship in his follow-up study. Experian (2007) in their analysis of the impact of the minimum wage on profits at industry level found no statistically significant effect for any industries.

**2.81** In contrast, Forth, Harris, Rincon-Aznar and Robinson (2009) found a significant negative impact of the minimum wage on the rate of return on capital employed for firms in the 'most exposed sectors', defined by the researchers as those sectors with the highest proportions of workers affected by the minimum wage. Their findings on the price-cost margin, although negative, were not as robust and were not statistically significant. Together, these results suggest support for the earlier findings of Draca, Machin and Van Reenen but they are not sufficiently robust to allow us to draw any conclusions with confidence.

## Impact on Productivity

**2.82** Official data from ONS, as depicted in Figure 2.24, show that productivity growth in the economy as a whole increased sharply in the second half of 2005 before flattening out at just over 2 per cent throughout 2006 and most of 2007. It then peaked at 2.6 per cent in the fourth quarter of 2007. Since then, productivity growth has slowed sharply, with productivity actually declining by 0.5 per cent in the third quarter of 2008. The economic downturn has led to a decline in output that has been faster than the fall in employment. The figure also shows that since 2005, productivity in the service sector has followed a similar trend to the economy as a whole, albeit with productivity growth slightly higher. This series is also available for broad industrial sectors, such as the distribution, hotels and catering sector, of which retail and hospitality are large components. We can see that productivity growth in the distribution sector rose even faster than in the service sector throughout 2006 and 2007, but it has declined much more sharply throughout 2008.

**Figure 2.24** Growth in Productivity for the Whole Economy, Total Services, and Distribution (including Retail and Hospitality), UK, 1998–2008



Source: ONS, output per job for the whole economy (LNNP) and experimental series for total services and distribution, quarterly, seasonally adjusted, UK, 1998–2008.

**2.83** Productivity data from the ONS Annual Business Inquiry (ABI) are available at a more disaggregated level but is less timely.<sup>5</sup> The latest data are for 2007, a period when productivity was increasing in the economy as a whole. Using gross value added data, and adjusting for employment

<sup>5</sup> The Annual Business Inquiry is only available annually; the latest available is September 2007.



and hours, the figures suggest that productivity growth, whether measured in terms of per worker employed or per hour, was sluggish in 2005 but rose sharply in 2006 and 2007 in both retail and hospitality.

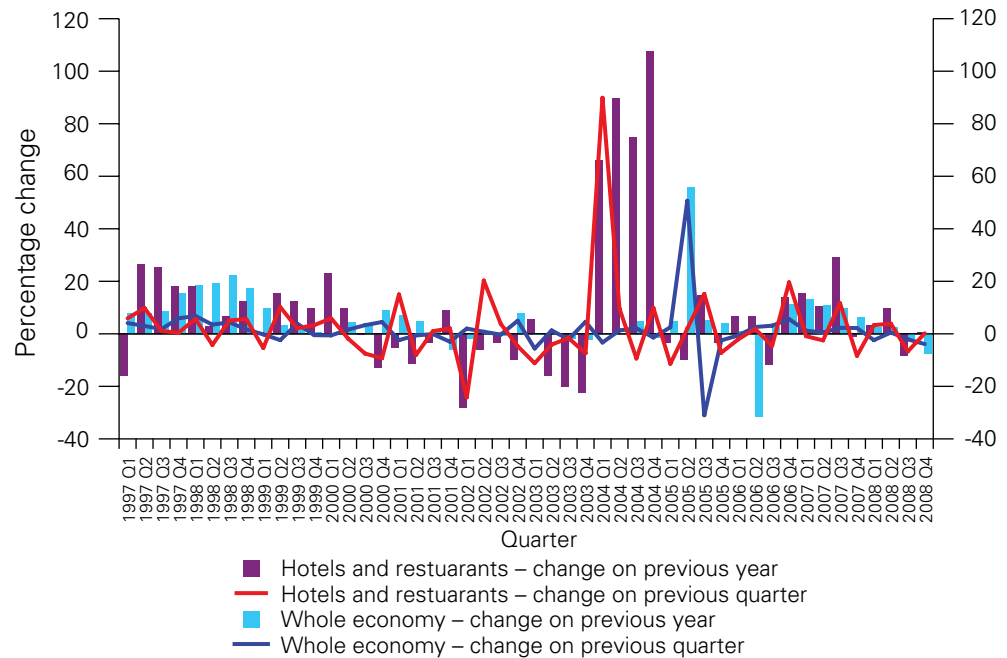
- 2.84** As part of the research project on competitiveness, Forth, Harris, Rincon-Aznar and Robinson (2009) investigated the impact of the National Minimum Wage on productivity at both the industry and plant level. The analysis at industry level built on earlier work by Forth and O'Mahony (2003) that looked at the evidence up to 2002 but focused on the impact of the introduction of the minimum wage. Although noting some studies that had found that the minimum wage had led to some improvement in productivity, Forth and O'Mahony's sectoral analysis found no systematic evidence of any productivity effects. The plant-level investigation follows in a similar vein to work, previously commissioned by us, conducted by Galindo-Rueda and Pereira (2004). They found some evidence of a positive impact of the minimum wage on labour productivity, particularly in service industries, but their results were sensitive to the econometric specification employed.
- 2.85** Using information on firms from the FAME (Financial Analysis Made Easy) database, Draca, Machin and Van Reenen (2005) also found a positive association between productivity growth and the introduction of the minimum wage but it was not statistically significant. A positive but insignificant relationship was found by Machin, Manning and Rahman (2003) in their study of care homes. In a follow-up study of these care homes, Georgiadis (2006) found no significant relationship between the minimum wage and productivity.
- 2.86** In their industry-level analysis, using data from the ABI, Forth, Harris, Rincon-Aznar and Robinson (2009) found a negative association between average labour productivity and the minimum wage for all sectors but this becomes positive when the sample is restricted to low-paying sectors or their 'most exposed sectors'. But none of these findings are statistically significant. They also found some very weak evidence of a negative total factor productivity effect but conclude that there is little or no association between the minimum wage and productivity. Inconclusive results were also found using plant-level data from the Annual Respondents Database (ARD).

**2.87** In summary, research has found little impact, adverse or otherwise, of the minimum wage on either labour productivity or total factor productivity in the economy as a whole or in the low-paying sectors in particular.

### Impact on Business Investment

**2.88** Minimum wages might also have an impact on business investment as any squeeze on profits is likely to impair the ability of businesses to invest. Alternatively, firms may increase investment as they try to substitute capital for labour or use investment in new technology to increase productivity. We investigated this issue by comparing business investment in the economy as a whole with that in an important low-paying sector, hospitality, for which relevant data are available. We can see from Figure 2.25 that business investment in the whole economy and in hospitality was stronger in 2007 than it was in 2008. Investment in hospitality held up better in the first half of 2008 than in the economy as a whole; however, business investment in hospitality has been similar to the whole economy averaged over the second half of 2008.

**Figure 2.25 Annual Change in Business Investment for the Whole Economy and the Hospitality Sector, UK, 1997–2008**

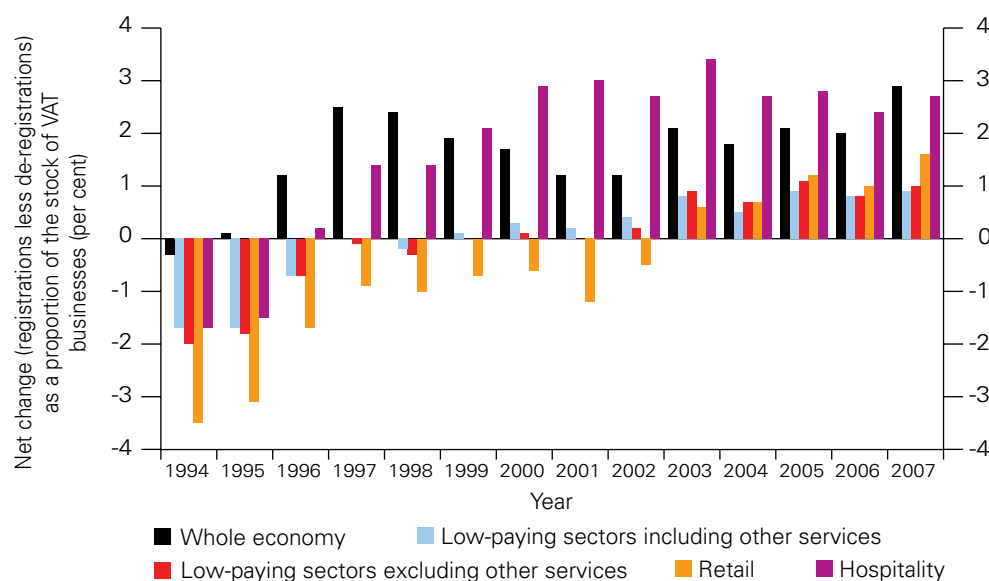


Source: ONS, business investment by industry, chained volume measures, quarterly, seasonally adjusted, UK, 1997–2008.

## Impact on Business Start-ups and Failures

- 2.89** The number of firms that enter and exit the market might be affected by the National Minimum Wage. For those contemplating starting a business, an increase in the minimum wage will add to labour costs and might reduce the attractiveness of setting up on one's own. Increases in labour costs will also affect the profitability of existing businesses. If the increase sufficiently reduces profits, the likelihood of a business failure will increase. Further, a reduction in profits may also deter business start-ups. But the most marginal businesses will be the ones most affected by these considerations. In such cases, an increase in the minimum wage might lead to an increase in productivity as the least productive and most marginal firms close or refrain from entry.
- 2.90** We start this section by looking at how the number of business start-ups and failures across the whole economy and in the low-paying sectors, particularly retail and hospitality, have changed over time. Although the data on VAT registrations and de-registrations are reasonably reliable, they are not very timely: the latest data available relate to 2007 and so pre-date the start of the current recession. We then look in more detail at a more timely series, company insolvencies. Unfortunately, this series does not provide any information on business creation.
- 2.91** As shown in Figure 2.26, there has been a net increase in the number of VAT-registered businesses in the UK since 1995. In 2007 around 206,000 businesses were created (up 24,000 on the previous year) with about 148,000 failing (up 5,000 on 2006). The stock of businesses in the economy increased by about 58,000 firms. The stock of VAT-registered firms in the low-paying sectors fell prior to the turn of the Millennium, but since then there has been an expansion in the number of firms. This expansion has been led by hospitality, where the relative number of businesses has grown faster than in the whole economy for every year since 1999 with exception of the latest year, 2007. The number of businesses in retail has also increased since 2003 and the rate of growth has outpaced the rest of the low-paying sectors, although it lags both hospitality and the economy as a whole.

**Figure 2.26** Net Annual Change in VAT-registered Enterprises as a Proportion of the Stock, UK, 1994–2007



Source: BERR Enterprise Directorate Analytical Unit, VAT registrations and de-registrations, annual, UK, 1994–2007.

**2.92** The number of insolvencies in the economy provides an alternative and more timely indicator of business closures. This is particularly pertinent in the current period of economic uncertainty. There were 4,607 company insolvencies in England and Wales in the fourth quarter of 2008, an increase of 52 per cent on a year ago. Of these insolvencies, company liquidations grew by 34 per cent to 1,562 and Creditors' Voluntary Liquidations rose 62 per cent to 3,045. There have also been sharp rises in the number of companies in receivership and those in administration in England and Wales. The data record similar changes over the year in Scotland and Northern Ireland.

**2.93** Unfortunately, the data by industry lag the whole economy data by a quarter, but they show that there has been an increase in the number of company insolvencies in the third quarter of 2008 in retail and hospitality as well as across the low-paying sectors as a whole. The increase has been in line with that for the whole economy.

**2.94** Using the Annual Respondents Database, Galindo-Rueda and Pereira (2004) found evidence to suggest that the introduction of the minimum wage led to business creation being slower in the lowest-paying geographical areas. They were unable to replicate this finding using VAT registration data; however, Experian (2007), using the same source, did find evidence that business creation was lower in those regions most

affected by the minimum wage (where pay was lowest). In their industry-level analysis, Forth, Harris, Rincon-Aznar and Robinson (2009) found some evidence that the minimum wage had increased the exit rates of firms.

## Conclusion

- 2.95** In summary, our investigation of the impact of the minimum wage on the economy has found that it continues to exert a significant influence on wages at the bottom of the earnings distribution. The minimum wage has continued to rise relative to both wages and prices. We commissioned a comprehensive research programme that investigated how firms had coped with these additional wage costs, focusing on the period of the relatively large upratings between 2003 and 2006. Firms appear to have adapted to these increases in wage costs by changing pay structures, removing wage premia, and reducing non-wage costs. The research found little evidence to suggest that the increases in the minimum wage had led to reductions in employment or hours worked. There was also no evidence that the minimum wage had led to changes in productivity, but some evidence suggested that profits had been squeezed. In all, we conclude that the minimum wage continues to exert a benign influence on the economy
- 2.96** These findings have generally been drawn from data up to the middle of 2008, though, and the economic climate has changed dramatically since then. Employment and vacancies are falling, and unemployment and redundancies are rising sharply. It is the first time that year-on-year aggregate employment has fallen since the introduction of the minimum wage. As we show in subsequent chapters, these adverse outcomes are observed across the whole economy, with nearly every sector and most groups of workers affected.
- 2.97** We next go on to investigate the impact of the minimum wage on the low-paying sectors in Chapter 3, groups of workers in Chapter 4, and young people in Chapter 5. We discuss the recession and its implications in greater detail in Chapter 8.



## Chapter 3

# Low-paying Sectors and Small Firms



- 3.1** In the previous chapter we highlighted that the minimum wage is likely to have the greatest impact on small firms and those sectors with either a large number or high proportion of jobs paying at or around the National Minimum Wage. In this chapter we assess the impact the minimum wage has had on these sectors, focusing in particular on the minimum wage upratings of October 2007.
- 3.2** We begin by reviewing across sectors the number of jobs at and below the minimum wage, employment trends, and other measures that might indicate any impact from the minimum wage. We then look at each of the low-paying sectors in detail, and consider the particular way the minimum wage has affected them. We draw on a variety of material, including multiple data sources, our commissioned research, other independent research, surveys of the market and employers, and our consultation. The position of small firms, which are disproportionately affected by the minimum wage, follows this analysis, and the chapter concludes by drawing together certain themes that emerged from the evidence we received.

## Overview of Impact

- 3.3** In this section we give an overview of the impact of the minimum wage across the low-paying sectors. In particular we look at changes to the proportion of jobs paid at the minimum wage and job levels. We found that overall the proportion of jobs paid at the minimum wage in April 2008 remained the same as in April 2007. But, there were differences between sectors, with some experiencing a rise and some a fall. We also found sector variation in the impact of the minimum wage on wage differentials. There was evidence from our Survey of Employers (2008) of a growing proportion of employers affected by the minimum wage, but that the impact for affected organisations from the 2007 uprating was less than from the 2005 uprating. Overall, the number of jobs in low-paying industries fell

between December 2007 and December 2008, with the majority of job losses occurring in the two largest industries, retail and hospitality. Some low-paying industries, however, experienced an increase in jobs over the same period. As shown in Chapter 2, our most recent research found little evidence to suggest that increases in the minimum wage had led to reductions in employment or hours worked. The fall in jobs in hospitality and retail is more likely a consequence of the general economic climate than as a result of increases in the minimum wage, while falls in other industries, such as textiles and clothing, are linked to factors that often pre-date the minimum wage. The data available for this report on industry levels jobs only covered December 2008 and we anticipate that there will be more redundancies shown in later data, as the recession bites.

## Low-paying Sectors

**3.4** The low-paying sectors we have identified are those industrial or occupational sectors that employ a large number of minimum wage workers or those in which a high proportion of jobs are paid at the minimum wage. The low-paying industries are: retail; hospitality; leisure, travel and sport; social care; food processing; agriculture; hairdressing; cleaning; security; and textiles and clothing. We also use these headings for our occupational-based definition. In addition to these, the low-paying occupations include childcare and office work. The ten low-paying industries accounted for over 8.4 million jobs in December 2008, almost a third of all jobs in the UK. Retail continues to be the largest low-paying industry by far, accounting for around 40 per cent of all jobs in the ten low-paying industries, followed by hospitality, which accounts for around 21 per cent of these jobs. But, not all jobs in the low-paying industries are low-paid. Indeed, many employees in these industries receive significantly more than the minimum wage. Moreover, these low-paying industries account for only about 70 per cent of all employees paid at or below the minimum wage; hence around 30 per cent of low-paid employees work in industries that we do not identify as low-paying. We have supplemented our analysis of these low-paying industries, with additional information on trends in employment in low-paying occupations associated with them.

## Earnings

**3.5** Table 3.1 shows that in April 2008, the proportions of jobs paid at the adult minimum wage remained unchanged from the proportions in April 2007



(2.8 and 8.2 per cent respectively in the whole economy and low-paying industries). This stability may reflect that the increase in the minimum wage in October 2007 was in line with pay settlements. It masks the fact, however, that certain low-paying sectors experienced a rise in the proportion of jobs on the minimum wage (cleaning, social care, agriculture, hairdressing, and food processing) and others a fall (retail, leisure, security, and textiles and clothing). The proportion on the minimum wage remained the same in hospitality. There was a rise in the proportion of jobs paid at the minimum wage among childcare occupations, whereas office work experienced a fall.

**3.6** The sectors with the highest proportion of jobs paid below the adult minimum wage were hairdressing (17.8 per cent) and hospitality (14.6 per cent) followed by childcare (8.4 per cent). These proportions reflect the widespread use of the apprentice exemptions and the Youth Development Rate in these sectors. We look in detail at the impact on earnings in each sector later in the chapter.

**Table 3.1** Percentage of Employee Jobs Held by Those Aged 18 and Over Paid At or Below the Adult Minimum Wage, by Sector, UK, 2006–2008<sup>a</sup>

Industry/ occupation	April 2006		April 2007		April 2008	
	% Paid at £5.05	% Paid below £5.05	% Paid at £5.35	% Paid below £5.35	% Paid at £5.52	% Paid below £5.52
Retail	4.2	5.0	7.0	4.5	6.5	4.0
Hospitality	15.2	13.5	16.4	13.2	16.4	14.6
Leisure	5.1	6.1	6.1	6.8	5.0	5.3
Cleaning	17.6	2.0	19.2	2.9	22.0	2.8
Security	4.4	0.3	3.3	1.0	3.2	0.7
Social care	3.6	2.3	4.1	2.2	5.0	2.5
Agriculture	2.7	3.1	2.6	3.8	3.9	3.4
Textiles and clothing	5.5	1.7	7.7	2.6	6.4	2.3
Hairdressing	8.7	16.7	8.2	17.5	8.8	17.8
Food processing	3.6	1.3	3.9	0.5	4.2	1.3
Office work <sup>b</sup>	2.3	3.0	3.2	2.9	2.3	3.5
Childcare <sup>b</sup>	4.3	7.2	3.8	7.5	4.7	8.4
<b>All low-paying industries</b>	<b>6.5</b>	<b>5.6</b>	<b>8.2</b>	<b>5.5</b>	<b>8.2</b>	<b>5.4</b>
<b>Whole economy</b>	<b>2.2</b>	<b>2.3</b>	<b>2.8</b>	<b>2.3</b>	<b>2.8</b>	<b>2.3</b>

Source: LPC estimates based on ASHE 2007 methodology, low-pay weights, UK, April 2006–2008.

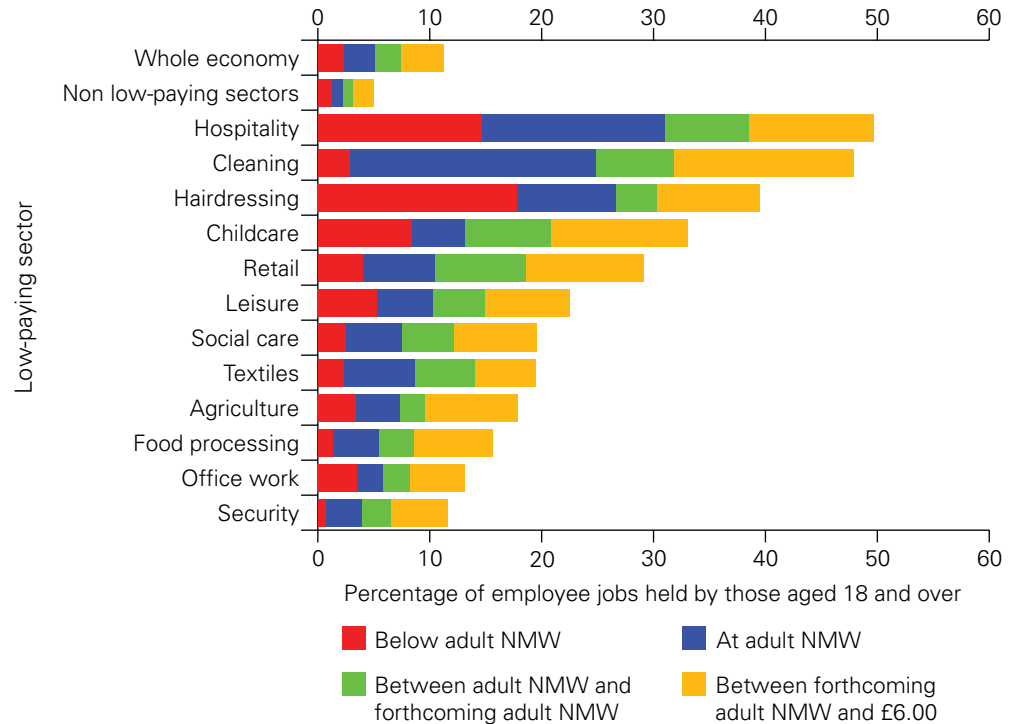
Notes:

a. This table also includes those aged 18–21 paid at or below the adult rate in 2006, 2007 and 2008.

b. These sectors are defined using Standard Occupational Classifications. The other sectors are based on Standard Industrial Classifications.

**3.7** Figure 3.1 shows the proportion of jobs in each sector that pay just above the adult rate of the minimum wage: up to and including £6.00 per hour. The retail and childcare sectors had the largest proportion of jobs that paid between the adult rate of the minimum wage (£5.52) and the forthcoming adult rate (£5.73), with both at 8 per cent. These were closely followed by the cleaning and hospitality sectors, each having 7 per cent of jobs within this range of earnings. Office work had the lowest proportion, at just 2 per cent of jobs. The same sectors also had the highest proportions of jobs paid between £5.73 and £6.00, with cleaning having 16 per cent, childcare 12 per cent, hospitality 11 per cent, and retail 10 per cent.

**Figure 3.1** Percentage of Employee Jobs Held by Those Aged 18 and Over Paid Below, At, and Above the Adult Minimum Wage to £6.00 Per Hour, by Sector, UK, 2008



Source: LPC estimates based on ASHE 2007 methodology, low-pay weights, UK, April 2008.

Note: The childcare and office work sectors are defined using Standard Occupational Classifications. The other sectors are based on Standard Industrial Classifications.

**3.8** Again this year, we received evidence from employers on the adverse impact on pay differentials of increases in the minimum wage. Trade unions offered a different perspective and referred to the benefits of a rising minimum wage. The Trades Union Congress (TUC) maintained that unions rarely heard that pay compression caused difficulties and maintained that there was no evidence that compressed differentials

were stopping workers from accepting additional responsibility or training. The TUC also referred to the beneficial effect of the minimum wage in closing the pay gap at the bottom of the earnings distribution for women and other groups of workers. The CBI reported that surveys of members between 2000 and 2008 had found a growing proportion paying staff at the National Minimum Wage (from 16 to 25 per cent). It had concerns about the minimum wage reducing the ability of businesses to maintain suitable differentials to encourage staff to take on additional responsibilities. Data from the Annual Survey of Hours and Earnings (ASHE) showed that there had been a squeeze on differentials in some sectors, particularly in the cleaning sector, which was the only low-paying sector to see a reduction in median earnings between April 2007 and April 2008. Other sectors experienced a widening in differentials at the lower end of the earnings distribution, perhaps reflecting the lower rise in the minimum wage compared with the 2006 upratings. The largest low-paying sector, retail, saw a reduction in the proportion of workers paid at the adult minimum wage and an increase in the proportion of those paid just above it, indicating a shift by this sector away from being minimum wage employers.

- 3.9** Our Survey of Employers (2008) found that a higher proportion of employers (55 per cent) had been affected by the October 2007 upratings in the minimum wage than in the previous survey in 2006, covering the 2005 upratings (42 per cent). This was despite the increase in the minimum wage in 2005 (4.1 per cent) being greater than in 2007 (3.2 per cent). But, those affected by the 2007 upratings seem to have been affected to a lesser extent than those affected by the 2005 upratings. For example, a lower proportion of affected firms had to increase pay rates in order to comply with the minimum wage or maintain differentials. Allison, Bowring, Chubb, Hatchett, Mulkearn, Warberg, Wiggins and Withers (IDS, 2009) research also provided evidence that the October 2007 minimum wage increase had less impact on affected organisations than some previous upratings. The study found that the average pay differential between the established adult rate and the minimum wage for a panel of major companies had fallen from 14.6 per cent to 4.8 per cent between 1999 and 2007. But, the 2007 average pay differential was wider than the 4.0 per cent in 2006.

'It is certainly clear that the minimum wage has not hindered job creation. Rather, increases in the minimum wage have coincided with employment growth in the low-paying sectors that has been stronger than employment growth in the broader economy.'

#### TUC evidence

## Employment

**3.10** We met in mid-March 2009 to review the latest evidence and decide our recommendations for this report. Generally, there is a time lag between changes in output and changes in employment. The data available for this report, therefore, may not show the worst outcomes on jobs, which could eventually emerge from the fall in economic activity. However, the figures which were available to December 2008 (Table 3.2), showed a fall in jobs in both the low-paying industries (down 1.0 per cent), and the economy overall between December 2007 and December 2008. In the low-paying industries the decline was largely in retail, which saw a fall of 87,000 jobs (2.5 per cent) and hospitality, which experienced a reduction of 29,000 jobs (1.6 per cent). As the economic recession continues, businesses in areas of discretionary spend such as retail and hospitality are likely to face further job losses. A fall in jobs also occurred in the cleaning, food processing, and textile and clothing industries. Some low-paying industries, however, experienced an increase in jobs over the same period. Social care saw the largest rise in jobs, up 28,000 (2.4 per cent), with the security; agriculture; hairdressing; and leisure, travel and sport industries also experiencing increases. In the low-paying occupations, childcare experienced a rise in employment (up over 15,000, to stand at 360,000) and office work a slight fall in employment to 303,000 in the year to the fourth quarter of 2008.

**Table 3.2** Change in Employee Jobs, by Low-paying Industry, GB, December 2008

Levels (thousands)	December 2008	Change on December 2007	Change on December 2006
<b>All sectors</b>	<b>26,304</b>	<b>-304</b>	<b>-128</b>
<b>All low-paying</b>	<b>8,414</b>	<b>-87</b>	<b>-67</b>
Retail	3,372	-87	-79
Hospitality	1,753	-29	-20
Social care	1,196	28	51
Cleaning	482	-8	-7
Agriculture	240	5	-20
Security	176	7	9
Textiles and clothing	88	-4	-9
Food processing	350	-6	-7
Leisure, travel and sport	632	3	16
Hairdressing	126	5	-3

Source: LPC estimates based on ONS employee jobs series, three-monthly, not seasonally adjusted, GB, 2006–2008.

**3.11** A number of employers' representatives reported that the minimum wage was having an adverse impact on employment, hours and jobs in their sector, all within the context of a worsening general economic situation. Trade unions pointed to information that countered these views, and suggested that the impact of the minimum wage was more muted. The research we commissioned for this report on the impact of the National Minimum Wage on the low-paying sectors (IDS, 2009) found some evidence that the minimum wage was having an adverse impact on hours worked in the fast food sector. In addition, IDS found that in childcare the October 2007 upratings had led to a reduction in jobs and hours at some nurseries. But, this impact was smaller in 2008 than that found in its 2007 survey, a fall from 10 per cent to 7 per cent of the nurseries that answered this question (IDS, 2009). Our Survey of Employers (2008) found that the proportion of affected firms reducing staffing or hours in response to the rise in the minimum wage was lower than in the previous survey in 2006. Although as noted in Chapter 1, given the low response rate and that respondents are likely to be those most affected, the survey cannot be assumed to be representative of the low-paying sectors as a whole.

'During the last decade of economic growth, the NMW has risen sharply ahead of average earnings....The NMW has also risen well ahead of all measures of inflation since 1999....The result has been a substantial increase in the 'bite' of the wage....For affected firms, the impact of the growing wage is more significant and can be seen in the increasing coverage among employers and employees.'

#### CBI evidence

## Impact on Low-paying Sectors

### Retail

**3.12** The global economic downturn has had an impact on the retail sector. Gross Value Added (GVA), a measure of a sector's output, in the wholesale and retail sector had seen continuous growth in output since 1998. GVA data showed that growth continued in the first two quarters of 2008 but at a slower rate; however, in the third and fourth quarter of 2008, output fell by 2.8 and 5.2 per cent respectively (see Figure 3.2). This fall, however, has mainly been confined to wholesale distribution and the motor trade. Retail, as a whole, has been reasonably robust. The value of retail sales grew by 3.7 per cent in 2007 and by 3.1 per cent in 2008, with growth strongest in the first quarters of each year. This growth in value of sales continued into 2009 but the rate of growth has slowed, to 2.6 per cent in January 2009. Official data also show a similar slowdown in growth of sales volumes. Industry data, from the CBI Distributive Trades Survey and BRC-KPMG Retail Sales Monitor, paint a more pessimistic picture of the retail sector throughout 2008 with sales static or falling, but these data generally ignore internet sales. Together,

the data suggest that consumers are feeling the effects of the economic turmoil in the economy. Despite this, official retail data showed retail sales and volumes were relatively robust in January 2009 and the BRC-KPMG Retail Sales Monitor (BRC-KPMG, 2009) indicated that total sales increased in the three months to February 2009 by 0.6 per cent compared with the same period in 2008.

- 3.13** Disaggregated retail data show that this robustness is entirely due to the food and non-store non-food sectors. Food was the main sector to show sales up on a year ago. There continued to be heavy discounting on clothing and household goods, but despite this, sales in these areas fell below the levels of a year earlier. The Retail Sales Monitor indicated that non-food, non-store sales (i.e. internet, mail order or telesales) in February 2009 were 12.5 per cent higher than in February 2008. Although non-food, non-store sales increased in February 2008, the rate of growth has slowed. The British Retail Consortium (BRC) points out that non-food, non-store sales are largely another route to customers for retail businesses who also have shops. The Office for National Statistics (ONS) internet sales figures for February 2009 showed that the value of internet sales increased by over 13 per cent compared with a year earlier. Figures from the IMRG Capgemini e-Retail Sales Index (2009) showed that online sales in February 2009 were up 13 per cent on the same period in 2008 and, although growth has been consistent for the last 8 months, this was the second lowest yearly growth the Index has recorded since it was launched in April 2000.
- 3.14** Although online sales are expanding, and the increased use of online buying is widely reported, they still represent a small share of overall retail sales. Many retailers have online sites and these sales provide a contribution to offset other losses retailers may suffer. It is clear, however, that more shoppers are moving to online sales, and research conducted by Capgemini showed that 37 per cent of shoppers now generally did more than half their shopping online. It is not apparent, though, how this will affect the employment of low-paid workers.
- 3.15** Despite the robustness of the sector as a whole, in the run up to the production of this report, a number of retailers have ceased trading and an increasing number are reporting trading difficulties. It is predicted that as a result of the economic downturn, more businesses than usual will cease trading and staff will be made redundant. Although this is not directly as a result of increases in the minimum wage, the increases will

have had an impact on businesses' costs. As shown in Chapter 2, insolvencies across the economy increased by 52 per cent in the fourth quarter of 2008 compared with a year ago. Many of these were in retail.

## Earnings

- 3.16** The number of people paid at or just above the adult minimum wage continued to rise and, according to ASHE, in April 2008 592,000 jobs in retail held by adults aged 22 and over were paid between £5.52 and £5.57 an hour. In April 2008, there was a decrease in the proportion of retail jobs paid at the National Minimum Wage compared with April 2007, down from 7 per cent to just above 6 per cent. This is in contrast to a significant rise between April 2006 and April 2007. In April 2008, although there was a reduction in the proportion paid at the adult minimum wage, there were significant increases in the proportions paid just above it and at £6.00 per hour. The lower increase in October 2007 has enabled more employers to pay above the minimum wage. Further evidence supporting this is shown in research conducted by IDS (2009), which found that only a third of retailers in 2008 set the adult minimum wage rate as their start rate, down from two-thirds in 2006. This research also found that there has been a trend in recent years to lower the age at which the adult rate is paid and that a number of retailers had ended completely the practice of age-related pay.
- 3.17** The IDS research also found that the gap between established rates of pay and the minimum wage narrowed between 2003 and 2005 but has now widened again. In 2003, 13 per cent of established rates for sales assistants were at the National Minimum Wage. This proportion rose to 34 per cent in 2005 but fell back to 16 per cent in 2007. This suggests retailers have opted to pay above the minimum wage as their established rate. In addition, some employers have also sought to maintain and in some cases increase their pay differentials. Separately, IDS (2008) found that the median pay settlement in 2008 across the retail sector was 3 per cent, unchanged from 2007.
- 3.18** When we look in more detail at the number of jobs paid at the adult minimum wage, over 13 per cent of employees in specialist food stores (greengrocers, fishmongers, bakers etc.) were paid at the National Minimum Wage in April 2008. This proportion is the same as April 2007 and a slight reduction from April 2006. This part of the retail sector has by far the largest proportion of jobs paid at the adult minimum wage.

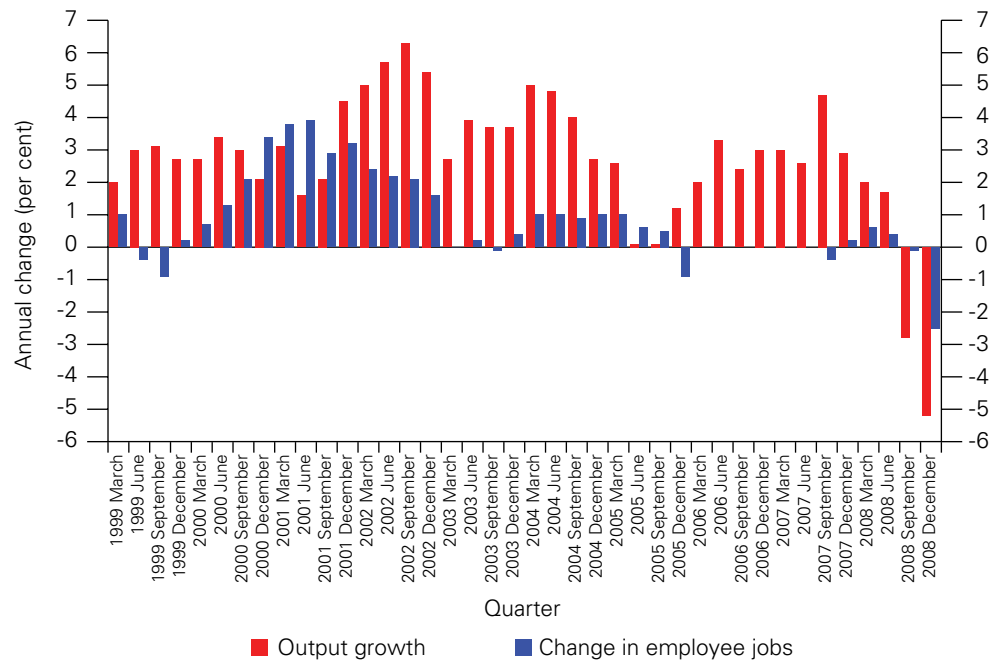
'Within the food retail market in the UK there has been consolidation by the major supermarkets. It is this consolidation that is adversely affecting small retailers rather than additional costs associated with the minimum wage.'

### **Unite evidence**

## Employment

**3.19** There were nearly 3.4 million employee jobs in the retail sector in December 2008, accounting for around 40 per cent of all jobs in the low-paying sectors. Around 10 per cent of these jobs were paid at or below the minimum wage in April 2008. Figure 3.2 shows that the total number of retail employee jobs decreased by 2.5 per cent (87,000 jobs) in the year to December 2008. Anecdotal evidence gathered during our consultation suggests that jobs in this sector will fall further as a result of the economic slowdown. According to the Labour Force Survey (LFS), however, employment in retail occupations remained stable between the fourth quarter of 2007 and the same period in 2008.

**Figure 3.2** Output Growth, UK, and Employee Jobs, GB, in the Retail Sector, 1999–2008



Source: LPC estimates based on ONS employee jobs series, three-monthly, not seasonally adjusted, GB, 1999–2008 and LPC estimates based on Output Index (GDQC), quarterly, seasonally adjusted, UK, 1999–2008.

Note: As a result of the break in the employee jobs series between December 2005 and September 2006, annual changes cannot be estimated for periods from March 2006 to June 2007.

## Stakeholder Views

**3.20** The BRC reported in its evidence this year that turmoil in the financial markets, along with increasing inflation and increasing unemployment had contributed to consumer confidence reaching all-time lows. Previous upratings to the minimum wage had continued to squeeze differentials, and small businesses were reducing staff and hours. In a BRC survey (2008), 18 per cent of multiple retailer respondents and 33 per cent of



respondents from small and medium-size enterprises (SMEs) attributed a decrease in average staffing levels to an increase in the minimum wage. Tesco advised that it had re-structured its reward budget in order to absorb increases in the minimum wage above its average pay increases.

## Sector Summary

**3.21** In the year to April 2008, the proportion of jobs in the retail sector paid at the minimum wage decreased, reflecting a smaller percentage increase to the minimum wage in 2007. The number of jobs in the retail sector is decreasing, although this is more likely due to other current economic factors rather than the minimum wage. The data available as this report was prepared showed a reduction of 2.5 per cent in the number of retail jobs, and it seems clear from the number of high street names that have gone into administration that the decline will continue in the months ahead. We would expect some parts of the retail sector to feel the effect as consumer discretionary spending decreases, but other parts (e.g. food) should remain relatively buoyant.

## Hospitality and Leisure, Travel and Sport

**3.22** The fortunes of hospitality and leisure, travel and sport are often closely allied. Each has experienced strong growth in jobs in the period since the introduction of the minimum wage, although the proportion of jobs affected by the minimum wage differs between the two sectors.

### Earnings

**3.23** We saw from Table 3.1 that hospitality continues to be a sector where a high proportion of jobs are paid at the adult minimum wage, but that the proportion remained unchanged between April 2007 and April 2008. Our Survey of Employers (2008) found that hospitality had the highest proportion of employers (61 per cent) which needed to raise pay rates in order to comply with the 2007 upratings. As with retail, there may have been an impact from a lower rise in the minimum wage in October 2007 compared with that in 2006, allowing employers more room to accommodate the increase. This additional room to make adjustments is perhaps also illustrated by ASHE data, which show some widening of differentials at the lower end of the hourly earnings distribution for hospitality. There was, however, a narrowing between the first quartile and median earnings during the same period.

'Minimum wage increases had an impact on differentials. One company used to have eight gradings but this had been reduced to three, purely to maintain some differentials. Another was struggling to maintain differentials.'

**BBPA members  
Commission visit  
to Nottingham**

'The NMW appears to have little impact in the hotel sector according to responses to an Incomes Data Services survey.... While minimum rates for the lowest paid employees are at NMW levels, typical rates are usually above the statutory wage.'

### Unite evidence

- 3.24** Evidence from IDS (2009) showed that the use of youth rates varied within the hospitality sector. It found that most hotels paid adult rates from age 16, with some paying from age 18, and only one waited until the age of 22 to apply the adult rate. In the fast food, pubs and restaurants sector, 9 of the 15 companies responding to the survey operated youth rates and 5 of these paid adult rates from age 22.
- 3.25** A smaller proportion of jobs were paid at the adult minimum wage in leisure, travel and sport in April 2008 than in April 2007, a fall from 6.1 to 5.0 per cent. Our Survey of Employers (2008) found that leisure had the lowest proportion of employers who said the October 2007 upratings in the minimum wage had affected them. Earnings data show that, for leisure, differentials at the lowest end of the hourly earnings distribution have remained virtually the same between April 2007 and April 2008 but, in contrast with hospitality, differentials had widened between the first quartile and median earnings over this period.

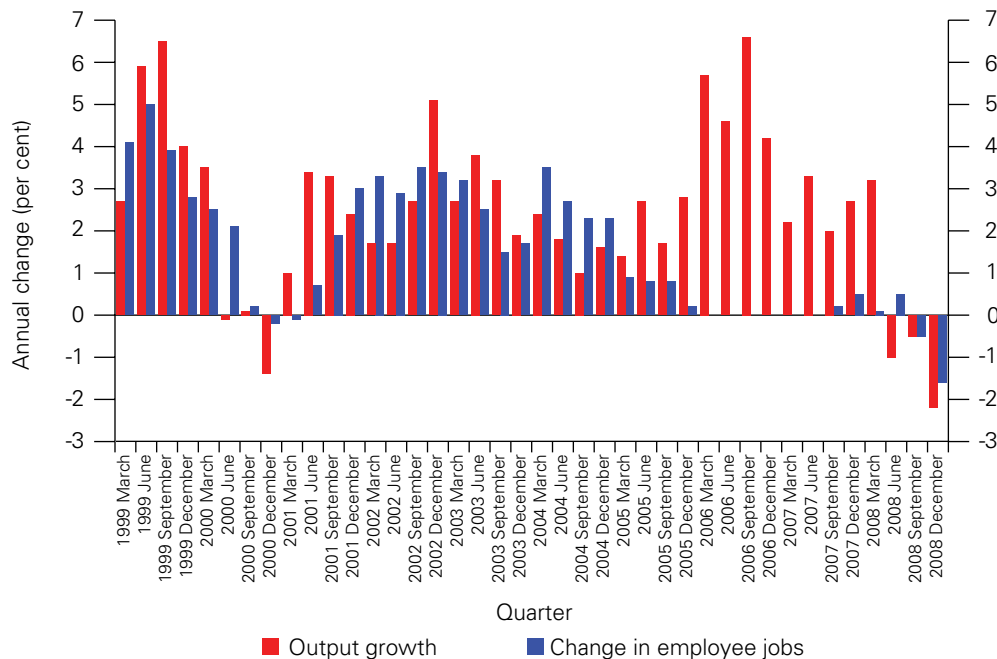
### Employment

- 3.26** Although not readily available for leisure, travel and sport, there are sector output data (GVA) for hospitality. Figure 3.3 shows how the annual growth rate in hospitality fell sharply during 2007 and has been negative since the second quarter of 2008 (-2.2 per cent in the fourth quarter of 2008). This started to feed through to employment in the second half of 2008, with a fall of 9,000 employee jobs in September 2008 compared with September 2007. The latest jobs data, for December 2008, show a larger fall, with a reduction of 29,000 jobs (1.6 per cent) compared with December 2007. The fall in jobs in the years to September and December 2008 respectively, was the first period of year-on-year falls since March 2001, and only the third since the introduction of the minimum wage (although data in this series are not available for year-on-year comparisons between December 2005 and September 2007). Because of the fall in output in late 2005, we think it highly likely that a fall in employee jobs will have resulted at some point during the period following December 2005. The fall in jobs in December 2008 was highest in the sub-sector of bars, down 18,000. The other sub-sectors also experienced a decline in jobs over the same period, except canteens and catering, where there was a rise of 6,000. This loss of jobs in bars was a trend noted in our 2007 Report. Reasons put forward to explain the fall include the public smoking ban, falling beer

consumption, and competition from supermarket sales. According to LFS, there was also a fall in employment in low-paying hospitality occupations of over 56,000 between the fourth quarter of 2007 and the same period in 2008.

**3.27** Leisure, travel and sport is a sector that experienced substantial growth in employee jobs in the period following the introduction of the minimum wage, but this slowed and the level remained virtually the same between December 2007 and December 2008, with a small increase of 3,000 jobs. According to LFS, employment in low-paying leisure occupations also experienced a small rise, by over 3,000 between the fourth quarter of 2007 and the same period in 2008, to stand at 102,000.

**Figure 3.3** Output Growth, UK, and Employee Jobs, GB, in the Hospitality Sector, 1999–2008



Source: LPC estimates based on ONS employee jobs series, three-monthly, not seasonally adjusted, GB, 1999–2008 and LPC estimates based on Output Index (GDOC), quarterly, seasonally adjusted, UK, 1999–2008.

Note: As a result of the break in the employee jobs series between December 2005 and September 2006, annual changes cannot be estimated for periods from March 2006 to June 2007.

## Stakeholder Views

**3.28** Some stakeholders in hospitality pointed to the impact of the minimum wage on wage structures in the sector. The Association of Licensed Multiple Retailers (ALMR) repeated a point made in previous submissions that the minimum wage had become the average wage within the bars sub-sector. British Beer & Pub Association (BBPA)

'A small number of respondents have always stated that they have had to let staff go as a result of increases in the NMW, but this is the first time that this action has been taken by a significant majority of employers...and may account for the recent decline in employment within the sector and the brake on the creation of new job opportunities.'

### ALMR evidence

'In short, a wobbly market in September has become a collapsing market in November....The rapid deterioration in business means only one thing: fewer jobs across the industry, and even fewer if costs are allowed to rise.'

### BHA/BISL/BBPA oral evidence

members told us during a visit to Wales that differentials had been squeezed in the sector and staff were not motivated to take on extra responsibility for what is now a small increase in wages. The Cinema Exhibitors' Association told us that increases in the minimum wage ahead of inflation had the effect of eroding pay differentials and addressing this increased the potential inflationary effect on the wages of other job categories above minimum rates.

**3.29** The British Hospitality Association (BHA), BBPA and Business In Sport and Leisure (BISL) submitted a collective response to our consultation. They reported a deteriorating economic situation for the hospitality and leisure sectors that included: rising costs; a sharp fall in job vacancies; declining employment, turnover and profits; and a 1.4 per cent fall in output in hotels and restaurants in the quarter to June 2008, with the most significant decrease in pubs and bars. They said an estimated 35 pubs were closing every week, with a number of bingo clubs also ceasing to trade. By the time of our oral evidence, they reported a further worsening of the market for hospitality and leisure businesses. The ALMR said that employment growth in its sector peaked in 2005 but has since declined and predicted it to fall further this year. It said gross employment costs had risen, on average, from 18 per cent of turnover in 1997 to over 30 per cent in October 2008. Increases in the minimum wage contributed to this rise, with 61 per cent of employers in its survey saying they had to let staff go because of the latest increases, up from 45 per cent in 2006 and 32 per cent in 2004. The ALMR said that there was evidence that some small businesses in its sector will seek to reduce the number of outlets they manage as a result of increased employment costs attributed to the National Minimum Wage. Our Survey of Employers (2008) found that hospitality had the highest proportion of employers who had to adjust staffing or hours in response to the October 2007 increases in the minimum wage.

**3.30** In written submissions trade unions suggested that the situation in hospitality was of less concern. The TUC said the hotel sector was still enjoying historically high returns, with revenue per available room in London hotels rising by nearly 12 per cent in late July 2008 compared with the same week in 2007. Unite said that earnings data showed the relatively high earnings growth in the hotel sector over the last 18 months, and that the majority of hospitality companies in the top 50 sector employers were profitable.

## Sector Summary

**3.31** The evidence suggests that in both hospitality and leisure, the lower rise in the minimum wage in October 2007, compared with October 2006, allowed employers to accommodate the increase with less impact than from previous upratings on differentials or the proportion of jobs paid at the minimum wage. In some parts of these sectors, particularly in bars, however, the minimum wage has continued to have a greater influence. Overall, the hospitality and leisure sectors are facing a slowdown in demand and output, and having difficulty in accommodating increased costs. The decline in jobs, or slowing of job growth in these sectors, is more closely related to the economic climate than the minimum wage.

## Social Care

**3.32** Independent sector providers, in large part funded by public sector purchasers such as local authorities and the NHS, supply the majority of residential social care in the UK. Laing and Buisson (2008a) estimated the annual UK market value for residential care as £13 billion at April 2008, of which private (for profit) was £9.1 billion, voluntary (not-for-profit) £1.8 billion and public sector supply £2.1 billion. It further estimated that in 2008 the value of the UK homecare market delivered by independent sector providers was £3.2 billion, with the majority of services purchased by local authorities (Laing and Buisson, 2008b). There had been continued growth in expenditure on community care services since the introduction of community care reforms in 1993. Social care is a highly regulated sector in terms of minimum staffing and qualification requirements, particularly in care homes. These factors are reflected in the impact of the minimum wage on the sector, and in some of the issues raised with us by the stakeholders.

## Earnings

**3.33** Overall, in April 2008, 5.0 per cent of jobs in social care were paid at the adult minimum wage, a small rise over April 2007. The impact is greater in the private sector, where 7.8 per cent of jobs are paid at the adult rate of the minimum wage. Together with the voluntary sector, the private sector delivers the majority of care services. In the public sector only 1.3 per cent of jobs are paid at the adult minimum wage.

**3.34** In most cases, as noted by IDS (2009), adult rates of pay are applied in the sector from age 18. Its research also highlighted that 38 per cent of respondents had to raise pay rates in order to comply with the October 2007 rise in the minimum wage. The median proportion of the workforce affected was 8 per cent, but with a range between less than 1 per cent and 100 per cent. Differentials between NVQ Level 2 and NVQ Level 3 qualified care assistants had narrowed significantly (IDS, 2009). Our Survey of Employers (2008) found social care had one of the highest proportions of affected employers reporting they needed to increase pay rates in order to maintain pay differentials as a result of the October 2007 upratings. Stakeholders also highlighted further pressure on social care providers' ability to recruit: changes to the regulations governing employment of non-EU/EEA workers meant that care providers would have more limited access to this source of care workers in future, which, stakeholders believed, would put further pressure on their ability to attract suitable staff at an affordable wage.

### Employment

**3.35** The number of employee jobs in the social care sector has continued its upward trend to stand at almost 1.2 million in December 2008. This was an increase of over 2 per cent on December 2007. Employment in low-paying social care occupations also increased, by nearly 76,000, between the fourth quarter of 2007 and the fourth quarter of 2008. IDS (2009) found a significant rise in the proportion of organisations experiencing recruitment problems.

### Stakeholder Views

**3.36** Affordability was again a key theme in the evidence we received from those representing social care providers, such as the United Kingdom Home Care Association (UKHCA) and the English Community Care Association (ECCA). Often, increases in the fees paid by the state did not reflect increases in the cost of providing care, including the minimum wage. This is an issue we have considered and voiced our concerns about in a number of previous reports. Figure 3.4 shows that in 2008/09 the Laing and Buisson survey of local authorities baseline fees (Laing and Buisson, 2008a) found the majority paid fee increases less than that required to meet care home cost inflation (the standstill margin). Our Survey of Employers (2008) found that when social care providers

'The Commission has previously noted its interest in direct payments and an emerging personal assistant workforce... there are employment issues, including the ability of service users to meet the NMW and provide adequate contracts and job descriptions, along with training and career opportunities.'

#### **UKHCA evidence**

attempted to re-negotiate their contracts in the light of the October 2007 increase in the minimum wage, two-thirds were unsuccessful.

Organisations in the sector also highlighted that the minimum wage had an impact on differentials because the rise in the wage often exceeded the increase in care fees paid by local authorities commissioning care.

ECCA told us in oral evidence that the sector aspired to pay significantly above the minimum wage, but that its aspirations were undermined by chronic under-funding.

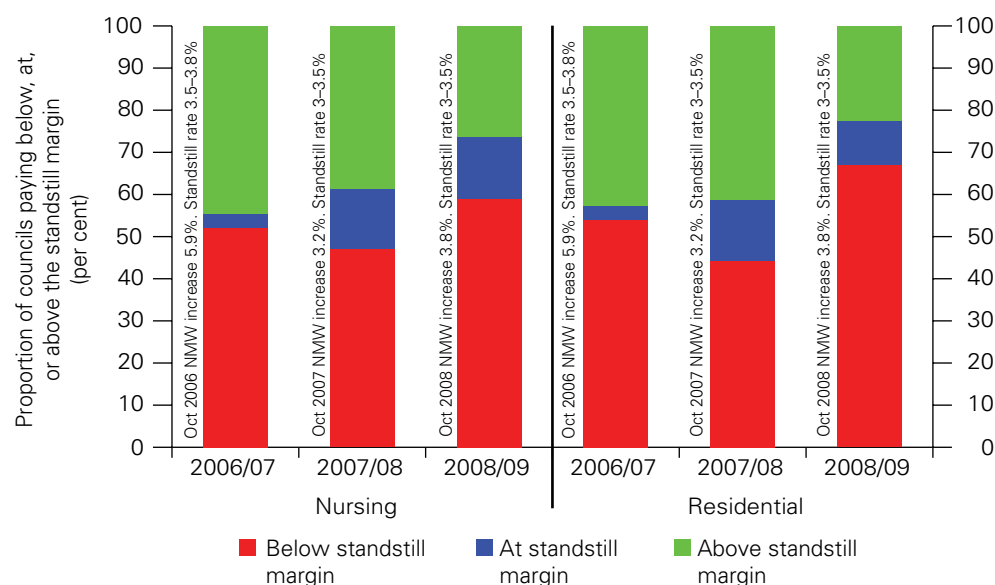
- 3.37** Stakeholders also brought to our attention the increased role envisaged by the Government in the use of 'direct payments'. These occur where public authorities give individuals money with which to commission and pay for their care themselves, perhaps employing a personal assistant. Although only a small proportion of service users receive care via direct payments, the numbers have risen in recent years in line with government policy that supports further expansion (Laing and Buisson, 2008b). Direct payments came to our attention in evidence for our 2005 Report, and we noted a potential compliance problem for the minimum wage. In circumstances of individuals purchasing their own care, both the service user and those performing the personal assistant role may not be fully aware of their rights and responsibilities in respect of their employment relationship, including payment of at least the National Minimum Wage.

'The ECCA supports the NMW but the costs must be reflected in what council and NHS purchasers of residential care are prepared to pay....

This financial year has seen particularly low, or even nil increases, for care homes funded by the state through council or PCT commissioning.'

#### **ECCA evidence**

**Figure 3.4** Proportion of Local Authorities Paying Baseline Fee Increases Below, At, or Above the Standstill Margin Increase, by Type of Care, UK, 2006/07–2008/09<sup>ab</sup>



Source: Laing and Buisson baseline fee survey conducted by Community Care Market News, UK, 2006–2008

Notes:

- The Laing and Buisson/Joseph Rowntree Fair Price Model estimates the proportional increase in baseline fees needed to stay in line with care home cost inflation (the standstill margin).
- Excludes those who did not respond to the surveys or did not have comparable data with the previous year.

## Sector Summary

**3.38** We continue to be concerned by the shortfall in funding experienced by many social care providers. In line with recommendations we made in previous reports **we recommend that the commissioning policies of local authorities and the NHS should reflect the actual costs of care, including the National Minimum Wage.** In addition, we urge the Government to consider the implications of the increased use of direct payments for compliance with the National Minimum Wage and how it can best ensure both protection of the minimum wage rights of personal assistants and a greater awareness of the responsibilities of those who employ them.

## Childcare

**3.39** The expansion of childcare provision remains high on the Government's agenda. The administrations in England, Scotland, Wales and Northern Ireland have their own programmes and policies for supporting childcare. In England, by 2010 all 3 and 4 year olds will be entitled to 15 hours a week of free high quality care for 38 weeks a year and there will be an



out-of-school childcare place for children aged 3–14 (8.00 am to 6.00 pm) on weekdays. The Government has also introduced measures to reform the childcare workforce, improve its status and increase the proportion of workers holding qualifications, particularly at NVQ Level 3 (Nicholson, Jordan, Cooper and Mason, 2008).

- 3.40** Laing & Buisson (2008c) estimated that the value of the UK full-day care market was £3.8 billion for 2007. Private sector providers accounted for the majority of this (£3.0 billion), with the remainder split between the voluntary sector (£415 million) and the public sector (£385 million). Results from the Childcare and Early Years Providers Survey covering England in 2007 (Nicholson, Jordan, Cooper and Mason, 2008) showed a continued increase in the number of full-day care providers, but with another fall in sessional care (most likely explained by sessional providers switching to full-day care in response to parental demand). The number of after-school clubs continued to rise, but holiday clubs fell in number. Between 2003 and 2006, the financial situation seemed to have worsened for most types of providers, with a lower proportion saying they had made a profit or surplus and a higher proportion saying they had made a loss (Nicholson, Jordan, Cooper and Mason, 2008). Since then, the position has improved for some types of provider. Our Survey of Employers (2008) found that 69 per cent of employers in childcare who were affected by the minimum wage, faced a fall in profits as a consequence of the October 2007 upratings.

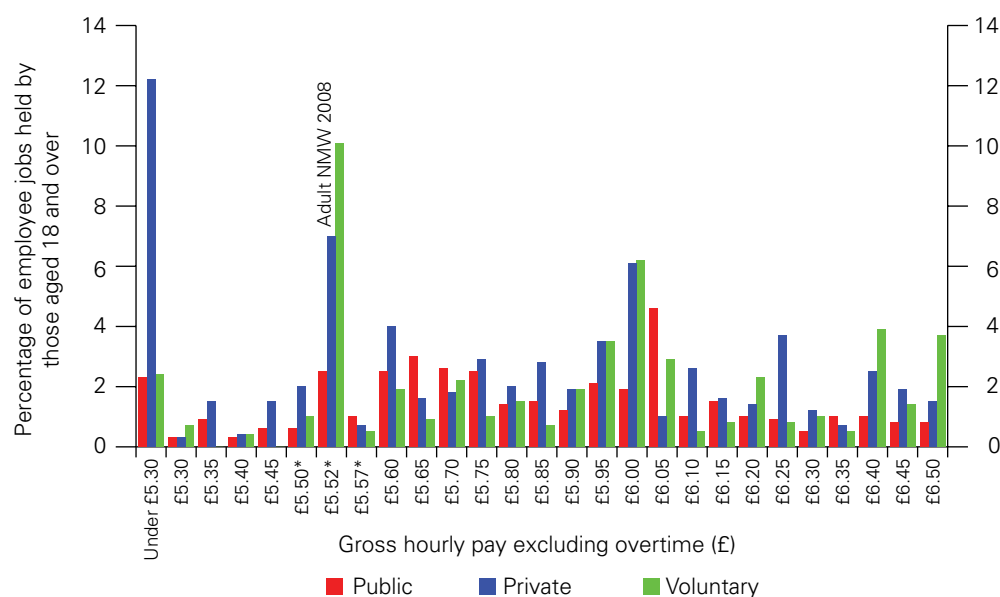
### Earnings

- 3.41** The proportion of jobs in childcare paid at the adult minimum wage rose between April 2007 and April 2008 to stand at 4.7 per cent. This followed a fall between April 2006 and April 2007. As with social care, the minimum wage has the greatest impact on the independent sector. Just over 10 per cent of jobs in the voluntary sector were paid at the adult rate of the minimum wage compared with 7.0 per cent in the private sector, and 2.5 per cent in the public sector (see Figure 3.5).

The most common indirect effect reported was a fall in profits, as nurseries said all staff costs... cannot be passed on to parents through higher fees.

**IDS (2009)**

**Figure 3.5** Hourly Earnings Distribution for Employees Aged 18 and Over in the Childcare Sector, by Voluntary, Public, and Private Providers, UK, 2008



Source: LPC estimates based on ASHE 2007 methodology, low-pay weights, UK, April 2008.

Note: \* Five pence bands except where stated otherwise (bands labelled by minimum pay amount).

## Employment

**3.42** The Childcare and Early Years Providers Survey (Nicholson, Jordan, Cooper and Mason, 2008) covering England showed that while the paid workforce within childcare providers increased by 7 per cent in full-day care settings between 2006 and 2007, it fell in other types of provision. Overall, there was a marginal fall, from 306,000 workers to 300,000 between 2006 and 2007 – although this was still substantially higher than the 228,000 in 2003.<sup>1</sup> In contrast, LFS data for the childcare sector showed a rise in employment. There were over 167,000 nursery nurses employed in the fourth quarter of 2008 compared with nearly 145,000 in the fourth quarter of 2007 (a rise of just over 15 per cent). Employment in low-paying childcare occupations also rose (by over 15,000) in the same period, to stand at 360,000. IDS (2009) found a lower proportion of nurseries had reduced staffing or hours as a result of the latest increases in the minimum wage compared with its previous survey. Of those firms giving a reason for a lower knock-on effect, the majority cited restrictions in staff-to-children ratios.

<sup>1</sup> Totals for each year were derived by adding together numbers of paid staff for each type of childcare provider. Caution should be exercised with these totals as some double counting may have taken place because members of staff may have worked for more than one childcare provider.

## Stakeholder Views

**3.43** The National Day Nurseries Association (NDNA) told us that 80 per cent of income went on wages and that an increase in the minimum wage resulted in higher fees to parents as providers sought to maintain differentials. We found evidence from our Survey of Employers (2008) that supported this, with around 70 per cent of employers who had been affected by the minimum wage saying they had to raise prices in response to the October 2007 increase. NDNA also referred to the sustainability problems in the sector, with half of all nurseries breaking even and a fifth making a loss. The NDNA said that 40 per cent of the nursery sector's workforce was under 24 years old, so changes to youth rates or extending the adult rate to age 21 had a particular impact on its members.

'The rise in the NMW often exceeds pay increases, which has substantially eroded differentials. Pressure on differentials meant there was little scope to reward older staff.'

### **Nurseries Commission visit to Nottingham**

## Sector Summary

**3.44** The childcare sector continues to be one where the minimum wage has an important influence on wage structures and, again, we received evidence of an impact on differentials. Providers in the independent sector continue to be sensitive to changes to the minimum wage. However, latest employment data show a rise in employment in childcare occupations.

## **Cleaning and Security**

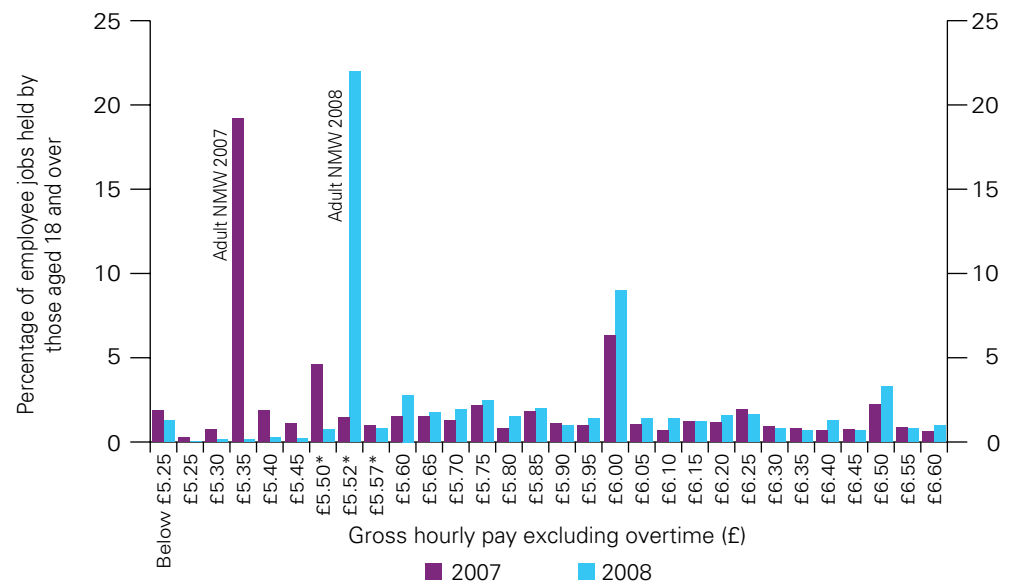
**3.45** Market and Business Development (2008) estimated that a 2 per cent increase in 2008 has taken the value of the UK contract cleaning market to £5.7 billion. The moderate increase in 2008, compared with 5 per cent increases in 2006 and 2007, reflects the economic downturn. The value of the total cleaning market is estimated at around £12 billion and the sector is characterised by a high proportion of part-time workers, reflecting the variable work patterns and unsociable hours of many cleaning operations.

**3.46** Over the last few years, the impact of the minimum wage on the security sector has lessened, mainly driven by the introduction of a statutory licensing system, which has led to an increase in professionalism, and consequently higher rates of pay.

## Earnings

**3.47** In April 2008, 22 per cent of jobs in the cleaning sector were paid at the adult minimum wage. Table 3.1 shows that the proportion was just over 19 per cent in April 2007. The cleaning sector continues to have the highest percentage of jobs paid at the adult minimum wage and the earnings data also suggest an impact on pay differentials. The earnings distribution demonstrates that the second most common rate of pay in 2008 remained at £6.00 per hour, despite the uplift in the minimum wage (see Figure 3.6). In addition, the increase in median earnings for all low-paying sectors between 2007 and 2008 was 2.7 per cent. During this period, however, the cleaning sector was the only one to see a reduction in median earnings, of 0.7 per cent.

**Figure 3.6** Hourly Earnings Distribution for Employees Aged 18 and Over in the Cleaning Sector, UK, 2007–2008



Source: LPC estimates based on ASHE 2007 methodology, low-pay weights, UK, April 2007–2008.  
 Note: \* Five pence bands except where stated otherwise (bands labelled by minimum pay amount).

**3.48** The Cleaning and Support Services Association (CSSA) reported that the proportion of cleaners paid between the minimum wage and £6.50 per hour had remained the same at just over 70 per cent. It also advised that a wage ceiling among supervisory staff at £6.50 per hour had been created. Our Survey of Employers (2008) found that 68 per cent of companies in the cleaning sector that responded had seen a decrease in profits because of the increase in the minimum wage in October 2007. Around 62 per cent also reported having to increase prices because of increases in the minimum wage.

**3.49** In the security sector, in April 2008, just over 3 per cent of jobs were paid at the minimum wage. This was the same as in April 2007.

### Employment

**3.50** There are a number of sources of information on cleaning jobs but it continues to remain difficult to gain a clear picture of the number of people undertaking cleaning activities. The various data sources all show increases in the number of jobs but some workers will not be captured within the employment figures for the cleaning industrial sector because they perform a support role in firms categorised within another industry. Others may be self-employed or not recorded because they work in the informal economy. The ONS employee jobs series shows that jobs in the sector decreased by 8,000 to around 482,000 in the year to December 2008. LFS shows that employment in low-paying cleaning occupations rose by nearly 40,000 to over 745,000 in the year to the end of the fourth quarter of 2008. The CSSA estimates that there are 900,000 people employed in the cleaning sector in the UK, with 400,000 of these working for outsourced firms. According to the ONS employee jobs series, jobs in the security sector continued to increase to just over 176,000 in the year to December 2008.

## Stakeholder Views

- 3.51** In their evidence the CSSA reported that the current economic circumstances were affecting cleaning firms. Margins had declined to around 4 per cent, which meant cleaning contractors were now struggling to meet the cost of capital and to invest in new technologies. It advised that it was not possible to pass on these price increases through their contracts. The annual increases in the services producer price index for industrial cleaning are less than RPI increases. This gives support to the CSSA claim that cleaning contractors have not been able to pass on the full increases.
- 3.52** The CSSA also advised that between October 2007 and October 2008, due to a number of factors (including the minimum wage, maternity pay and statutory sick pay) the cost of employing a worker on the minimum wage has increased by just over 5 per cent. It advised that changes to the minimum wage were a key driver of pay movements in the sector and that there continued to be a compression of differentials.

## Sector Summary

- 3.53** Increases in the minimum wage appear to be affecting the cleaning sector. The increase in the number of jobs paid at the minimum wage, evidence of a squeeze on differentials and a reduction in median earnings all point to this conclusion but data on employment suggest a mixed picture, so there is no clear evidence that the minimum wage has been a significant factor.

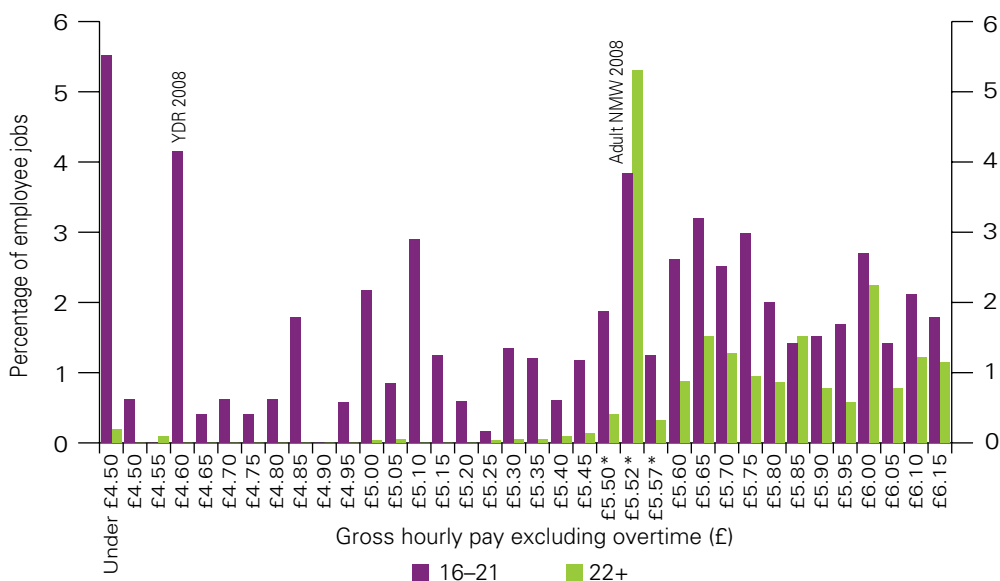
## Hairdressing

- 3.54** Provisional data from the Annual Business Inquiry for 2007 showed there were just under 26,000 hairdressing enterprises, with a total turnover of just over £4 billion. Our Survey of Employers (2008) found hairdressing had experienced the largest increase in the proportion of firms that said they had been affected by the minimum wage (from 39 per cent in 2006 to 66 per cent in 2008) of any low-paying sector.

## Earnings

**3.55** Almost 9 per cent of jobs in the hairdressing sector were paid at the adult minimum wage in April 2008, and nearly 18 per cent were paid below, reflecting common use of apprentice exemptions and age-related pay in this sector (see Table 3.1 and Figure 3.7). ASHE data showed that although the hourly pay differential at the lowest end of the earnings distribution had reduced slightly between April 2007 and April 2008, it had widened marginally between the first quartile and median earnings.

**Figure 3.7** Hourly Earnings Distribution for Employees in the Hairdressing Sector, by Age Band, UK, 2008



Source: LPC estimates based on ASHE 2007 methodology, low-pay weights, UK, April 2008.

Note: \* Five pence bands except where stated otherwise (bands labelled by minimum pay amount).

## Employment

**3.56** Employment in the hairdressing sector has been declining in recent quarters but the number of ONS employee jobs in the sector grew slightly, by 5,000, between December 2007 and December 2008, to stand at 126,000. According to the LFS, employment in low-paying hairdressing occupations also increased by nearly 3,000 (2.0 per cent) between the fourth quarter of 2007 and the fourth quarter of 2008. Self-employment in the sector rose too by 3,000 between the fourth quarter of 2007 and the same period in 2008, to stand at nearly 103,000.

'Hair salons are labour intensive small businesses with labour representing their overwhelmingly greatest costs. Salon owners have very few options when faced with higher wage bills....Our survey indicates that job losses would be the inevitable consequence of excessive wage inflation.'

**NHF and Habia evidence**

**Stakeholder Views**

**3.57** The National Hairdressers' Federation (NHF) and Habia said that salons had few options if faced with higher wages because passing on the increased costs would not be acceptable to customers in the current economic climate. According to our Survey of Employers (2008), the sector had, at 75 per cent, the highest proportion of employers who said they experienced a fall in profits as a result of the October 2007 rise in the minimum wage. A June 2008 survey of NHF members found that 76 per cent of salons would consider reducing staffing if the minimum wage were to increase ahead of inflation. With the subsequent developments in the UK economy, however, the NHF and Habia believed that any rise in the minimum wage would result in job losses. They said that many of the job losses would be among younger staff still in training, damaging long-term as well as short-term employment opportunities. In our Survey of Employers (2008), hairdressing was second only to hospitality in the proportion of employers who said they had reduced staffing or hours in response to the October 2007 upratings in the minimum wage.

**3.58** NHF and Habia said that approximately 30 per cent (or 15,000) of the staff employed by members were apprentices at various stages of qualification. The issue of apprentices and the impact of the National Minimum Wage on training remains a key concern for these stakeholders. The CBI said that the sector continues to report significant levels of informal work and an unaffordable rise in the minimum wage would add to the 'pull factors' associated with the informal economy.

**Sector Summary**

**3.59** The hairdressing sector continues to be the low-paying sector that makes greatest use of the arrangements for young people and training under the National Minimum Wage.

**Agriculture**

**3.60** In agriculture the picture is more positive, with rising employment and increases in income. It is one of the few sectors of the economy to be bucking the current downward trend. Output remained steady in the fourth quarter of 2008 compared with a year earlier, and is up by 6.3 per cent on the fourth quarter of 1998. Figures from the Department for



Environment, Food and Rural Affairs (DEFRA) released on 29 January 2009, estimated that the total income from farming in the UK in 2008 rose by 41.9 per cent in current prices, or by 36.3 per cent in real terms, to £3.46 billion.

## Earnings

- 3.61** The proportion of jobs on the National Minimum Wage, at 3.9 per cent in April 2008, remains low, although it is higher than in April 2007 (2.6 per cent). This is because the minimum wage for workers employed in agriculture is set by the Agricultural Wages Boards (AWB) in England and Wales, in Scotland and in Northern Ireland. The minimum rate depends on several factors, including a worker's age, experience, their qualification, and their responsibility.
- 3.62** The Board for England and Wales announced an increase for Grade 1 workers from 1 October 2008 of 3.9 per cent to £5.74 (one pence above the adult National Minimum Wage) and a rise of 4.3 per cent for Grades 2 to 6. The Scottish Agricultural Wages Board announced a minimum hourly rate of £5.73 (the same as the National Minimum Wage) from 1 October 2008 for all agricultural workers in the first 26 weeks of employment. The Agricultural Wages Board for Northern Ireland announced an increase in minimum rates of pay for agricultural workers at Grades 2 and above of 3.75 per cent on 20 February 2009. The minimum rate of £5.73 payable for the first 40 weeks of cumulative employment remains unchanged. If at any time the National Minimum Wage becomes higher than the minimum rates set by the Agricultural Wages Boards, then the agricultural minimum rates automatically become equal to the National Minimum Wage.

## Employment

- 3.63** Agriculture made up just under 3 per cent of employee jobs in the low-paying sectors, with 240,000 employee jobs in December 2008. Between December 2007 and December 2008, there was a rise of 5,000 jobs (2 per cent). Employment in low-paying agricultural occupations also increased during the period from the fourth quarter of 2007 to the fourth quarter of 2008, by 7,000 (or 12.1 per cent), to stand at nearly 65,000.

'...Labour is a significant cost component of our sector's production costs, and many of these costs are directly set by the National Minimum Wage, and others strongly influenced by National Minimum Wage rates.'

### **National Farmers' Union evidence**

'Supermarkets have held down the payment farmers receive for their produce to the extent that several fruit farmers in the area have already ceased production.'

### **National Farmers' Union Scotland Commission visit to Dundee.**

**3.64** The Worker Registration Scheme (WRS) is a register of nationals of the A8 countries (the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia) who wish to take up employment in the UK for a period of at least one month. WRS reported that agriculture is the third highest sector in which workers are registered. The proportion of registered employees working for employers in agriculture was 11 per cent in the third quarter of 2008 compared with 9 per cent in the third quarter of 2007.

### **Stakeholder Views**

**3.65** In their evidence, the National Farmers' Union (NFU) said the level of market uncertainty had increased since July 2008 and there was a decline in businesses' access to credit. The NFU called for any increase in the minimum wage not to increase its 'bite', pointing to competition the sector faced from low-wage economies; moreover because agricultural producers tended to be price 'takers' rather than price 'makers' in the food market, they were often unable to pass on cost increases to their customers. During a visit to Dundee, we met with farmers who sell their fruit produce to supermarkets. They described the downward pressure on producer prices exerted by some supermarkets, which allowed no scope to pass on wage cost increases.

**3.66** The Association of Labour Providers (ALP) again drew our attention to the interaction between the Agricultural Minimum Wage and the National Minimum Wage, citing what it regarded as complexities and the problems that arise from these. The ALP have asked us to investigate this interaction and told us it has called on DEFRA to abolish the separate Agricultural Minimum Wage. During a visit to Belfast, the Ulster Farmers' Union also questioned the continued need for an Agricultural Wages Board given the protection already offered to workers by the National Minimum Wage.

## Sector Summary

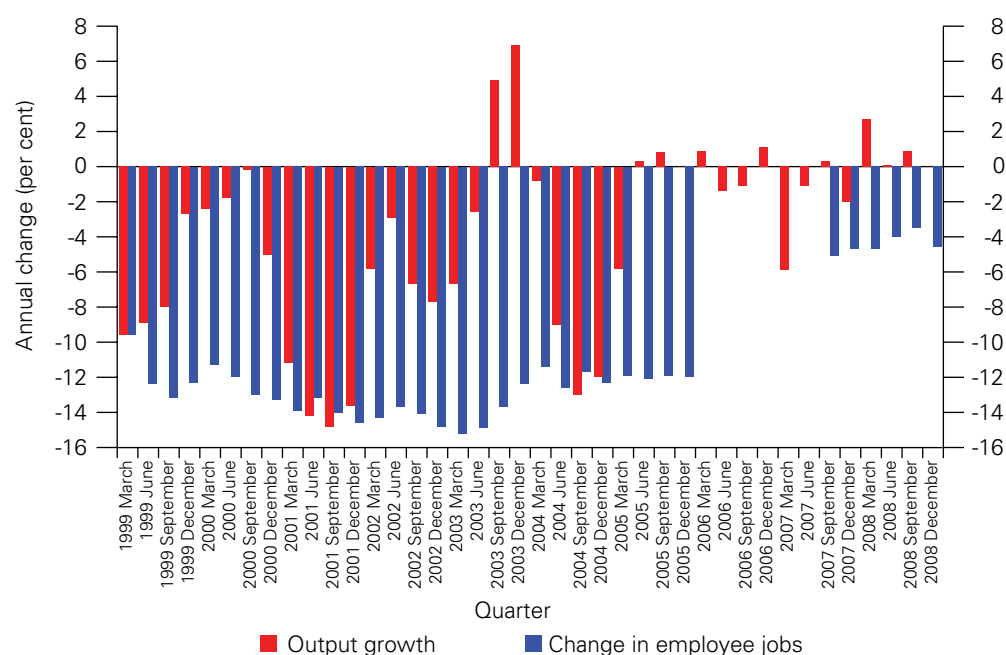
**3.67** The National Minimum Wage has a potential knock-on effect on differentials for the agricultural wage rates set by the Agricultural Wages Boards. Our Survey of Employers (2008) found that the agricultural sector stands out as the sector least likely to see a fall in profits, an increase in prices, or increased measures to control labour costs as a consequence of the October 2007 upratings in the National Minimum Wage. Agriculture is one of the few sectors to benefit from increasing employment and income. But, future prospects for farming income are difficult to predict and, more generally, there is the uncertainty of the global economy where a slowdown would be expected to lead to a dampening of commodity prices.

## Textiles, Clothing and Food Processing (Manufacturing)

**3.68** The picture for the manufacturing sectors is much more pessimistic with falling employment and declining output. The manufacturing sectors in the UK have been in long-term decline since before 1998. Between December 2007 and December 2008, job numbers fell by 4.3 per cent. Output fell by 8.1 per cent in the fourth quarter of 2008 compared with a year earlier and is down 3.8 per cent on the fourth quarter of 1998.

**3.69** Within manufacturing, the textiles and clothing sector has generally experienced negative growth since the late 1980s and is down 31.3 per cent on the fourth quarter of 1998. This is a long-term trend that pre-dates the introduction of the minimum wage, and competition from overseas low-wage economies is the primary cause. But, output remained steady in the fourth quarter of 2008 compared with a year earlier (see Figure 3.8). The food processing sector saw a fall in output of 3.5 per cent in the fourth quarter of 2008 compared with the same period in 2007 and a slight rise of 0.8 per cent on the fourth quarter of 1998.

**Figure 3.8** Output Growth, UK, and Employee Jobs, GB, in the Textile and Clothing Sector, 1999–2008



Source: LPC estimates based on ONS employee jobs series, three-monthly, not seasonally adjusted, GB, 1999–2008 and LPC estimates based on Index of Production (CKZB), quarterly, seasonally adjusted, UK, 1999–2008.  
 Note: As a result of the break in the employee jobs series between December 2005 and September 2006, annual changes cannot be estimated for periods from March 2006 to June 2007.

**3.70** In January 2008, there were nearly 153,000 VAT-registered enterprises in the manufacturing sector. The number of enterprises fell slightly by 360 (0.2 per cent) in January 2008 compared with January 2007. In the textile and clothing sector, there were over 9,000 enterprises in January 2008. The number of enterprises fell by 110 (1.2 per cent) in January 2008 compared with January 2007. In the food processing sector, however, the number of enterprises rose by 75 (1.2 per cent) over the same period to a total of over 6,500 enterprises in January 2008. Food processing is becoming increasingly scientific in developing countries, with growing awareness of food quality among consumers. Our Survey of Employers (2008) found that, as a result of the October 2007 upratings, 22 per cent of firms in the food processing sector increased their use of new technology or processes, the highest proportion of any sector.

## Earnings

**3.71** Earnings figures for textiles and clothing show a slight reduction in the proportion of jobs paid at the adult minimum wage between April 2007 and April 2008 to just below 7 per cent. In the food processing sector, the number of jobs paid at the adult minimum wage in April 2008

remained at just below 4 per cent. The textiles and clothing sector accounts for just over 1 per cent of all jobs in low-paying sectors. The figure is slightly higher for food processing, which accounts for over 4 per cent of all jobs in low-paying sectors.

## Employment

**3.72** The textiles and clothing sector has seen a reduction in the number of jobs in the year to September 2008. Between December 2007 and December 2008, the number of jobs fell by 4.6 per cent from 93,000 to 88,000 jobs. This reduction continues a long-term decline. In the food processing sector, employment has also been declining. Between December 2007 and December 2008, the number of jobs fell by 1.6 per cent, from 356,000 to 350,000 jobs. According to the LFS, employment in the low-paying textiles and clothing occupations fell by nearly 3,000 to just under 47,000 between the fourth quarter of 2007 and the same period in 2008. Employment in the low-paying food processing occupations fell by just over 14,000 to around 207,000 between the fourth quarter of 2007 and the same period in 2008.

## Stakeholder Views

**3.73** The Food and Drink Federation reported that the National Minimum Wage has had a direct impact on the pay levels and the structure of remuneration for its members. There was pressure to maintain differentials as employees still attached a stigma to the term 'minimum wage' and tried to work for employers paying above this. It also advised that increases in the minimum wage have had an impact on their suppliers of cleaning, catering and security services, in contrast to the claims made to us by the cleaning and security sectors, and that these suppliers have directly passed on increases in wage costs. The British Apparel & Textile Confederation (BATC) claimed that consumer demand and confidence were falling. Its members would be negotiating pay rises below the rate of inflation and, as a consequence, any future increases above this would have a disproportionate effect on differentials.

'Future cost pressures, economic uncertainty and continued enhancement of employee benefits require a moderation of future increases for the sustainability of the sector in the UK.'

**Food and Drink Federation evidence**

## Sector Summary

**3.74** The manufacturing sectors in the UK have been in a long-term decline with falling employment and negative growth in the period since 1998. This decline pre-dates the introduction of the National Minimum Wage and is primarily linked, particularly in the textiles and clothing sector, to competition from overseas low-wage economies.

## **Small Firms**

**3.75** Finally, we consider the impact of the minimum wage on small firms. Small and medium-sized enterprises (SMEs) are important contributors to the UK economy. In 2007 the 1.2 million businesses with at least one but fewer than 250 employees accounted for 43 per cent of UK employment and 44 per cent of UK turnover (BERR, Enterprise Directorate, 2008d). In 2007 small firms (1–49 employees) accounted for 97 per cent of the private sector enterprises with employees in the UK, with 31 per cent of UK employment, and 29 per cent of UK turnover. As shown in Chapter 2, those on the minimum wage are disproportionately likely to be employed by small firms; hence we take a close interest in the performance of this sector.

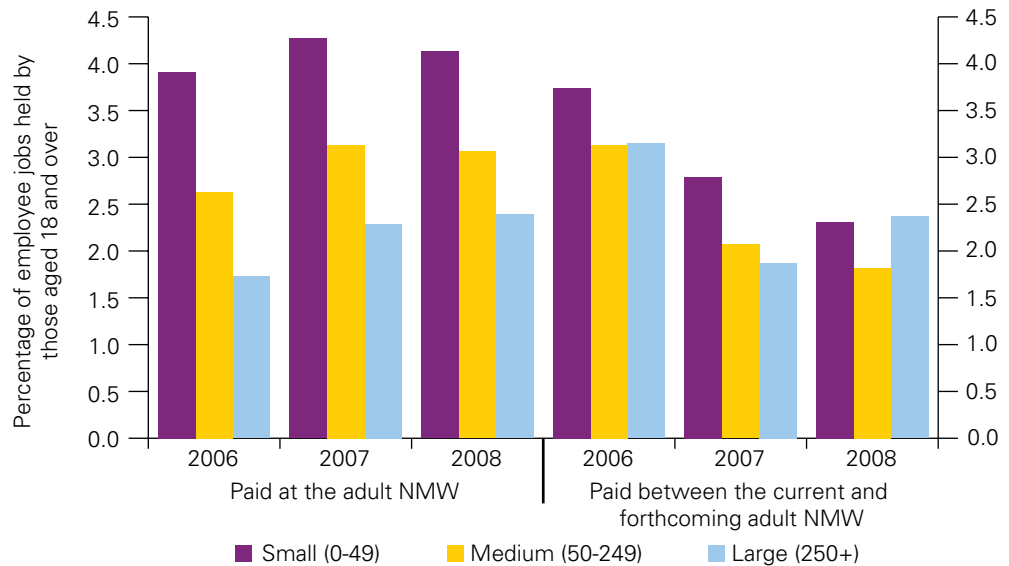
**3.76** It has been widely reported that the credit crunch and the economic downturn the UK is facing have had an impact on small businesses, particularly in relation to their access to credit. Between October 2008 and February 2009, the Government announced a number of measures that were intended to help businesses, particularly SMEs, cope with the economic downturn. The measures announced include: providing guarantees to support bank lending to smaller firms; allowing businesses in temporary financial difficulty to pay their tax bills on an extended timetable; more generous tax relief for businesses making losses; and a working capital scheme that would secure up to £20 billion of short-term lending to companies with a turnover of up to £500 million.

**3.77** Representatives from employer organisations reported to us that access to finance was the main concern of businesses at present, and many did not think the measures taken by the Government would have a positive impact on this, particularly in the short-term. This evidence is supported by the CBI's Access to Finance Survey (CBI, 2009) in February 2009, which found that the availability of credit for firms had continued to deteriorate and firms expected credit conditions to remain difficult over the next three months. Sixty per cent of firms surveyed, which had sought new or renewed finance lines, said credit availability had deteriorated in the last three months, 41 per cent had seen no change and no firms saw an improvement. This issue is not directly linked to the minimum wage. As we have reported in Chapter 2, however, those employed on the minimum wage are disproportionately likely to be employed by small firms, so anything that has an impact on the viability of small firms will affect the low paid.

### Earnings

- 3.78** Official earnings data show that, as in previous years, small firms are more affected by the minimum wage than medium-sized or large firms. Figure 3.9 shows that over 4 per cent of jobs in small firms were paid at the adult rate of the minimum wage in April 2008. This was a slight reduction on 2007, but an increase on 2006. In April 2008, just over 3 per cent of jobs in medium-sized firms were paid at the adult rate of the minimum wage, and this reduces to just over 2 per cent for large firms.
- 3.79** Looking at those further up the earnings distribution in small firms, the number of workers paid between the current and forthcoming adult rate of the minimum wage has steadily decreased between 2006 and 2008. As the numbers paid at the adult minimum wage has remained relatively constant for the same period, this suggests that each year more are paid above the forthcoming rate.

**Figure 3.9** Percentage of Employees Paid At the Adult National Minimum Wage Rate and Between the Current and Forthcoming Rate, by Firm Size, UK, 2006–2008



Source: LPC estimates based on ASHE 2007 methodology, low-pay weights, UK, April 2006–2008.

‘The one size fits all approach of National Minimum Wage rises do not reflect the economic situation of the businesses that use it.’

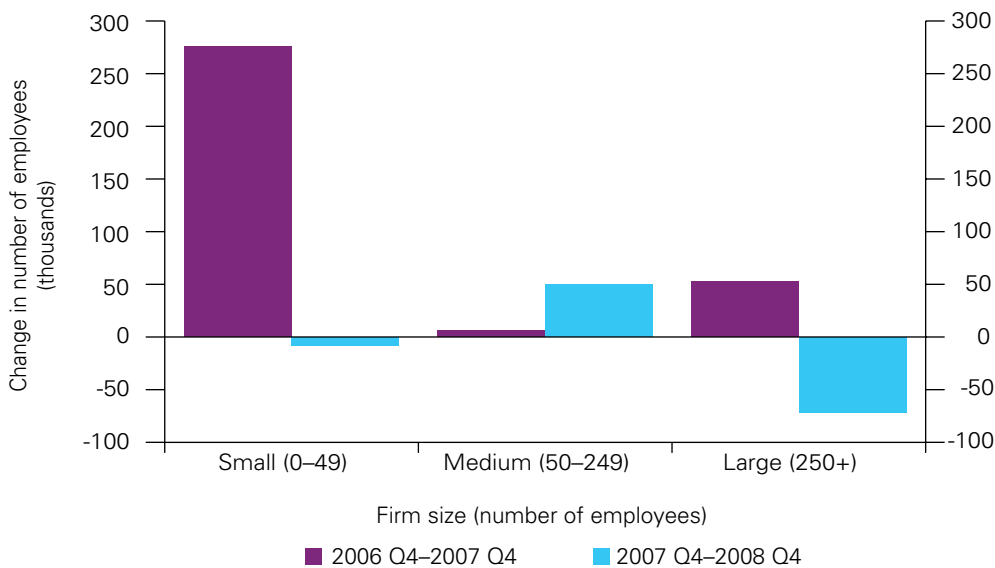
**Federation of Small Businesses evidence**

**3.80** There is further evidence, from the 2006/07 Annual Survey of Small Businesses’ Opinions (BERR, 2008a), that the minimum wage continues to have an impact on small firms. Around 14 per cent said that regulations were the biggest obstacles to achieving business success. Of these, 4 per cent cited the minimum wage as the biggest obstacle, although the remainder of the respondents cited other regulations as the biggest obstacles (e.g. health and safety, employment, tax etc.). In its evidence, the Federation of Small Businesses (FSB) said 84 per cent of respondents to a recent survey had seen a rise in the costs of running a business in 2008 and 46 per cent had seen a decrease in trade. The FSB argued that to protect jobs and businesses, business owners needed the flexibility to negotiate wages with their employees. The minimum wage was taking away this option and, as a result, many of its members had reported not filling vacancies and delaying the creation of new posts.

**Employment**

**3.81** Figure 3.10 shows that in the fourth quarter of 2008 there were 8,000 fewer employees in small firms than in the same period in 2007, falling to a total of 12.0 million employees. In comparison, over the same period, there was an increase of 49,000 to around 6.5 million employees in medium-sized firms. Large firms also experienced a reduction in employees between the fourth quarter of 2007 and the fourth quarter of 2008.



**Figure 3.10** Change in Number of Employees, by Firm Size, UK, 2006–2008

Source: LPC estimates based on LFS Microdata, quarterly, not seasonally adjusted, UK, 2006–2008

## Stakeholder Views

**3.82** The Association of Convenience Stores (ACS) advised that previous increases in the minimum wage had made it increasingly difficult for many stores to employ staff. The Rural Shops Alliance (RSA) noted that the economic downturn and rapid increase in food price inflation had led to poor trading conditions for many convenience stores and thus removed any financial cushion. It reiterated that rural shops already run on very tight margins and any increase in costs translated directly through to profits. It also stated that many of its members had to pay their staff considerably more per hour than the proprietors were able to pay themselves. The British Chamber of Commerce commented that the economic downturn posed a growing threat to employment in the UK. It repeated that the potential adverse impact of the minimum wage must be examined in a wider context, taking into account the regulatory burden facing UK businesses (particularly SMEs) in areas such as employment, social legislation, and health and safety. A contrary view was expressed by the TUC, which reported that the evidence showed that the small business sector was continuing to thrive as small firms were holding their own in terms of both their share of overall employment and their share of overall turnover.

## Sector Summary

**3.83** The evidence shows that the minimum wage continues to have a proportionally greater impact on small firms than larger firms. Although the economic downturn will have an impact across the whole economy,

small firms are finding it particularly difficult, especially in relation to access to credit. Data available up to publication of this report show that employment in small firms is falling.

## Conclusion

- 3.84** The low-paying industries have experienced a fall in jobs of a similar proportion to the fall in jobs in the overall UK economy. The majority of the job losses in the low-paying industries, in the period December 2007 to December 2008, occurred in the two largest industries, retail and hospitality. These sectors are sensitive to falling consumer discretionary spending and the decline of the economy into recession. And the fall in jobs is more likely a consequence of the general economic climate than as a result of increases in the minimum wage. Other sectors that have experienced job losses are those that have faced a longer-term decline in jobs, influenced by factors that often pre-date the minimum wage, for example manufacturing. Small firms have, so far, only seen a marginal reduction in employment. Some low-paying industries experienced an increase in jobs over the same period. Social care saw the largest rise in the number of jobs, with other industries (e.g. security, hairdressing) also experiencing increases. The low-paying occupational sector of childcare experienced a rise in employment in the year to the fourth quarter of 2008, while office work experienced a slight fall in employment in the same period.
- 3.85** Data continue to show that the minimum wage has had a different impact on each of the low-paying sectors, having a greater impact on some than others. Research shows that the lower increase in the National Minimum Wage in October 2007 has allowed for some restoration of wage differentials. Some sectors have been able to maintain or reduce the proportion of jobs at the minimum wage but other sectors saw a continued rise in the proportion of jobs paid at the minimum wage. In line with recommendations we made in previous reports, we have recommended that the commissioning policies of local authorities and the NHS should reflect the actual costs of provision, including the National Minimum Wage, when purchasing care from social care providers in the independent sector.
- 3.86** Having considered the position of the low-paying sectors and small firms, we go on in the next chapter to look at the impact of the National Minimum Wage on particular groups of workers.

## Chapter 4

# Particular Groups of Workers



- 4.1** In this year's terms of reference the Government again asked us to review the impact of the National Minimum Wage on certain groups of workers: women, ethnic minorities, people with disabilities, migrant workers, and those of different age groups. This chapter begins by discussing each of these key groups and explaining why it is important to review their particular position in the labour market.
- 4.2** The groups tend to contain a large proportion of workers on low earnings and, therefore, if the National Minimum Wage has an impact on employment, they are the ones most likely to be affected. In previous years evidence has tended to show that their employment prospects have improved since the introduction of the minimum wage. Young people have been an exception to this trend, and we discuss their labour market position in Chapter 5. Young people, like the least-skilled workers in the labour market, have experienced poor employment prospects in recent years.
- 4.3** In addition, there are other groups of workers who, by the nature of their work, face issues around the application of the minimum wage that are of particular concern to us. These groups are affected for a range of reasons, such as the type of employment (e.g. agency workers and those on Work Trials); location (e.g. homeworkers and seafarers); and questions around whether and when employees are within the scope of the National Minimum Wage Act (e.g. voluntary workers, people on unpaid work experience, those on sleepovers, and people taking part in therapeutic activity). We consider each of these in turn.
- 4.4** The chapter ends by considering groups of workers affected by the accommodation offset and the treatment of tips, which also raise issues about the coverage and scope of the Act. For each of these groups we explain the reasons for our interest, report on evidence received from stakeholders and other sources on the impact of the minimum wage,

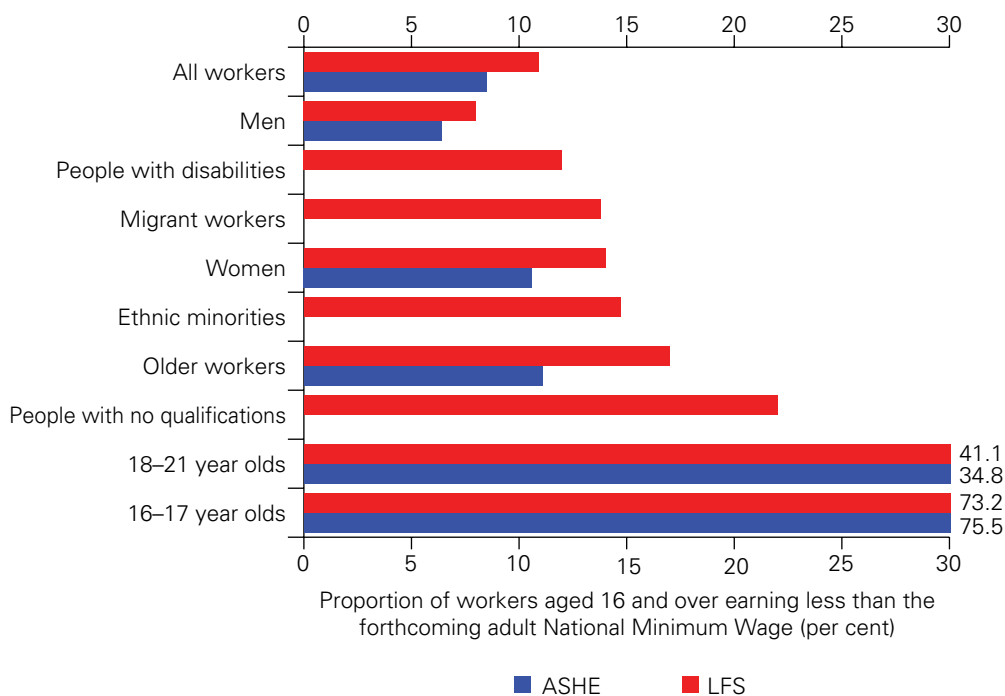
and provide an update on any recent developments in government policy, including responses to the recommendations we made to the Government last year.

## Overall Impact of Upratings on Particular Groups of Workers

- 4.5** Each year, before recommending rates for the minimum wage, we give careful consideration to the labour market position of workers that are particularly affected by the minimum wage. We do not recommend a level for the National Minimum Wage in order to meet employment targets for specific disadvantaged groups, although this may be a positive consequence of our work.
- 4.6** Building on the last chapter, we consider in more detail the groups that contain a large proportion of workers on low earnings and which are therefore most likely to be affected by any increases in the minimum wage. Once we identify that the minimum wage has had an impact on earnings, we then look to investigate whether other factors have also been affected. For example, when the National Minimum Wage was introduced, it was anticipated that it would have an impact on employment. If this had occurred, it would have been likely to show up initially among the groups we have identified.
- 4.7** There is a substantial amount of high quality data available on earnings by gender and age from the Annual Survey of Hours and Earnings (ASHE). Data on earnings are available from the Labour Force Survey (LFS) for ethnic minority groups, people with disabilities, migrant workers, and people with no qualifications; but this is self-reported, a smaller sample and is therefore subject to greater errors. The reliability of data available to support our analysis varies accordingly.
- 4.8** Recent research carried out by Dickens, Riley and Wilkinson (2009) finds clear evidence that the strongest wage growth in the period 2001–2006 was in the lower percentiles of the wage distribution. Similarly, Figure 2.12 shows that since the introduction of the minimum wage, those at the bottom of the earnings distribution have received higher pay rises than those at the middle of the distribution. This implies that the National Minimum Wage upratings increased wages more for those directly affected by it.

**4.9** Figure 4.1 illustrates that employees in our groups of interest were more likely to be paid below the forthcoming October 2008 adult minimum wage than workers in general or men (used here as a comparison group), and hence have a higher chance of being affected by minimum wage upratings. Workers aged 16–17 had the highest proportion paid below the forthcoming adult minimum wage rate, at around three-quarters. Those aged 18–21 were also highly likely to be paid below the October 2008 rate (34.8 per cent estimated from ASHE and 41.1 per cent from LFS). Of the other groups, the least-skilled (people with no qualifications) were most likely to be minimum wage workers, followed by older workers (defined on this occasion as those over State Pension age), ethnic minorities, women, migrant workers, and those with disabilities.

**Figure 4.1** Proportion of Workers Aged 16 and Over Within Various Groups Paid Below the Forthcoming October 2008 Adult National Minimum Wage, UK, 2008

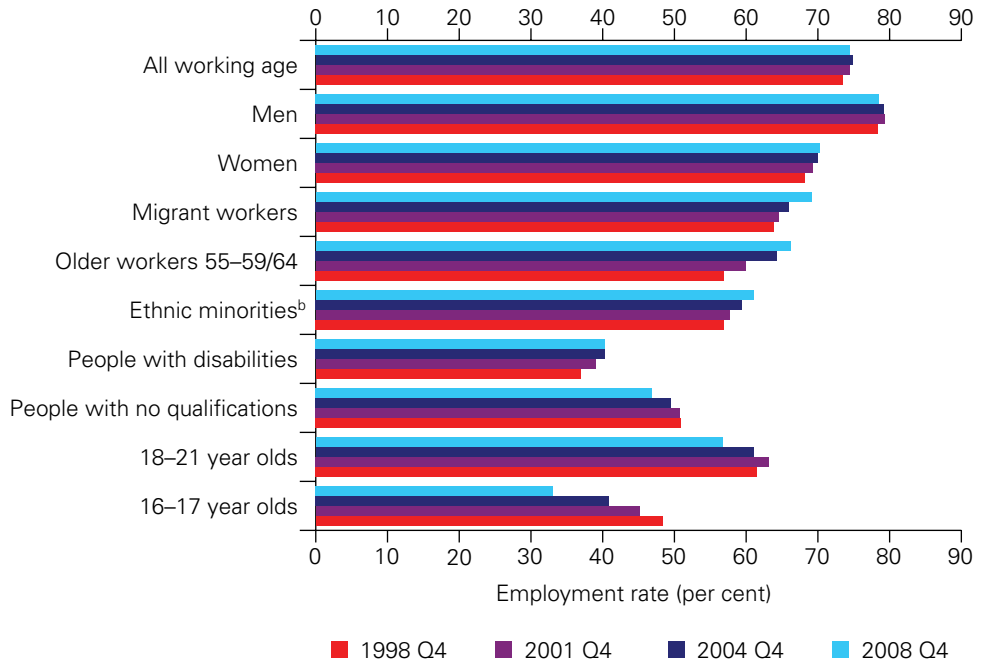


Source: LPC estimates based on ASHE 2007 methodology, low-pay weights, UK, April 2008 and LFS Microdata, income weights, UK, Q2 2008.

**4.10** The LFS shows, as depicted in Figure 4.2, that the employment rate for the working age population as a whole has increased from 73.4 per cent in the fourth quarter of 1998 to 74.5 per cent in the fourth quarter of 2008. The only groups that have not followed this trend are young people and those with no qualifications. The position of young people is covered in more detail in Chapter 5. There has been a significant decline

in the employment rate of those with no qualifications since 2001. The minimum wage might have been a factor as the decline begins after the large uprating in October 2001. Although the decline had appeared to bottom out in 2007, employment for those with no qualifications began to decline again in 2008. Along with young people, the least-skilled are probably most vulnerable to the current slowdown in the economy.

**Figure 4.2 Working Age Employment Rates of Various Groups, UK, 1998–2008<sup>a</sup>**



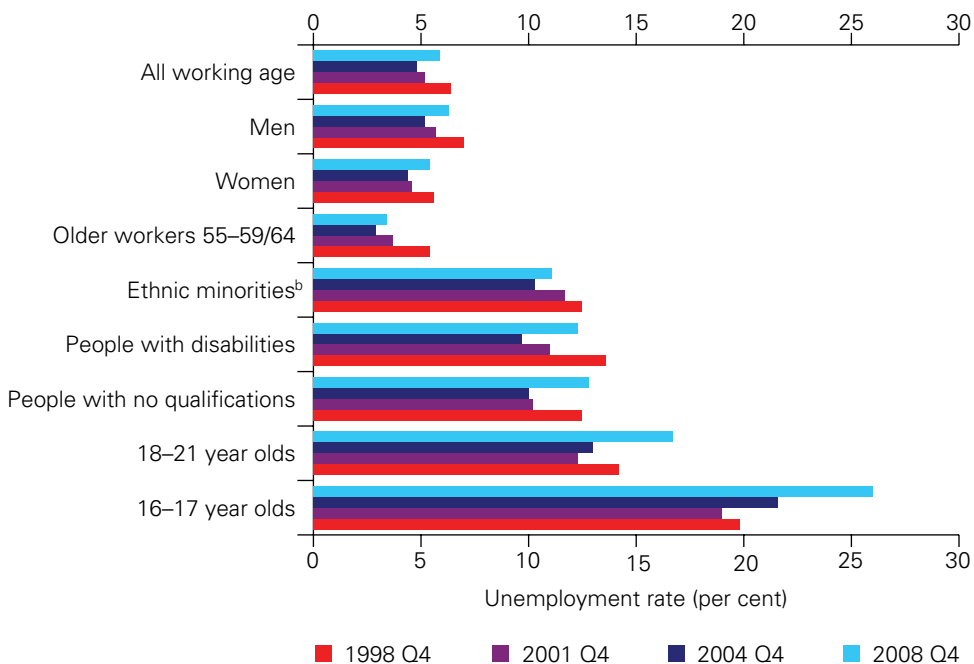
Source: LPC estimates based on LFS Microdata, quarterly, four-quarter moving average, UK, Q4 1998–2008.

Notes:

- a. Illustrates comparable quarters before the minimum wage was introduced, after the largest uprating, after the 16–17 year old rate was introduced, and the latest available.
- b. The definition of ethnic groups in the LFS changed in Spring 2001 to be consistent with the 2001 Census classifications; thus, direct comparisons between the periods before and after should not be made.

**4.11** Figure 4.3 shows that unemployment trends for these groups have generally mirrored those for employment. The increase in the unemployment rate for those with no qualifications started later and has been gentler than for young people, particularly 16–17 year olds. For the other groups, there are initial indications that the economic downturn started to have an adverse impact on unemployment rates in the third and fourth quarters of 2008.

**Figure 4.3** Working Age Unemployment Rates of Various Groups, UK, 1998–2008<sup>a</sup>



Source: LPC estimates based on LFS Microdata, quarterly, four-quarter moving average, UK, Q4 1998–2008.

Notes:

- Illustrates comparable quarters before the minimum wage was introduced, after the largest uprating, after the 16–17 year old rate was introduced, and the latest available.
- The definition of ethnic groups in the LFS changed in spring 2001 to be consistent with the 2001 Census classifications; thus, direct comparisons between the periods before and after should not be made.

**4.12** On the whole, we conclude that there continue to be worrying signs in the labour market for young people and those who are the least-skilled. But the labour market positions of the other groups appear to have been more resilient. We now look at the labour market position of each of the groups in more detail.

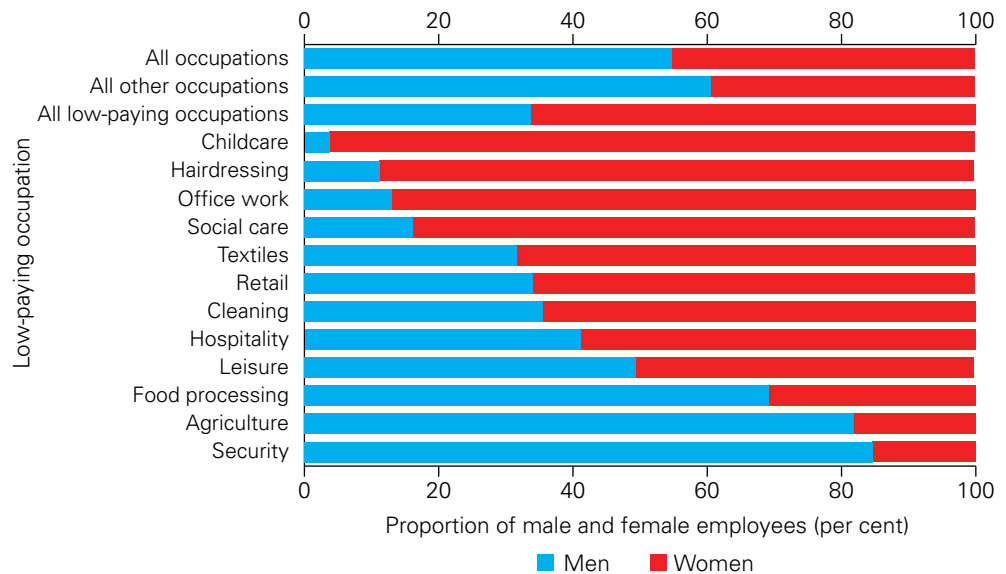
## Women

**4.13** Despite their improved labour market prospects over recent years, women remain more likely to be low-paid than men. There were 12.4 million female employees in January 2008, and we explore how and where they work, their pay in relation to men, and whether the minimum wage upratings have had an impact on their earnings. We then assess whether, as a result, the minimum wage has affected their position in the labour market.

**4.14** In the fourth quarter of 2008 the LFS showed 5.1 million women working part-time (40 per cent), accounting for over 76 per cent of all part-time workers. This high proportion leads to lower average pay and increased coverage of the minimum wage as part-time workers are over twice as likely to be paid at the minimum wage. We estimate using ASHE that around two-thirds of jobs covered by the October 2008 increases in the minimum wage were held by women. Around 5.6 per cent of women were covered by those upratings compared with 3.0 per cent of men. By focusing solely on full-time workers, these figures fall to 3.0 and 2.1 per cent respectively.

**4.15** Women are more likely to work in low-paying sectors: Figure 4.4 shows that around two-thirds of workers in the low-paying occupations are female compared with around two-fifths in all other occupations. Occupations in sectors such as childcare, hairdressing, office work and social care are predominantly female (more than 80 per cent). Comparing the gender split for low-paying industries yields a similar picture, although it is less pronounced because they include supervisory and managerial roles, which are more likely to be held by men.

**Figure 4.4** Proportion of Men and Women, by Low-paying Occupation, UK, 2008



Source: LPC estimates based on LFS Microdata, four-quarter moving average, UK, Q4 2008.



**4.16** Having identified the prevalence of women in part-time roles and low-paying sectors as possible reasons for the difference in pay between men and women, we can assess its magnitude by calculating the gender pay gap (i.e. the proportional difference between men and women's earnings). In the following analysis we have used the median gender pay gap, unless stated otherwise, as it is less affected by extreme earnings than the mean. Table 4.1 shows that the median gender pay gap decreased from above 16 per cent before the introduction of the minimum wage to 11.0 per cent in April 2007. Given the higher proportion of women paid at the minimum wage, this may have had an impact on differentials further up the earnings distribution. The latest estimate for April 2008 shows an increase to 11.6 per cent. One reason for this could be that the increase in the adult rate in October 2007 was smaller than the rise in average earnings. The gender pay gap at the lowest decile is smaller, but it appears more sensitive to the level of the uprating.

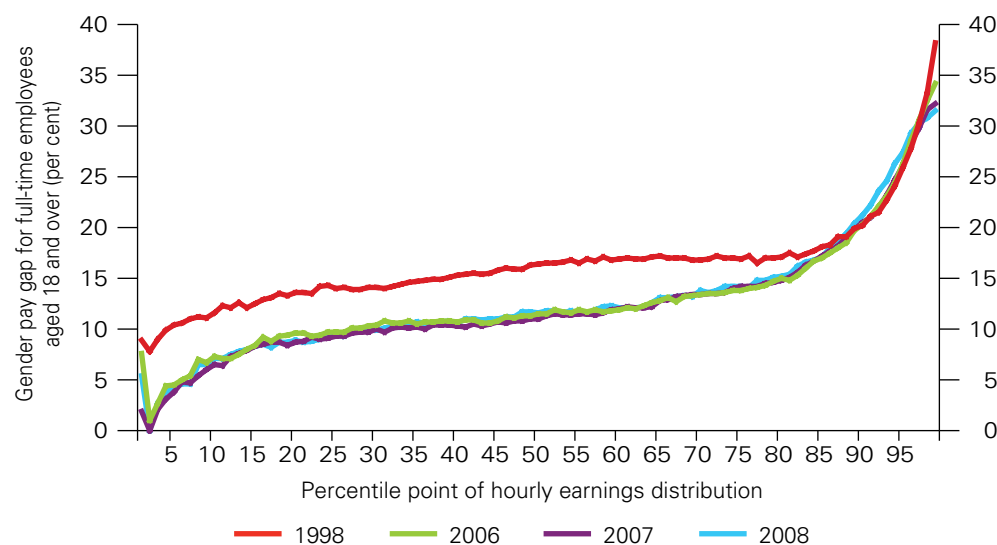
**Table 4.1** Hourly Gender Pay Gaps, Full-time Workers Aged 18 Years and Over, UK, 1997–2008

Year	£ per hour						Per cent		
	Men			Women			Pay gap		
	Lowest decile	Median	Upper decile	Lowest decile	Median	Upper decile	Lowest decile	Median	Upper decile
1997	4.44	8.19	17.24	3.87	6.87	13.83	12.9	16.1	19.7
1998	4.62	8.54	18.10	4.08	7.14	14.44	11.6	16.4	20.2
1999	4.85	8.85	18.89	4.29	7.46	15.22	11.5	15.7	19.4
2000	4.94	8.87	19.45	4.41	7.65	15.67	10.8	13.8	19.4
2001	5.15	9.32	20.84	4.65	8.02	16.54	9.7	14.0	20.6
2002	5.40	9.72	21.94	4.88	8.41	17.43	9.6	13.5	20.6
2003	5.63	10.03	22.53	5.11	8.75	18.00	9.1	12.7	20.1
2004	5.81	10.48	23.44	5.36	9.21	18.94	7.6	12.1	19.2
2004	5.76	10.36	23.02	5.33	9.10	18.75	7.5	12.2	18.6
2005	6.00	10.80	24.24	5.60	9.60	19.76	6.7	11.1	18.5
2006	6.24	11.22	25.38	5.84	10.00	20.28	6.4	10.9	20.1
2006	6.20	11.14	25.25	5.75	9.86	20.12	7.3	11.5	20.3
2007	6.50	11.61	26.25	6.08	10.34	20.87	6.5	11.0	20.5
2008	6.73	12.16	27.27	6.25	10.74	22.16	7.1	11.6	18.7

Source: LPC estimates based on ASHE without supplementary information, April 1997–2004, ASHE with supplementary information, April 2004–2006, and ASHE 2007 methodology, April 2006–2008, standard weights, UK. Note: Direct comparisons before and after 2004 and those before and after 2006, should be made with care due to changes in the data series.

**4.17** Figure 4.5 illustrates how the gender pay gap increases across the earnings distribution, from roughly zero at the second percentile, which tends to be at the minimum wage, to over 30 per cent at the upper end of the distribution. It also shows that the gap has decreased since the introduction of the minimum wage, except for very high earners where, unsurprisingly, the minimum wage does not appear to have had an impact.

**Figure 4.5** Hourly Gender Pay Gap, by Percentile, Full-time Workers Aged 18 Years and Over, UK, 1998 and 2006–2008



Source: LPC estimates based on ASHE without supplementary information, April 1998, and ASHE 2007 methodology, April 2006–2008, low-pay weights, UK.

Note: Direct comparisons before and after 2004 and those before and after 2006, should be made with care due to changes in the data series.

**4.18** Further analysis of ASHE data suggests that from the 30<sup>th</sup> percentile upwards, the gender pay gap is larger within the low-paying industries than other industrial sectors because of the inclusion of senior, predominantly male, roles. From the 20<sup>th</sup> percentile upwards, however, the gap is smaller within the low-paying occupations than other occupations, suggesting that the minimum wage continues to generate more equal pay for lower earners. Furthermore, ASHE provides evidence that there is a relationship between the gender pay gap and age. For 16–17 year olds the gap is negative, with average female earnings in April 2008 7.6 per cent greater than men's because of the higher proportion of young men being paid below the adult minimum wage, presumably in some form of apprentice training. Between ages 18 and 29 the pay gap is minimal but then rises, reaching its peak at 18.3 per cent for 40–49 year olds. In addition, ASHE reveals that in April 2008 there is a slight negative median pay gap for part-time workers. In April

2008 median hourly earnings for part-time women were 2.5 per cent higher than for part-time men. Nevertheless, the mean gender pay gap for part-time workers is positive (affected by higher paid male roles) and the median pay gap between female full-time and part-time earnings remains above 30 per cent (as part-time work is more likely to be low-paid).

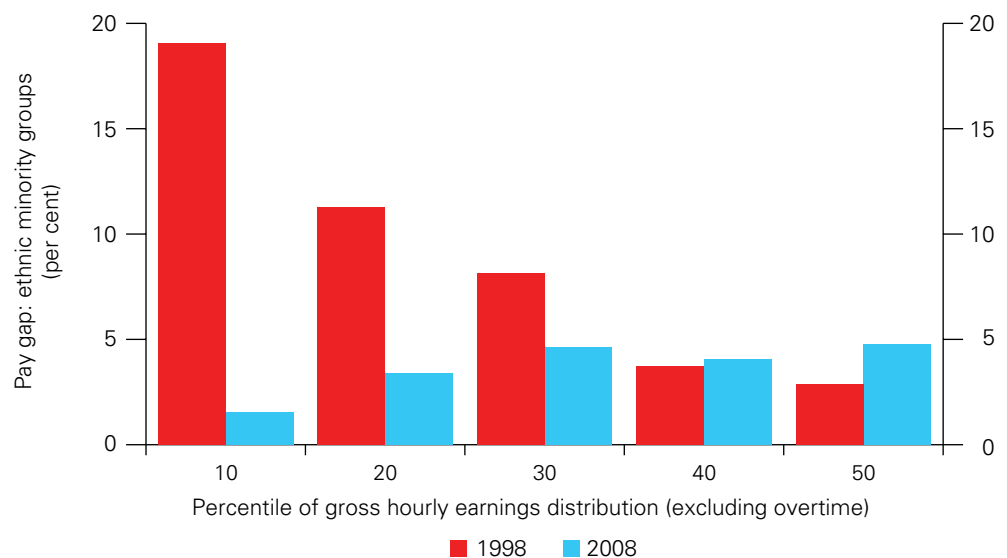
- 4.19** The prevalence of women in part-time roles and low-paying sectors suggests that the National Minimum Wage plays a more important role in raising women's earnings than it does men's. The general reduction in the gender pay gap since 1998 provides evidence that the minimum wage is having a greater impact on women's earnings than it is on men's. The latest increase in the median gender pay gap may be related to the smaller proportional uprating in the minimum wage in October 2007 compared with average earnings, and we will be interested to see next year whether it is going to be a one-off rise or the start of a trend.
- 4.20** We now focus on whether, as a result of the impact on earnings, women's prospects in the labour market have been adversely affected. Figure 4.2 showed that the employment rate of working age women in the fourth quarter of 2008 was 70.2 per cent. It remained below the rate for men, at 78.5 per cent, because of women's higher inactivity rates (around 26 per cent compared with 16 per cent for men). Male and female employment rates have been increasing at a similar pace since before the introduction of the minimum wage and both have seen a levelling off in the most recent quarters as a result of the economic downturn. Women generally have a lower unemployment rate than men. Since 1998, women's unemployment rates have fluctuated between 4 and 6 per cent, although again, like men, there have been increases in the last few quarters owing to the changing economic climate.
- 4.21** In summary, the data do not provide strong evidence of a negative impact on women's employment as a consequence of the minimum wage upratings. This conclusion is echoed in the research by Dickens, Riley and Wilkinson (2009) for job entry. It concludes that although there is some evidence of a negative impact on job retention for adult women, there is no systematic pattern.

## Ethnic Minorities

**4.22** As in previous years, our analysis uses LFS definitions of ethnic minority groups and compares their characteristics with those of white workers. In the fourth quarter of 2008 there were 2.5 million ethnic minority workers (around 9 per cent of all workers) and their inactivity rate was over 30 per cent. Ethnic minority groups are more likely to work in low-paying industries, with security, hospitality and textiles employing the highest proportions.

**4.23** The earnings of workers from ethnic minority backgrounds are, on average, lower than the earnings of white workers, although the pay gap is generally less pronounced than for the other groups looked at in detail in this chapter. Figure 4.6 provides evidence that the minimum wage has significantly reduced the pay gap at the lowest decile. There are smaller reductions since 1998 at the second and third deciles, although the pay gap at the median was greater in 2008 at 4.8 per cent. The pay gap did not vary considerably along the earnings distribution in 2008, although it was smaller at the lower decile which could be a result of the minimum wage. In their written evidence to our consultation, the Equality and Human Rights Commission (EHRC) also concluded that the ethnic minority pay gap has improved since the introduction of the National Minimum Wage.

**Figure 4.6 Pay Gap Between White and Ethnic Minority Workers, UK, 1998 and 2008**

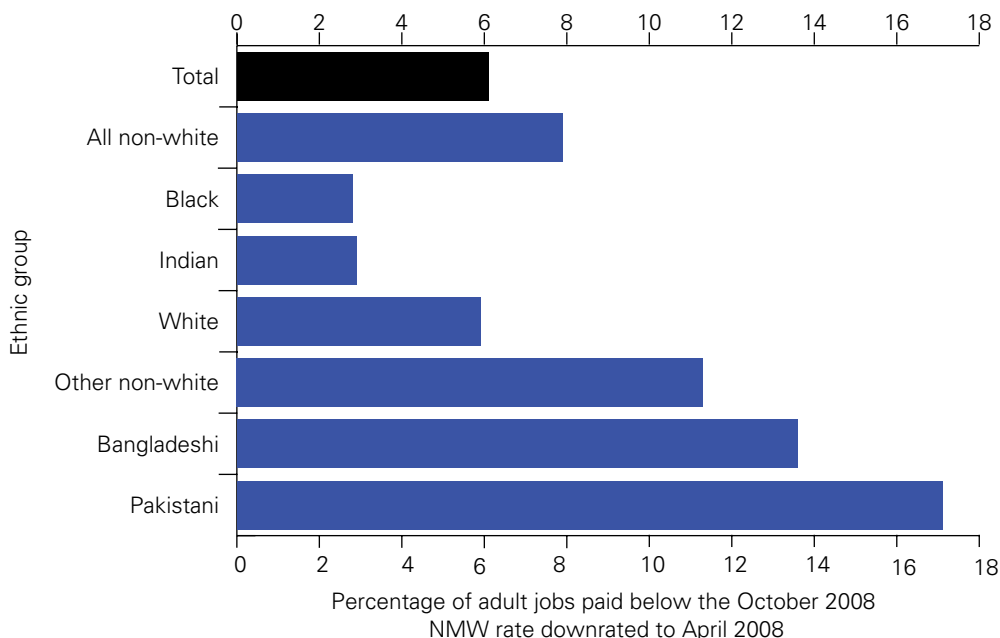


Source: LPC estimates based on LFS Microdata, not seasonally adjusted, UK, spring seasonal quarter 1998 and Q2 calendar quarter 2008.

**4.24** If we look at the different ethnic backgrounds separately, rather than collectively, we see a different story unfold. For example, Chinese workers (included in the 'other non-white' category below) had higher median hourly earnings than white workers in the second quarter of 2008, at £12.06 compared with £9.45 per hour respectively. In fact, their average earnings were higher at every decile. Up to the 70<sup>th</sup> percentile, black workers are also estimated to have higher average earnings compared with white workers. Because of the different earnings profiles for the various ethnic groups, our analysis continues by examining the groups separately.

**4.25** We estimate that in the second quarter of 2008, the proportion of adult ethnic minority employees paid at the National Minimum Wage was greater than for all employees by more than a half (defined by the 5 pence band from £5.52 to £5.57). Similarly, Figure 4.7 shows that the estimated proportion of ethnic minority adults covered by the October 2008 minimum wage uprating was around 2 percentage points higher than for white adults. It also illustrates, however, that white workers were around twice as likely to be covered as black or Indian workers.

**Figure 4.7** Coverage of the Minimum Wage for Ethnic Minority Groups, UK, 2008



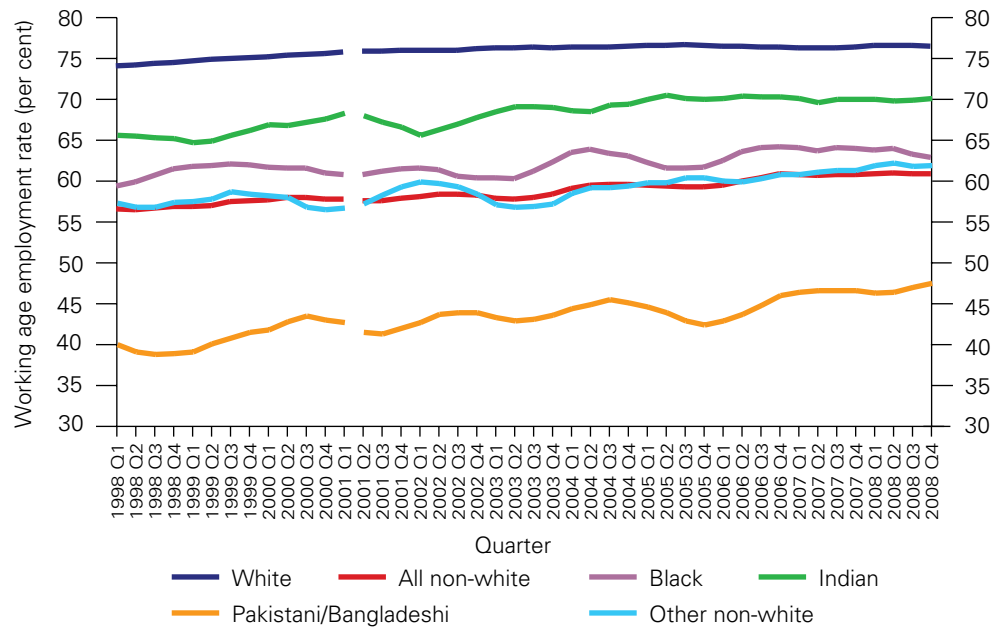
Source: ONS and LPC estimates based on LFS Microdata, UK, Q2 2008.

Note: Covered employees are defined as adults (aged 22 and over) earning less than £5.63 in April 2008.

**4.26** Despite some specific ethnic minority groups receiving higher earnings than white workers on average and some having a lower minimum wage coverage, the earnings of ethnic minorities generally have fared worse than those of their white counterparts. A significant proportion of ethnic minority workers were paid at the minimum wage in April 2008. Given that, in the absence of the minimum wage, it is not a typical hourly rate, this provides evidence that the minimum wage is having an impact on their earnings and we now examine their resulting labour market outcomes.

**4.27** Figure 4.8 shows that people from ethnic minority groups have lower employment rates than white people, with Indians the closest, at around 70 per cent since 2005. Although they are less likely to be employed, these groups have seen faster growth in employment than white people since the introduction of the minimum wage. The Pakistani and Bangladeshi communities had the lowest rates, with a combined employment rate of 47.5 per cent in the fourth quarter of 2008. By splitting the information by gender, we found that women in this combined group were far less likely to be employed than men (26.0 per cent compared with 68.2 per cent), because of their high inactivity rates.

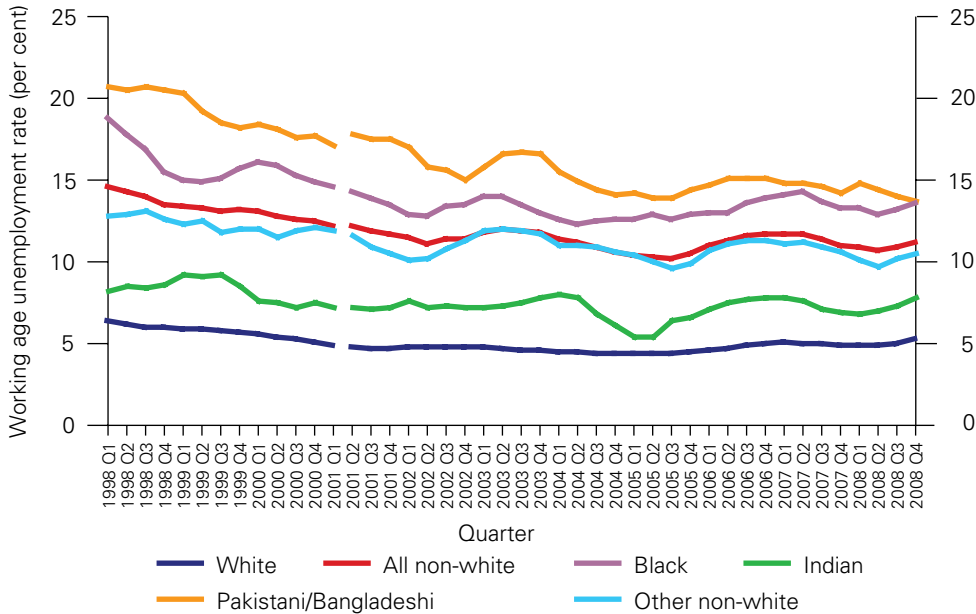
**Figure 4.8 Working Age Employment Rates for Ethnic Minority Groups, UK, 1998–2008**



Source: LPC estimates based on LFS Microdata, quarterly, four-quarter moving average, UK, 1998–2008.  
 Note: The definition of ethnic groups in the LFS changed in spring 2001 to be consistent with the 2001 Census classifications; thus, direct comparisons between the periods before and after should not be made.

**4.28** Figure 4.9 shows that the unemployment rates for ethnic minority groups are all higher than for white people, but they decreased slightly faster between 1998 and 2005 and have since continued to see more fluctuation. Again, we identify that Pakistanis and Bangladeshis experience the worst labour market outcomes.

**Figure 4.9 Working Age Unemployment Rates for Ethnic Minority Groups, UK, 1998–2008**



Source: LPC estimates based on LFS Microdata, quarterly, four-quarter moving average, UK, 1998–2008.  
 Note: The definition of ethnic groups in the LFS changed in spring 2001 to be consistent with the 2001 Census classifications; thus, direct comparisons between the periods before and after should not be made.

**4.29** There is no evidence to suggest that the labour market position of ethnic minority workers has been adversely affected by the upratings in the minimum wage. In terms of the changing patterns over time, ethnic minorities have seen faster improvements than their white counterparts. The employment and unemployment gaps had been closing since before the introduction of the National Minimum Wage. We take a further look at the interaction between ethnicity and the minimum wage in the section on migrant workers later in this chapter.

## People with Work-limiting Disabilities

**4.30** In their evidence submitted this year, UNISON highlighted the problems people with disabilities face in the labour market. It called for us to consider their higher living costs when making our recommendations. According to the LFS, there were 5.3 million people with work-limiting disabilities in the fourth quarter of 2008, making up 12.4 per cent of the

working age population. Their participation rate is low, with 54.1 per cent inactive, although the activity rate has generally been increasing over the last ten years. Around 2.1 million of the group were working in the fourth quarter of 2008, accounting for 7.1 per cent of the UK population in work. People with work-limiting disabilities are less likely to be in work than those without a disability. Part-time work is more prevalent for people with work-limiting disabilities: a third of the group have reduced hours, accounting for around 1 in 10 of all part-time workers. They are only slightly more likely to work in low-paying occupations, with cleaning containing the highest proportion (13 per cent) of employees with work-limiting disabilities.

**4.31** Figure 4.10 illustrates that a pay gap exists; that is, median hourly earnings for people with a work-limiting disability are lower than for workers without a disability. There is evidence that the minimum wage has caused a similar reduction in the pay gap at each of the lowest five deciles. The gap is smaller at the lower end of the earnings distribution at around 5.5 per cent in 2008, which could also be a result of the minimum wage.

**Figure 4.10 Pay Gap for People with Work-limiting Disabilities Compared with People without Work-limiting Disabilities, UK, 1998 and 2008**



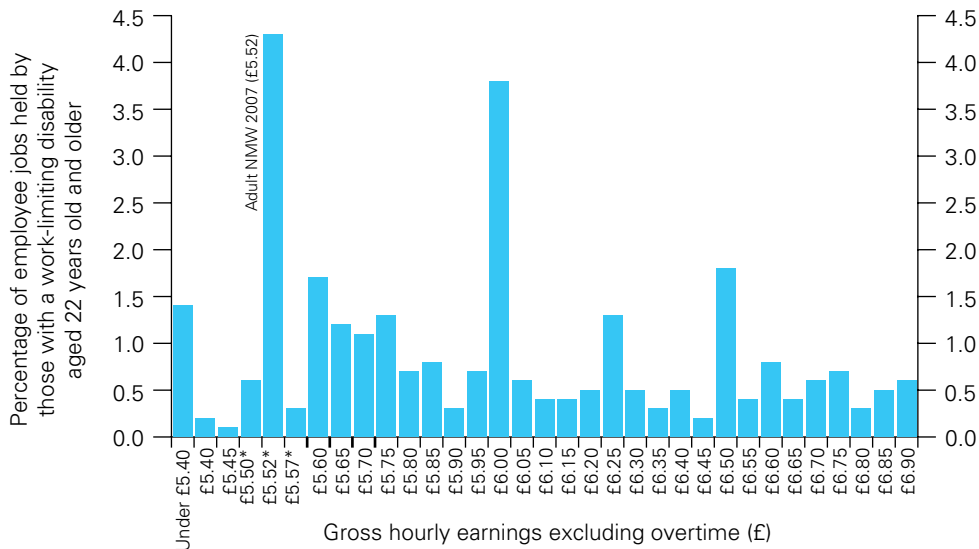
Source: LPC estimates based on LFS Microdata, not seasonally adjusted, UK, spring seasonal quarter 1998 and Q2 calendar quarter 2008.

**4.32** Having identified that people with work-limiting disabilities are generally lower paid than other workers, we have investigated the proportions being paid at the minimum wage. Using the LFS, we estimate that 4.3 per cent of adults in this group were paid at the National Minimum Wage



in the second quarter of 2008 compared with 3.1 per cent of all workers. Figure 4.11 shows a clear spike in the earnings distribution in the second quarter of 2008. It occurs at the minimum wage, the five pence band from £5.52 to £5.57.

**Figure 4.11** Earnings Distribution for People with Work-limiting Disabilities, UK, 2008



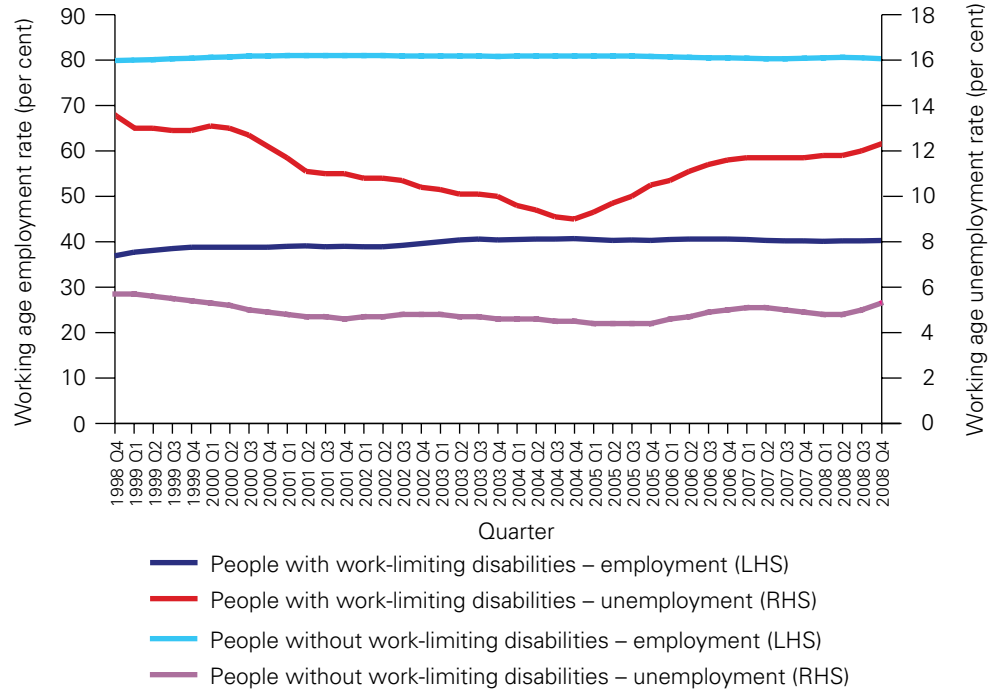
Source: LPC estimates based on LFS Microdata, income weights, UK, Q2 2008.

Note: \* Five pence bands are used except where stated otherwise (bands labelled by minimum pay amount).

**4.33** The employment rate of those with a work-limiting disability, as shown in Figure 4.12, has been around 40 per cent since 2000, which is approximately half the rate for other employees. In the first quarter of 1999 the rate was 37.7 per cent; hence since before the introduction of the minimum wage this group has seen a marginal increase in employment. Their unemployment rate has been more volatile. It decreased between 1998 and 2004 and then, most recently, increased to 12.3 per cent, which is more than twice as high as for other employees. The initial decrease suggests that the introduction of the minimum wage did not increase their likelihood of being unemployed, although we note that the upturn appears to coincide with the larger upratings. In our last two reports we discussed the link between the upturn and the number of people coming off incapacity benefit around this time. The number of people of working age receiving incapacity benefit decreased from 2.77 million in May 2004 to 2.69 million in May 2006 and the latest figure shows a further fall to 2.59 million in August 2008 (DWP, 2009). Nevertheless, although the increase in

unemployment also occurred for other employees, we will continue to monitor the position for any impacts from the minimum wage.

**Figure 4.12 Working Age Employment and Unemployment Rates for People with Work-limiting Disabilities, UK, 1998–2008**



Source: LPC estimates based on LFS Microdata, quarterly, four-quarter moving average, UK, 1998–2008.

## Migrant Workers

**4.34** Many migrant workers are highly skilled and are paid well above the National Minimum Wage but, according to LFS, a significant proportion are low-paid. This has been particularly true of migrant workers who have arrived from the accession (A8) countries (the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia) since 2004. Although many are skilled, large numbers have taken up jobs in unskilled, low-paying occupations (Dustman, Frattini and Preston, 2007). We are therefore interested in the impact of this increase in the labour supply of workers on unemployment and wage inflation at the lower end of the labour market. Migrant workers have been identified throughout our consultations as a group that are particularly vulnerable to exploitation. We also report on a number of stakeholder views and action taken by the Government in relation to migrant workers and enforcement in Chapter 7.

- 4.35** In their written evidence, the devolved administrations raised concerns over the treatment of migrant workers. The Northern Ireland Assembly Executive reported that migrant workers had been playing an increasingly significant role in its economy in recent years, with a considerable proportion likely to be paid at or around the National Minimum Wage. The Executive asked for the needs of migrant workers to be taken into account. The Welsh Assembly Government reported significant inward migration and advised that a recent study commissioned by Wales TUC raised concerns about the treatment of migrant workers in terms of pay and employment conditions. It said it would welcome closer examination of the effect of the National Minimum Wage on this particular group. Citizens Advice Northern Ireland reported a rise in the proportion of complaints it had received from migrant workers, up from 5 per cent in 2006/07 to 14 per cent in 2007/08. Citizens Advice Scotland called for better targeting at the industries employing workers from abroad.
- 4.36** There is no definitive data set for the number of migrants to the UK and we have therefore examined a variety of sources in our analysis. We have used Office for National Statistics (ONS) estimates of Total International Migration, which are based on the International Passenger Survey. The survey is used to identify numbers of 'possible migrants' and 'long stay visitors', which are combined with Home Office data to derive estimates of total inflow and outflow of migrants. ONS is undertaking a programme of work with a range of government departments to improve the quality of migration statistics. The programme is currently focusing on consulting users, providing secure access to the data, and planning the timing of publications. In the longer term, ONS is investigating new methodologies to use for monitoring migration, which could involve new surveys or use of the 2011 Census. We encourage ONS in its work in this area and we will be interested in future developments.
- 4.37** In addition to ONS, there are two other main sources of information. The first is the Department for Work and Pensions' (DWP) National Insurance Number (NINo) Allocations to Adult Overseas Nationals Entering the UK. A NINo is required by any overseas national looking to work or claim benefits in the UK, including the self-employed. The second is the Worker Registration Scheme (WRS) that is collated by the Home Office. Since the enlargement of the EU in May 2004, workers from the A8 countries

wishing to take up employment in the UK for a period of at least a month have been required to register with the WRS. Both sources provide a measurement of inflow to the UK but neither measure outflow.

**4.38** We have previously noted the substantial increase in the number of migrant workers in the UK over a number of years. Table 4.2 contains the most comparable figures available over recent years from the three data sources, with all showing increases in the number of migrants since 2002. The DWP NINo inflow series shows the fastest increases because of the influx of short-term workers. Although the NINo series was the only one not showing an inflow decrease in 2007, figures to the third quarter of 2008 show the number of applications for NINos has since declined. The latest figure from the WRS is 165,000 for 2008, a 24 per cent reduction in the number of applicants since 2007.

**Table 4.2 Migration Statistics, Thousands, UK, 2002–2007**

Source	ONS <sup>a</sup>	ONS <sup>a</sup>	DWP <sup>b</sup>	DWP <sup>b</sup>	WRS <sup>c</sup>
Measure	Net	Inflow	Inflow	Inflow	Inflow
Population	All	All	All	A8	A8
2002	155	513	311	15	-
2003	147	508	362	24	-
2004	244	586	413	79	135
2005	204	563	619	244	212
2006	191	591	633	283	235
2007	237	577	797	368	218

Notes:

a. ONS Total International Migration statistics.

b. DWP NINos are based on the number of registrations; they include self-employed, whereas WRS do not.

c. WRS figures are for applicants, rather than the number of applications made; 2004 is May to December.

**4.39** The most recent Home Office Accession Monitoring Report, May 2004 – December 2008 (HO, 2009) reports that there were 27,000 applicants to the WRS in the fourth quarter of 2008 compared with 51,000 for the same period in 2007 and 63,000 in 2006. The decrease is mainly attributed to a fall in applications by Polish nationals, from 36,000 in the fourth quarter of 2007 to 16,000 in the fourth quarter of 2008. Since 2004, the highest proportion of applicants has been Polish (66 per cent of the total) followed by Slovakian (11 per cent) and Lithuanian (9 per cent). According to the report, in 2008 nearly all workers (96 per cent) registered with the WRS were working more than 16 hours per week and 86 per cent more than 35 hours per week. About four-fifths (78 per cent) of those registering in 2008 were between 18 and 34 years of age.

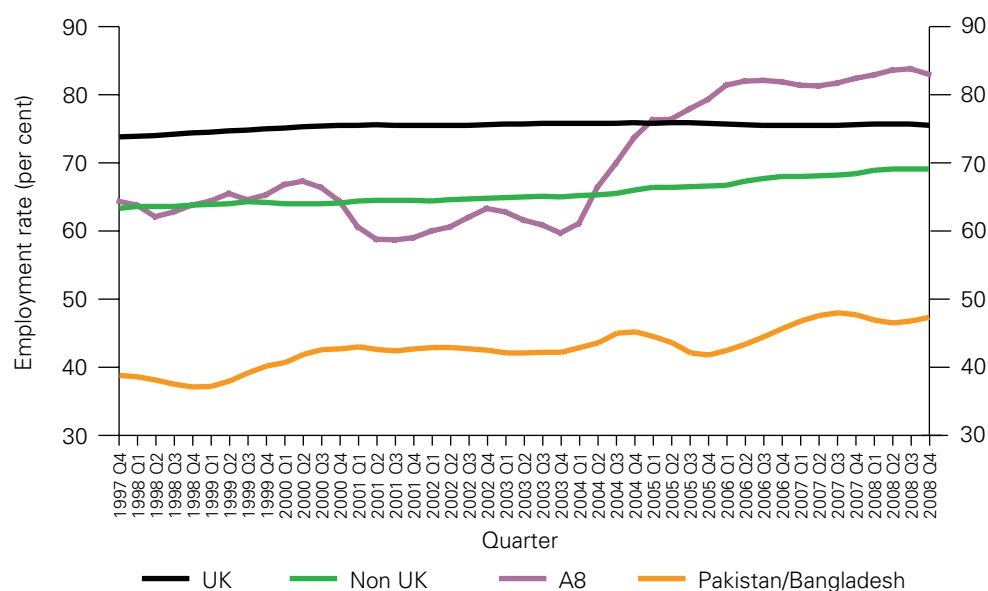
- 4.40** In previous reports we have referred to the range of research and evidence suggesting that these recent migrants from the A8 have not affected employment or unemployment in the UK. Research for DWP concluded in 2006 that the economic impact of migration from the new EU member states has been modest, but broadly positive (Gilpin, Henty, Lemos, Portes, Bullen, 2006). We have not received any evidence against the view that migrant workers have been contributing to the success of the UK economy by filling gaps in the labour market. On pay, Dustman, Frattini and Preston (2007) found that overall there was a slight positive effect on UK wages from recent immigration, although the effects were negative at the lower end of the earnings distribution.
- 4.41** ONS has carried out an analysis of the earnings of migrant workers (data from LFS) that is based on people born outside the UK (Khan, 2008b). Although this definition takes no account of nationality or citizenship, using country of birth may be more useful for comparisons over time because it does not change. The analysis shows that these workers are paid less than UK-born employees. Since 2005, median gross weekly earnings for full-time employees have been lower for non-UK-born employees than for UK-born employees. In 2008, earnings were lowest for those born in the A8 countries, followed by those born in Pakistan and Bangladesh. Around 58 per cent of non-UK-born employees who arrived in the UK between 2001 and 2008 worked in occupations with median earnings below those for all workers. In particular, 44 per cent of all workers in elementary occupations,<sup>1</sup> which are among the lowest-paid occupations, were born in either the A8 countries, Pakistan or Bangladesh.
- 4.42** We have built on ONS's work with our own analysis of the LFS by country of birth. We estimate that 8.8 per cent of adult workers (aged 22 and above) born outside the UK were covered by the October 2008 minimum wage uprating (i.e. were paid less than £5.63 in April 2008). This compares with 5.6 per cent of UK-born adult workers and 6.0 per cent of adult workers overall.
- 4.43** The WRS also provides some valuable information on the pay levels of migrants from the A8 countries (HO, 2009). Of the 27,000 applications in the fourth quarter of 2008, around a third were in low-paying sectors.

<sup>1</sup> Elementary occupations generally involve performing routine tasks, the majority of which do not require formal qualifications. They include, for example, farm labourers, postal workers, office juniors, unskilled factory workers and shelf fillers.

Thus changes in the minimum wage would have an effect on the earnings of migrant workers. Hospitality was the most common sector with around 5,000 migrant workers.

**4.44** We now focus on whether the National Minimum Wage has affected the employment prospects of migrant workers. Figure 4.13 shows that of those not born in the UK, the employment rate has been increasing since before the introduction of the National Minimum Wage. In fact, since April 1999, when the minimum wage was introduced, the difference between the UK-born and non-UK-born employment rates has decreased by 4.3 percentage points to 6.4 per cent (fourth quarter, 2008). The two regions of birth we have identified as having the lowest-paid UK workers have seen the largest increases in employment rates since 1999: the rate for those born in the A8 countries rose by 17.6 percentage points and that for those born in Pakistan or Bangladesh by 9.5 percentage points. Without seasonal adjustment, the employment rate for employees born in the A8 countries increased by 15.8 percentage points between the first two quarters of 2004 following the enlargement of the EU and remained higher than the employment rate for the UK-born workforce to the fourth quarter of 2008.

**Figure 4.13** Working Age Employment Rates, by Country of Birth, UK, 1997–2008



Source: LPC estimates based on LFS Microdata, quarterly, four-quarter moving average, UK, 1997–2008.

**4.45** Supporting the ONS data, research undertaken by the Tenon Forum in July 2008 (Tenon, 2008) showed that the number of small and medium-sized enterprises (SMEs) employing migrant workers had more than

doubled in the past two years. Around 48 per cent of the SMEs said they employed non-UK nationals, compared with 21 per cent in 2006. With the downturn in the UK economy, however, 29 per cent of entrepreneurs who employ non-UK nationals were concerned that foreign workers may choose to return home. The research also showed that 30 per cent of entrepreneurs said they do not employ migrant workers and have no intention of doing so, although nearly half said the reason was because they do not receive applications from migrant workers.

**4.46** In February 2008, the Government began to phase in a new scheme to replace the work permit system with a Points Based System (PBS) for immigration from outside the European Economic Area. Although it is too soon to see the impact of this scheme on employment trends, it is something we will monitor in future. The PBS consists of five tiers and the Home Office has recently drawn up criteria for Tiers 1 and 2. Tier 1 covers highly skilled workers (introduced in February 2008) and Tier 2 covers shortage occupations (introduced in November 2008). The Government advised that as a result of the PBS, the number of jobs available to non-EU workers would fall from 1 million to fewer than 800,000. One of the restrictions imposed by the PBS is that only skilled care workers in UK jobs earning over £8.80 an hour will be allowed to work here. The United Kingdom Home Care Association estimated that as migrant workers accounted for 23 per cent of the homecare workforce, the new PBS will limit the ability of its members to recruit from outside the EU and EU migrants will not be sufficient to meet the gap.

**4.47** The evidence for migrant workers strongly suggests that the minimum wage has not had a detrimental impact on their employment prospects. We have highlighted changes that have begun to take effect, such as the PBS, and we will continue to monitor these.

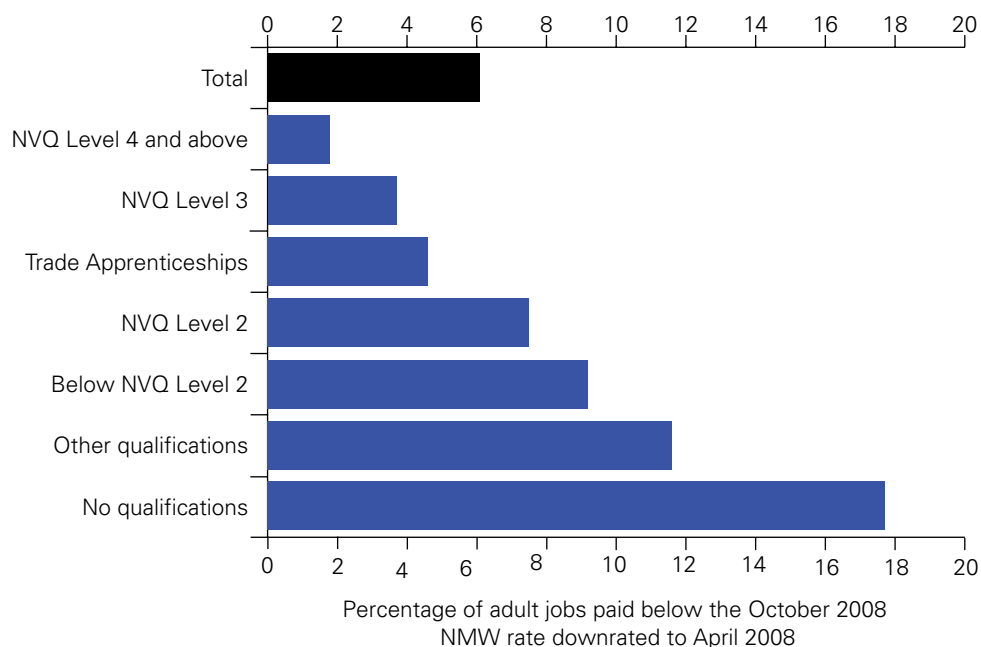
## Least-skilled Workers

**4.48** We analyse the earnings and labour market position of those workers with no qualifications using data from the LFS. As might be expected, workers with the fewest skills in terms of qualification levels tend to fare worse than others as employers seek experience and evidence of educational attainment. Nevertheless, there were 2.1 million people with no qualifications in employment in the fourth quarter of 2008. They are

more likely to work in low-paying sectors and they make up around half of workers in the cleaning and textile occupations.

- 4.49** The difference in earnings between workers with no qualifications and all employees is reasonably modest at the lowest decile (4.8 per cent). As expected, however, the gap increases considerably along the earnings distribution, rising to 43 per cent at the top decile. This is the largest pay gap within our groups of workers.
- 4.50** In terms of coverage of the minimum wage, Figure 4.14 shows our estimate that adult workers with no qualifications were nearly three times as likely to be covered by the October 2008 upratings as workers in general. Just under 18 per cent of jobs held by the least-skilled were covered compared with just under 2 per cent of jobs held by workers with an NVQ Level 4 or above. Given the high coverage and the relatively low pay gap at the lowest decile, the minimum wage upratings are likely to have a positive impact on the earnings of the least-skilled workers.

**Figure 4.14** Coverage of the Minimum Wage, by Qualification Level, UK, 2008



Source: ONS and LPC estimates based on LFS Microdata, UK, Q2 2008.

Note: Covered employees are defined as adults (aged 22 and over) earning less than £5.63 in April 2008.

- 4.51** As already highlighted in Figure 4.2, people with no qualifications are one of the few groups to see their employment rate deteriorate since the introduction of the minimum wage. The decrease began following the



large upratings in 2001, suggesting that the minimum wage might have been a contributing factor. On the other hand, their unemployment trend over time, shown in Figure 4.3, is similar to the trends for ethnic minority groups and people with work-limiting disabilities. Although there is an upturn in the unemployment rate for those with no qualifications from around 2005, it is unclear whether this is the result of the minimum wage upratings or another factor, such as the general downturn in the economy. We will continue to monitor the impact of the minimum wage on the employment prospects of the least-skilled workers.

## Older Workers

- 4.52** Age is arguably the most important distinguishing factor with regard to the minimum wage. It is the only factor by which the minimum wage varies. Young people often lack experience in the workplace and older workers can find it difficult to find employment as they near or pass State Pension age. As a result, they are likely to be more vulnerable than other workers. From the outset, we argued that 18–21 year old workers should be subjected to a lower minimum wage than the adult rate. The Government initially only introduced a lower rate for 18–21 year olds but extended the coverage to 16–17 year olds by introducing a separate rate in 2004. We continue to monitor the earnings and labour market position of younger and older workers to identify any potential impacts of the minimum wage. Here we consider older workers, defined as those aged between 55 and 59 (for women) or 64 (for men) plus those past State Pension age. Young people are discussed separately in Chapter 5.
- 4.53** As discussed in Chapter 2 (Figure 2.5), the expected coverage of the October 2008 minimum wage upratings decreases up to ages 45–54 and then begins to increase from the age of 55, with those over State Pension age significantly more likely to be covered by the minimum wage (8.6 per cent). This pattern also emerges in the proportion of workers paid at the adult minimum wage in April 2008, with 5.8 per cent of those over State Pension age. Their median hourly earnings are £8.01 compared with £10.38 for all workers aged 18 and above. We received similar evidence from the EHRC of pay gaps for older men compared with prime age men. Although there is some evidence that earnings of workers aged between 55 and retirement age are affected by the minimum wage, workers over retirement age are paid less as a group

and have a much higher minimum wage coverage. Hence the minimum wage is likely to have a more significant impact on the earnings of the latter.

**4.54** We showed in Figure 4.2 that although the employment rate for older workers aged 55 to retirement age is lower than for the whole working age population, it has seen the fastest growth since the introduction of the minimum wage. The rate increased from 56.6 per cent in the fourth quarter of 1998 to 66.2 per cent in the fourth quarter of 2008. They have also fared well in terms of unemployment, having the lowest rate of all our groups since 1998, with 3.4 per cent in the fourth quarter of 2008 as shown in Figure 4.3.

**4.55** Given that those over State Pension age are the lowest paid older workers with higher minimum wage coverage, we focus specifically on their labour market position. Figure 4.15 shows that this group has seen a rapid growth in employment since 1998 and a slight decrease in unemployment. The rates for the fourth quarter of 2008 are 11.7 per cent and 1.9 per cent respectively. In summary, the minimum wage has had a positive impact on the earnings of older workers with no evidence of an adverse effect on their employment prospects.

**Figure 4.15** Employment and Unemployment Rates for Workers Over State Pension Age, UK, 1998–2008



Source: LPC estimates based on LFS Microdata, quarterly, four-quarter moving average, UK, 1998–2008.

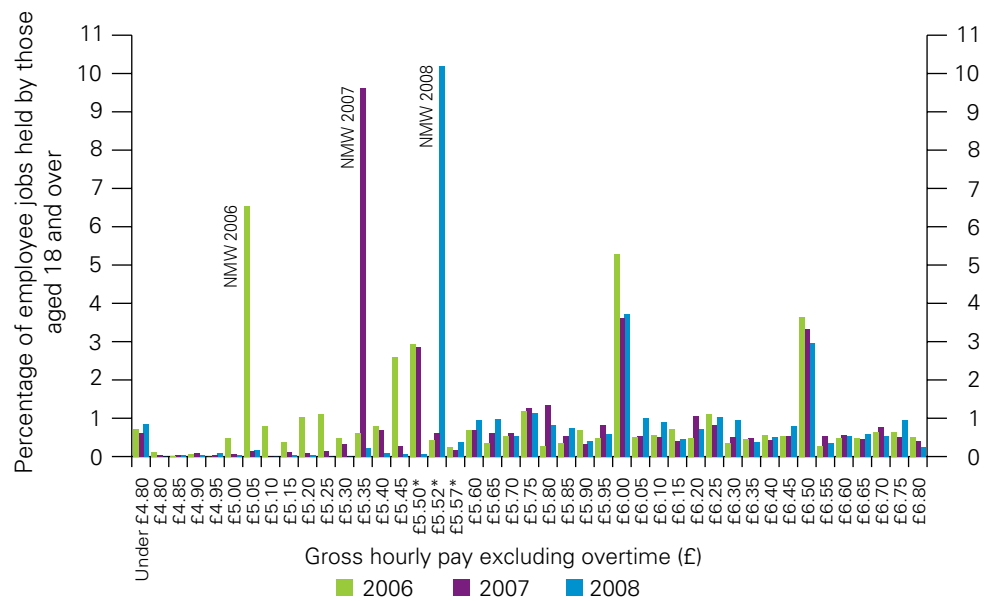
## Agency Workers

- 4.56** Nearly 10 per cent of agency workers are paid at the minimum wage and many agency workers are migrants. Some stakeholders continue to raise concerns in relation to agency workers and the minimum wage.
- 4.57** Flexible working has become a feature of working life in the UK. Agency workers are an important source of temporary, flexible labour to cover short-term absences or fill skills gaps at short notice. Agency contracts can also offer employment opportunities by helping workers gain new skills and experience, or allowing them to fit work around other responsibilities or interests. Workers are fully entitled to the minimum wage but are not required to have the same pay and conditions offered to directly employed staff.
- 4.58** The treatment of agency workers in the UK is changing. In April 2008 a number of amendments to the Conduct of Employment Agencies and Employment Business Regulations 2003 came into force, which were intended to address abuse affecting vulnerable workers. In September 2007 the Government announced that the number of Employment Agency Standards (EAS) inspectors would be doubled from 12 to 24 and that the expanded inspectorate would be able to investigate a greater proportion of agencies. We received a number of responses to our consultation this year referring to these changes and other issues around enforcement concerning agency workers, which are covered in Chapter 7.
- 4.59** In December 2008, the Agency Workers Directive (AWD) reached the end of the European legislative process and was published in the Official Journal of the EU. The Directive allows the UK to implement the CBI/TUC agreement, which means that an agency worker would be entitled to equal treatment (at least the basic working and employment conditions that would apply to the workers concerned if they had been recruited directly) after 12 weeks in a given job.
- 4.60** In their written evidence, UNISON called for agency staff to be given the same employment rights as permanent staff to protect both local and migrant workers from exploitation. The CBI commented on the cost to business of the AWD, pointing out that surveys suggest that, at present, around a quarter of agency workers are paid less than direct employees. This, it said, means that those firms who are paying agency staff less

will have to absorb an additional wage cost when the Directive comes into force. The CBI reported, however, that many employers were more concerned by the prospect of a complex process being created for firms to follow in order to ensure equal treatment for agency staff. In a CBI survey, 62 per cent of firms reported that they foresaw a significant increase to the regulatory burden from equal treatment.

**4.61** The impact of the minimum wage on hourly earnings for agency jobs is clearly shown in Figure 4.16 as the spike of the distribution tracks the uprating. The proportion of agency workers paid at the minimum wage increased from 9.6 per cent in 2007 to 10.2 per cent in 2008. In each year these proportions are significantly higher than for all workers aged 18 and over (2.8 per cent in 2008). There were also typical spikes at £6.00 and £6.50 an hour in 2006, 2007 and 2008.

**Figure 4.16** Hourly Earnings Distribution for Agency Workers Aged 18 and Over, UK, 2006–2008



Source: LPC estimates based on ASHE 2007 methodology, low-pay weights, UK, April 2006–2008.  
 Note: \* Five pence bands are used except where stated otherwise (bands labelled by minimum pay amount).

**4.62** Research undertaken as part of the Gangmasters Licensing Authority’s (GLA) Annual Review for 2008 (Balch, Brindley, Geddes and Scott, 2009) included a survey of agency workers. The survey found that the average net income for agency workers was just under £200 per week (based on an average 33–48 hours per week); most workers would prefer permanent employment; and that just over a third of those surveyed felt the treatment of workers by employers and agencies was getting worse.

- 4.63** The LFS records that in the fourth quarter of 2008 there were around 232,000 jobs classified as 'agency temping' compared with 264,000 for the same period in 2007. Examining all types of temporary jobs, some of which will not involve the use of an agency, we find that there were 1.3 million temporary jobs in the fourth quarter of 2008, 161,000 fewer than in the same period for 2007.
- 4.64** In February 2009, the joint Report on Jobs from the Recruitment and Employment Confederation (REC) and KPMG (REC/KPMG, 2009) showed further marked reductions in permanent and temporary staff employment during January. Although the reductions were not as steep as in December, the rates of decline remained steep by the survey's historical standards. The demand for short-tem staff continued to fall in January, extending the period of decline to seven months. But there was growth in the demand for temporary workers in the nursing/medical/care sectors in January, albeit at the weakest rate in over two years. The figures contrasted with those produced in the middle of 2008, where vacancies for temporary staff had risen at their fastest rate for five months. We welcome the changes to the regulation of agency workers that have come into effect and we will monitor their impact over the coming year.

## Homeworkers and Fair Piece Rates

- 4.65** There is a range of people who work from home, including the self-employed, those in well-paid professional and managerial jobs, as well as those who perform unskilled manual work often on a piece-rate basis. It is very difficult, however, to get information on homeworkers, partly because they are spread out across different industries and occupations and partly because there are few organisations directly representing them.
- 4.66** Those working at home on a piece-rate basis are likely to be paid at or around the minimum wage and face particular difficulties in enforcing their employment rights. In October 2004 a new system of fair piece rates was introduced to overcome difficulties with the existing arrangements for paying the minimum wage for output work. This new system was based on the time a person working at average speed would take to produce an item. Since April 2005, employers have been required to multiply the fair piece rate by a factor of 1.2 so that most workers (not just those at average speed or above) receive at least the minimum wage.

- 4.67** For our 2008 Report, we received evidence that homeworkers and those paid through fair piece rates faced difficulties in enforcing their right to be paid at least the minimum wage. The fair piece rate system had been in place for three years but it was difficult to obtain meaningful evidence on how it was working in practice. We therefore recommended that the Government take stock and evaluate whether the fair piece rate arrangements were meeting their objectives. In response, the Government has advised that it is undertaking an evaluation and that it will report back to us in autumn 2009.
- 4.68** The National Group on Homeworking (NGH) supplied us with details of the evidence it submitted to the Government's evaluation on how the fair piece rate system was operating. In this evidence, the NGH said that although it was open to suggestions as to how the existing system could be made more effective, and there was room for improving employer awareness, the underlying principle that the vast majority of workers should receive at least the minimum wage must not be undermined. Again, we have received evidence from Employment Information Services (EIS) of piece rates not being properly applied in the door-to-door distribution sector, and alleged underpayment of the minimum wage. It called for targeted enforcement of the sector.
- 4.69** During a visit to Leeds in 2008, we met and spoke to a group of homeworkers who experienced underpayment of the minimum wage through piece rate arrangements. During the same visit, however, we met an employer of homeworkers and members of his workforce and were shown how fair piece rates could be used properly. In its written evidence to us, the TUC expressed concern about the difficulty of getting access to homeworkers. It believed that the Government was unlikely to get to the bottom of the issue on the strength of a single consultation and called for a broader research project to map out the scope of the abuse of output-only work in general, followed by appropriate steps to combat the abuse. We share the concern over the difficulty in getting access to homeworkers. This will now be even more difficult following the loss of the NGH last November. But, we hope that the Government's review of the operation of fair piece rates will be able to reach those affected or concerned with this system. We look forward to receiving the outcome of the review.

## Seafarers

- 4.70** Seafarers are covered by the minimum wage while they are employed on a ship registered in the UK while it is working in UK internal waters. In addition, a seafarer working on a ship registered in the UK must be paid at least the minimum wage wherever in the world that ship may be. That is, unless either all the work takes place outside of UK internal waters or they are not normally resident in the UK and the ship is outside UK waters. In its evidence, the National Union of Rail, Maritime and Transport Workers (RMT) argued that the minimum wage should apply to all ships of any flag trading solely within UK territorial waters, including the offshore sector, and all UK-flagged ships within UK territorial waters. It stated that other legislation, such as various taxation measures and the Maritime Working Time Directive, are applied to vessels of all flags in UK territorial waters. The TUC supported what it regarded as the need to close the current minimum wage ‘loopholes’ that exclude many seafarers from its protection.
- 4.71** The Government said that international maritime law, and specifically the right of innocent passage, meant that the UK is unable to apply legislation to ships sailing under the flag of another country. This is reciprocal for British ships. The Government reaffirmed its commitment to consider the issues around seafarers and the minimum wage and had entered into dialogue with interested parties. We understand that this is a complex matter as there are implications for international law and the UK’s EU obligations. The issues involved go beyond just the minimum wage. We urge the Government to continue this dialogue and to seek ways to address the concerns of all stakeholders.

## People on Work Trials

- 4.72** Work Trials offer individuals who have been unemployed for six months or longer the opportunity to try out an actual job vacancy while remaining on benefits. They are voluntary arrangements between an employer and an individual, who continues to receive benefits throughout the Work Trial. As a result, participants are exempt from the minimum wage but are eligible for travel expenses and a meal allowance. They are used only for jobs of 16 hours or more per week that are expected to last for more than 13 weeks. The period of each Work Trial is agreed between the

individual and the employer and either can terminate the trial at any time without it affecting the individual's benefits.

- 4.73** In July 2008 the Government announced that the length of a Work Trial had been extended from three to up to six weeks. This extension required an amendment to the National Minimum Wage regulations to ensure Work Trials continued to be exempt from coverage of the minimum wage. The Government believes that short-term measures aimed at improving jobless individuals' employability and supporting a transition to paid work should not be subject to the National Minimum Wage. Unpaid work experience is an area of concern for the Commission and there has been concern that Work Trials are encroaching into this area, with people on unemployment benefits being encouraged back to work via unpaid full-time work experience. We will continue to monitor how the extended exemption operates.

## Voluntary Workers

- 4.74** Voluntary workers provide an important resource for many organisations and are outside the scope of the National Minimum Wage. The National Minimum Wage Act 1998 defined voluntary workers as: those working for specific organisations (a charity, voluntary organisation, associated fund-raising body, or a statutory body) and receiving only very specific payments and benefits-in-kind (such as necessary expenses incurred, reasonable subsistence, or training required to perform the work). The objective of this arrangement was to ensure that genuine volunteers may continue to work (and receive necessary expenses) without minimum wage liability, while workers in the voluntary sector retain their right to be paid at least the minimum wage.
- 4.75** In our 2008 Report we set out our response to the Government's consultation on voluntary workers (DTI, 2007b). Our response raised a number of concerns about how a proposed exclusion for participants on schemes operating under the Russell Commission's National Youth Volunteering Framework would operate and the possible implications for the minimum wage. We were also not convinced of the case for an exemption from the minimum wage for Ministry of Defence Cadet Force Adult Volunteers.



- 4.76** The Government subsequently announced that it would create a specific exemption for Cadet Force Adult Volunteers, and a provision was included in the Employment Act 2008, which now has Royal Assent. It also extended the expenses that can be reimbursed to voluntary workers to include those to enable them to perform their duties, such as the cost of care of dependents or the cost of lunch during a break while volunteering. The Government also advised us that although a national framework is no longer anticipated, schemes set up after, and as a result of, the Russell Commission Report have worked with the Government on a solution that continues to protect those volunteering and those who should be entitled to the minimum wage. It believed this would be best achieved through developing a better understanding of the minimum wage and the voluntary worker exemption already in place rather than through further exemptions. The Government advised us that it had updated the guidance on voluntary workers (as part of their general guidance), which is now published on Business Link. The guidance was developed with numerous stakeholders and covers volunteers, voluntary workers and related areas (such as work experience).
- 4.77** The TUC expressed concern over the Government's proposal to exempt from the minimum wage full-time voluntary workers in the National Youth Volunteering Framework in order for them to be paid an allowance of £60 per week. It advised that a number of voluntary sector organisations were campaigning to have this exemption extended to allow them to treat other voluntary workers in a similar way. The TUC was against the creation of any further exemptions to the minimum wage in the voluntary sector. We will need to assess the impact of changes to the law in respect of voluntary workers and the updated guidance; so we will monitor these developments closely over the coming year.

## People on Unpaid Work Experience

- 4.78** Students who undertake work experience as part of a higher education or further education course are exempt from the minimum wage where the work experience placement does not exceed one year. There may also be other situations where the minimum wage does not apply to those on work experience, such as in the case of voluntary workers or where the individual does not have an obligation to perform work and is

therefore not a 'worker'. In our 2008 Report, however, we noted that there were situations where the term 'work experience' was being applied to activities that were clearly work and for which the minimum wage should be applied.

**4.79** Our view was that wider dissemination of existing guidance and better enforcement was required rather than any change to the rules. We recommended that material concerning work experience should be updated in order to help raise awareness. The Government accepted the recommendation and advised us that the guidance had been updated and published on Business Link.

**4.80** We again received evidence on this topic this year from a number of stakeholders. The National Council for Work Experience (NCWE) stated that employers in the media industry continue to exploit students through unpaid work experience, and it believed there was some inconsistency and confusion with the existing guidance and advice by the Department for Business, Enterprise and Regulatory Reform (BERR), the Department for Innovation, Universities and Skills (DIUS), and HM Revenue & Customs (HMRC). It was concerned that unpaid work experience could lead to the exclusion of less wealthy students and reported little policing of the minimum wage as it applied to this group. NCWE believes that if there were more publicity of those cases where employers had breached the law this would help clarify the minimum wage requirements. Evidence from the National Union of Journalists (NUJ) suggested that, particularly in the television industry and consumer magazines, people were taken on for months of unpaid work experience to fill staff shortages. The union advised that few individuals were willing to stand up and complain and called for third party enforcement procedures to allow them to act without having to name individuals. Mark Watson has again produced examples of adverts which appear to breach minimum wage rules, and which he has passed on to HMRC. Equity also reported a continuing problem with unpaid work in the performance industry.

**4.81** There continues to be concern from a number of stakeholders regarding people being exploited through unpaid work experience. These concerns echo what we were told last year. We continue to believe that concerns will be addressed through better guidance and enforcement of the existing law. We will monitor the impact of the updated guidance.

## Workers on Sleepovers

- 4.82** A sleepover occurs where workers are required by their employer to sleep at or near their place of work. If the worker is provided with suitable sleeping facilities, the time they are sleeping will not be treated as time when the minimum wage is payable. If the worker gets up to do work during the night, they are eligible for the minimum wage for the time spent working. Official guidance emphasises that if the employment contract clearly sets out when the worker is permitted to sleep and sleeping facilities are provided, the minimum wage need not be paid for these periods of sleep. It also states that if the employment contract does not clearly specify sleeping time, Employment Tribunals are likely to conclude that the minimum wage should be paid for the whole time the worker is at work.
- 4.83** Stakeholder views in 2007 suggested that a number of court and Employment Tribunal judgements had created uncertainty about the obligations to pay the minimum wage during sleepovers. The cases were complex and the existing guidance was not sufficient. We recommended in our 2008 Report that the Government review the existing official guidance as soon as practicable. The Government accepted this recommendation and advised us that guidance on sleepovers was reviewed, updated and published on Business Link. We will monitor the impact of the revised guidance.

## People Undertaking Therapeutic Activity

- 4.84** Therapeutic work or activity are terms used to describe the arrangements whereby people who have problems functioning in the normal labour market, because of a mental or physical impairment, are given the opportunity to undertake some form of work-like activity for which they may receive some type of payment. If they are not workers, the minimum wage will not apply. However, if the activity is work, then they should be paid at least the minimum wage.
- 4.85** Following concerns raised by the Commission about how the minimum wage was operating in respect of this group, the Government updated and distributed widely its guidance note on the minimum wage and therapeutic work in January 2007 (DTI, 2007a). In our 2008 Report we noted the concerns of stakeholders and concluded that it was too early

to assess the impact of the revised guidance issued in January 2007. We have received little evidence from stakeholders this year but will continue to monitor the situation and will report again in 2010.

## Workers Provided with Accommodation

- 4.86** Accommodation is the only benefit-in-kind to count towards the minimum wage. It provides a mechanism to enable employers to offset against the minimum wage the cost of accommodation provided to workers, up to a maximum daily limit. The provision of accommodation is significant in some low-paying sectors such as, for example, agriculture and hospitality. Offset arrangements provide protection to the worker and give some recognition of the value of the benefit but are not intended to reflect the actual costs of provision to the employer or the commercial market value.
- 4.87** We undertook a detailed review of the offset for our 2006 Report, in particular focusing on its application outside traditional tied accommodation. Consideration was given as to whether there was a case for relaxing the offset rules. We remained concerned whether workers (some of the most vulnerable) would have a genuine choice if accommodation was provided as an option, outside the contract of employment. We therefore recommended that the current provisions should continue to apply to all workers housed by their employers. This recommendation was accepted by the Government.
- 4.88** This year, we have received evidence again from a number of stakeholders, raising concerns over the low value of the offset to the provider. In its evidence, the Association of Labour Providers (ALP) has again argued that many labour providers have ceased to provide accommodation because it is not cost effective. Workers, therefore, have to obtain accommodation from the open market where they may face exploitation from landlords. The ALP repeated its call for the Commission to conduct a study on the accommodation costs paid by low-paid workers, including particular schemes designed to help them. In their joint submission, the British Hospitality Association (BHA), the British Beer and Pub Association (BBPA) and Business In Sport and Leisure (BISL) drew our attention to the fact that although the offset has risen in line with the adult rate, it remains at a level below the economic rate for what is being provided. During our visit to Nottingham, members

of the BBPA said they would like to see two offset rates to reflect different types of accommodation: one rate for multiple occupancy and one for single occupancy. The Association of Licensed Multiple Retailers (ALMR) said in its written evidence that it would like to see an increase in the offset (to £60 per week) to provide a suitable inducement to employers to continue to provide accommodation.

**4.89** The GLA also expressed concern about the number of labour providers no longer providing accommodation because it was not economically viable to do so. It was concerned that this led to a situation where workers may be exploited by unscrupulous landlords, something outside its control. It suggested one approach could be to have local variations of the offset; the level could be linked to the Fair Rent Rates used by local authorities (which are set by the Rent Service). A survey of workers conducted as part of the GLA's Annual Review (Balch, Brindley, Geddes and Scott, 2009) reported that 40 per cent of migrant workers felt that their accommodation was worse or much worse in the UK than in their home country (although it was not specified who provided the accommodation). A survey of gangmasters as part of the same review found that 25 per cent had a direct link to their workers' accommodation, although it was reported that anecdotal evidence suggested that the link between accommodation and labour provision may be stronger but was not always direct or formal. The TUC reported that it has continued to receive reports that the offset is being abused, especially for migrant workers. It proposed that we recommend BERR set up a special project to ensure the guidance is being followed and to direct further action on enforcement.

**4.90** The low-paying sectors in which the offset arrangements are used most employ a large number of migrant workers who, as already discussed in this chapter, are some of the most vulnerable to exploitation. We continue to receive submissions from employer stakeholders that more and more employers are not finding it economically viable to offer accommodation. The TUC reported that the offset continues to be abused, especially for migrant workers. The GLA deals with employers who use the offset arrangements and has this year also voiced its concerns over the current arrangements. As part of our general review next year, we will invite stakeholders to submit further and more detailed evidence so we can better understand the impact of the offset.

## Workers Receiving Tips

- 4.91** The National Minimum Wage Act permits the use of tips as payment, or part payment, of the minimum wage where they have been paid through the employer's payroll. In recent years, the issue of tips has not featured greatly in our stakeholder consultations. When it has, the main issue has been around the treatment of National Insurance Contributions (NICs). It is very difficult to obtain any reliable data on the level of tips, gratuities and service charges paid to workers in the UK, and our 2008 Report noted there was little evidence on the impact of changes to arrangements for NICs and tips. We have also been monitoring an appeal in an Employment Tribunal case considering whether *tronc* payments could count towards minimum wage pay. We await the appeal judgement.
- 4.92** In 2008 there was a high profile campaign supported by the media and trade unions to change the law so that tips could no longer be used by employers to make up payment of the minimum wage. In July the Government announced that it planned to amend the National Minimum Wage Regulations so that tips could no longer be used to meet the minimum wage and that it would be developing a transparency initiative to encourage employers to make it clear how tips were distributed.
- 4.93** The Government launched its consultation on proposed changes to the regulations in November. Its intention was to prevent employers using tips, gratuities and service charges to make up minimum wage pay. It also proposed greater transparency for consumers and workers on what happens to these monies, probably through the introduction of a voluntary code of practice and guidelines. We responded to the Government's consultation on 16 February 2009, taking account of research findings and stakeholders' views. Additional information on stakeholders' views is given in Chapter 8.
- 4.94** In our response, we set out the following views. We believed that the Government was right to review the treatment of tips under the National Minimum Wage legislation because most customers expect tips to be paid on top of wages in recognition of good service. We recognise that, if the proposals are successfully implemented, some workers could be better off. But we highlighted to the Government that its proposal could lead to losers as well as winners and undesired consequences as well as

potential benefits. Further, because there is not one standard system used by employers to distribute tips, it was difficult to predict how such a change in the law would modify practice and what the impact would be, either for businesses or for workers. The only way to ensure that its proposals improve the pay of those receiving tips would be to place employers under a legal obligation to pass on tips. This would involve a change to the law on ownership of these monies, though, and we recognised the complexities of doing this.

**4.95** We also drew the Government's attention to a number of other areas that we believed it needed to consider. These included: the need to ensure the efficacy of any code of practice; the sectoral impact of the proposed change, primarily on hospitality and leisure businesses; that cover charges could still be used to make up minimum wage pay, and any change in employer practice needs to be watched; and other undesired consequences, such as some employers retaining a greater share of tips to offset the additional wage costs. We undertook to carefully monitor the changes to the law that are eventually introduced, and said it would be helpful if the Government were more explicit in the role it expected us to play. Our response can be viewed in full on our website at [www.lpc.gov.uk](http://www.lpc.gov.uk).

## Conclusion

**4.96** The Government asked us to review the impact of the National Minimum Wage on certain groups of workers. We have found evidence that the minimum wage has had a positive effect on the earnings of low-paid groups. For women, the upratings have helped to close the gender pay gap, which has generally reduced since the introduction of the minimum wage. We have also found that the pay gaps for ethnic minority workers and those with work-limiting disabilities have reduced at the lowest deciles. Various sources have indicated that migrant and least-skilled workers are highly likely to be working in low-paying sectors and thus their earnings would be directly affected by increases in the minimum wage. For older workers, we have estimated that those over retirement age were significantly more likely to be covered by the October 2008 uprating compared with those aged over 22.

**4.97** Having found an impact on earnings, we have drawn mixed conclusions about whether the labour market positions of these low-paid groups have

been affected. Women have experienced similar employment and unemployment trends to men since 1999, indicating that the introduction of the minimum wage and its subsequent upratings have not had a negative impact on their employment prospects. The employment rates of ethnic minority and migrant workers have increased faster than their white and UK-born counterparts. Similarly, workers over State Pension age have experienced a rapid increase in their employment rate. We have concluded that there is no evidence of a detrimental impact on the labour market position of these four groups.

- 4.98** Although the employment prospects of those with work-limiting disabilities have improved significantly since 1999, for those with no qualifications, there is evidence to suggest that the introduction of the minimum wage may have contributed to a deterioration in employment prospects. Nevertheless, there may have been other contributory factors and we will continue to monitor the impact of the minimum wage on this group.
- 4.99** Looking beyond the direct impact of increases in the minimum wage, we are pleased that the Government has accepted previous recommendations we have made and has updated the guidance on sleepovers, voluntary workers, and unpaid work experience. We will monitor the impact of this updated guidance. We will also monitor the operation of the extended exemption for work trials.
- 4.100** We received little evidence this year on the impact of the minimum wage on people undertaking therapeutic activity, but we will again look to gather information to cover this issue in our next report. Similarly, although we understand that it is difficult to reach those affected by the fair piece rates system, we encourage the Government to do all it can to consult those concerned as part of its review. We look forward to receiving the Government's report. We have responded to the Government's proposals to no longer allow employers to use tips to make-up minimum wage pay, and we will carefully monitor the changes to the law that are eventually introduced. The accommodation offset continues to be of concern to stakeholders and we look forward to receiving more detailed information on this next year so that we can better understand its impact.
- 4.101** This chapter has highlighted the different impact the minimum wage has on various groups of workers. The next chapter considers the impact of the minimum wage on the employment prospects of young people.



## Chapter 5

# Young People



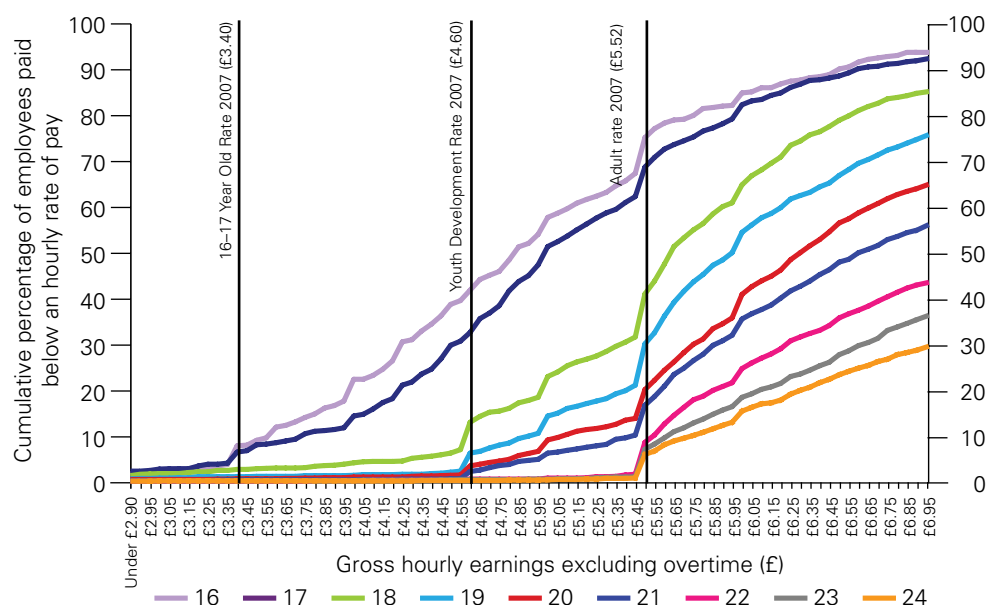
**5.1** Since the Commission's establishment, we have made the case that young people should be treated differently to their older counterparts. In our First Report (LPC, 1998) we argued that the threat of unemployment for young people was far greater than for older workers. Further, we did not wish to see the minimum wage restrict opportunities for training or work that developed basic skills. On our recommendation, therefore, those aged 16–17 were exempt from the minimum wage when it was introduced in 1999. At the same time the Government introduced a separate rate for 18–21 year olds. In our 2004 Report we concluded that there was a case for a minimum wage for 16 and 17 year olds, which would act as a wage floor to prevent exploitation. The Government accepted our recommendation and introduced a 16–17 Year Old Rate in October 2004.

**5.2** In this chapter we continue to make a distinction between 18–21 year olds and 16–17 year olds, not least because each group is subject to a different wage floor. For each age group, we examine earnings for evidence of an impact from the minimum wage and then investigate whether it has affected participation rates in education and employment. We start by looking at 18–21 year olds, before considering the case for 21 year olds being entitled to the adult rate. We conclude this chapter by looking at 16–17 year olds before going on to review the apprentice exemptions in Chapter 6.

## Overview

**5.3** Young people often lack experience in the workplace and are therefore more likely to be on lower earnings than older workers (as already shown in Chapters 2 and 4). Figure 5.1 shows that earnings rise with age for young workers. More than 90 per cent of 16 and 17 year olds earn less than £7.00 per hour, whereas fewer than 30 per cent of 24 year olds do.

**Figure 5.1** Cumulative Hourly Earnings Distribution, by Age for Young Employees, UK, 2008



Source: LPC estimates based on ASHE 2007 methodology, standard weights, UK, April 2008.

- 5.4** In contrast to most of the groups of workers discussed in the previous chapter, the employment prospects of young people, especially those aged 16–18, have been in general decline over the last decade. Our concerns are heightened this year as young people are usually particularly vulnerable in an economic downturn as firms stop hiring and make their least-skilled staff redundant.
- 5.5** In addition to these concerns, young people are also more likely to gain employment in the low-paying sectors than their older counterparts. Although those aged 16–21 made up 8.0 per cent of the UK workforce, they accounted for 16.9 per cent of the workforce in the low-paying sectors in the fourth quarter of 2008. The sectors with the highest proportions of young workers are hospitality and hairdressing (around a quarter of the workforce in each). Over 60 per cent of young workers (aged 16–21) work in the low-paying sectors compared with just 30 per cent of all ages. Around a third of young workers are employed in the retail sector.
- 5.6** In response to our written consultation, Citizens Advice Scotland told us it believed young people can be particularly vulnerable to low pay and poor working conditions because of a lack of knowledge of employment rights UK combined with a need to earn money whatever the conditions. It also said employers lack understanding of National Minimum Wage

rates for young people and that some unscrupulous employers take advantage of young workers. The British Youth Council (BYC) highlighted the need to recognise that many young people aged under 22 work to support themselves. The BYC believes it is important that young workers are not stereotyped as working for pocket money and it should be taken into account that young people aged 16–21 often have the same costs and responsibilities as those aged over 22. This view was echoed by the young women we met from the YWCA during a Commission visit to London.

- 5.7** When recommending minimum wage rates for young people, we have aimed to ensure the rates do not provide an incentive for young people to leave education or training and do not harm the employment prospects for those who decide to enter the labour market. Nevertheless, we believe young people should receive a fair rate of pay and be protected from exploitation by a minimum wage.

## 18–21 Year Olds

- 5.8** Up to October 2008, the Youth Development Rate had increased in line with the adult rate, rising by 59 per cent since its introduction in April 1999. Between April 1999 and October 2008, the Youth Development Rate increased in real terms by just over a third when measured against Consumer Price Index (CPI) inflation (an increase of £1.01 an hour) and by a fifth (62 pence) when measured against Retail Price Index (RPI) inflation. In relative terms the Youth Development Rate increased by just under 10 per cent when compared with the growth in average earnings (an increase of 28 pence per hour).
- 5.9** The minimum wage for 18–21 year olds increased by 3.4 per cent to £4.60 per hour in October 2007 and by 3.7 per cent to £4.77 per hour in October 2008. Taken over the two years, these increases were roughly in line with pay settlements and average earnings growth in the whole economy, greater than the growth in CPI, but less than the growth in RPI.

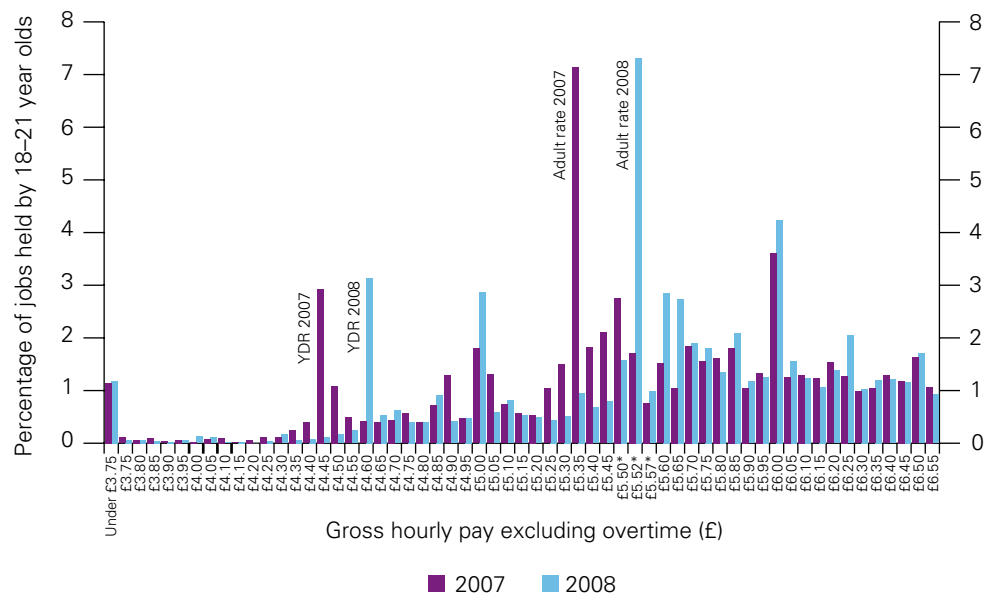
‘Youth rates are unfair as many young people have the same costs as older workers....people presume young people have help and support around them, for example families, but this is not always the case.’

**Young women from the YWCA Commission visit to London**

## Earnings

**5.10** Figure 5.2 shows that the high proportions of 18–21 year old workers paid at the Youth Development Rate and adult rate in April 2007 shifted in April 2008 in line with the October 2007 upratings. The spikes at the Youth Development Rate and adult rate in April 2008 were higher than in April 2007, showing that a higher percentage of people were paid at these rates than a year before, despite the increase in the minimum wage in October 2007 being smaller than the previous four upratings.

**Figure 5.2** Hourly Earnings Distribution for Employees Aged 18–21, UK, 2007–2008<sup>a</sup>



Source: LPC estimates based on ASHE 2007 methodology, low-pay weights, UK, April 2007–2008.

Notes:

a. YDR and adult rate labels show the Youth Development Rate and adult rate in April of the given year.

\* Five pence bands are used except where stated otherwise (bands labelled by minimum pay amount).

**5.11** The proportion of jobs held by 18–21 year olds that paid below the Youth Development Rate, as shown in Table 5.1, remained constant in April 2008 (2.6 per cent). Many of these jobs are likely to be performed by apprentices and thus subject to the apprentice exemptions rather than resulting from non-compliance by employers. Although the proportion of jobs paid below the Youth Development Rate remained constant, there is tentative evidence to suggest that employers are making greater use of youth rates for this group. Despite the smaller increase in the youth rates in October 2007, the proportion of jobs held by 18–21 year olds paying at and above the Youth Development Rate and below the adult rate rose to 17.1 per cent in 2008 (from 16.7 per cent in 2007 and 15.1 per cent in 2006). At the same time, the proportion paying at and above

the adult rate fell to 80.3 per cent in 2008 (from 80.7 per cent in 2007 and 82.5 per cent in 2006). We estimate that around 6 per cent (113,000) of 18–21 year olds were covered by the October 2008 uprating of the Youth Development Rate.

**Table 5.1** Proportion of Jobs Held by 18–21 Year Olds, by National Minimum Wage Rate, UK, 2004–2008<sup>ab</sup>

Per cent	YDR (in April, £)	Adult rate (in April, £)	Below YDR	At YDR	Above YDR and below adult rate	At adult rate	Above adult rate
2004	3.80	4.50	2.3	1.7	10.3	5.4	80.0
2005	4.10	4.85	3.0	2.6	10.2	5.2	79.0
2006	4.25	5.05	2.3	3.0	12.3	6.1	76.3
2006	4.25	5.05	2.3	3.0	12.1	6.1	76.4
2007	4.45	5.35	2.6	2.9	13.7	7.1	73.6
2008	4.60	5.52	2.6	3.1	14.0	7.3	73.0

Source: LPC estimates based on ASHE with supplementary information 2004–2006 and ASHE 2007 methodology April 2006–2008, low-pay weights, UK.

Notes:

- Direct comparisons between the 2004–2006 and 2006–2007 series should be made with care due to changes in methodology.
- We define the minimum wage rates as the five pence band that lies from the applicable rate to strictly less than five pence above the applicable rate (e.g. we define the adult rate in 2008 as from £5.52 to strictly less than £5.57).

**5.12** Aggregate data from the Annual Survey of Hours and Earnings (ASHE), reported in Table 5.1, indicate that employers may be making more use of youth rates although the results from our commissioned research indicate this may be sector specific. Incomes Data Services (IDS, 2009) found employers in the fast food, pubs and restaurants sector continue typically to use youth rates and to pay the adult rate from age 22. In some of the companies IDS surveyed within this sector, young people made up a third of the workforce. Companies it surveyed from the fast food sector were most likely to pay the Youth Development Rate for 18–21 year olds.

**5.13** In contrast, IDS found that the retail sector continues to move away from age-related pay structures. The research suggests that the majority of employers in this sector tend to use one rate of pay for those aged under 18 and pay adult rates from age 18. Written evidence from the British Retail Consortium (BRC) supported this. It stated that the majority of its members do not use the youth rates and have continued not to, despite narrowing profit margins. But it noted that some retailers did use the Youth Development Rate as a starting point when deciding hourly wage rates.

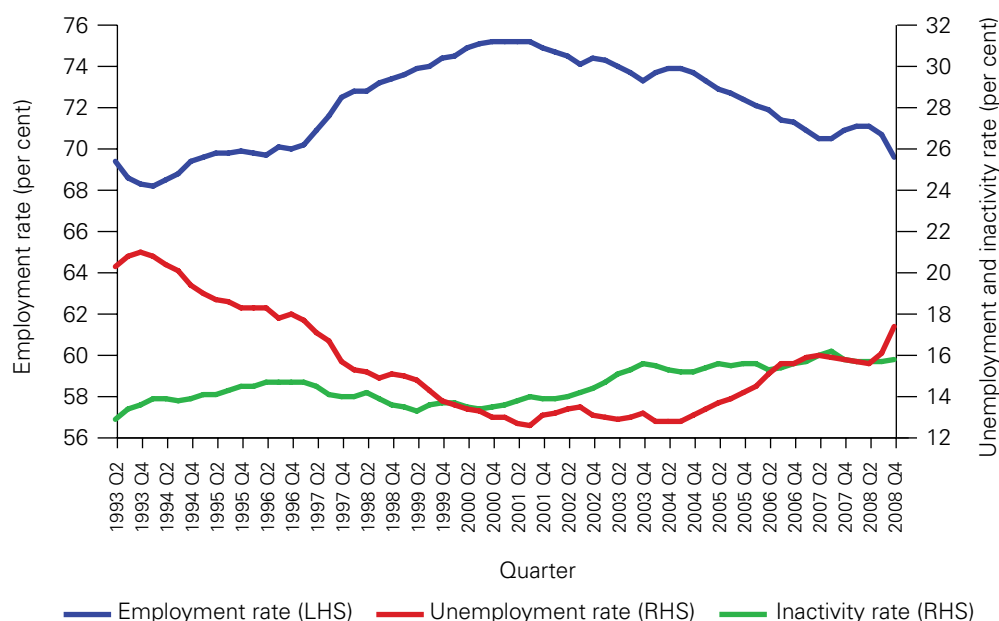
- 5.14** We also found sectoral differences during our oral evidence sessions. The Association of Convenience Stores (ACS) said that some of its members use the Youth Development Rate and that it should be kept. Whereas the Cleaning and Support Services Association (CSSA) said that youth rates are not generally used in its sector.
- 5.15** More detailed results from ASHE support IDS's findings. In April 2008 retailers had not increased their use of youth rates for 18–21 year olds. This is in contrast to the hospitality sector, where the proportion paid less than the adult rate increased by 2.0 percentage points over the year.
- 5.16** We conclude, therefore, that the minimum wage has had a major impact on the earnings of 18–21 year olds, as evidenced in Figure 5.2 by the high proportions paid at the youth and adult minimum wage rates. Earnings at the lowest decile remain at least level with the minimum wage, which has been the case since the minimum wage was introduced. We now look at whether this has had a negative impact on their education or employment prospects.

## Participation in Education and Economic Activity

- 5.17** As previously mentioned, we do not want the National Minimum Wage to provide a disincentive for young people to enter or remain in full-time education (FTE). To date, there has been no evidence that the minimum wage has had a detrimental impact on young people's participation in education. The proportion of 18–21 year olds in education has generally been increasing since before the National Minimum Wage was introduced, reaching over 40 per cent in the fourth quarter of 2008. The economic activities of young people in FTE and not in FTE are different. As you would expect, most 18–21 year olds in FTE are inactive (around 55 per cent in the fourth quarter of 2008) and most 18–21 year olds not in FTE are employed (around 70 per cent in the fourth quarter of 2008). As education and training are likely to lead to enhanced career prospects and higher future earnings, we are less concerned about the impact of the National Minimum Wage on those in FTE. In this section we therefore focus our analysis on the impact on employment of those not in FTE.
- 5.18** Since 2000 the employment rate of 18–21 year olds not in FTE has been in general decline. Figure 5.3 shows that inactivity rose steadily over the same period while unemployment increased sharply between 2004 and

2006. More positively, from the middle of 2007, the employment rate of 18–21 year olds not in FTE had shown signs of recovery, although there are now signs that the recession has started to affect this age group. The employment rate of 18–21 year olds not in FTE in the fourth quarter of 2008 was lower than a year ago at 69.6 per cent and the unemployment rate higher at 17.4 per cent. The inactivity rate was similar to a year ago with 15.8 per cent of 18–21 year olds not in FTE. The data suggest that the minimum wage increase in 2007 did not have an adverse impact on the employment opportunities of this group. For the latest 2008 uprating it is difficult to distinguish between a possible impact from the minimum wage and the impact from the recession.

**Figure 5.3 Economic Activity of 18–21 Year Olds Not in Full-time Education, UK, 1993–2008**



Source: LPC estimates based on LFS Microdata, quarterly, four-quarter moving average, UK, 1993–2008.

**5.19** Despite high total employment levels, it is unclear why young people have fared badly in the recent past compared with other age groups. And although during the current economic climate total employment remains historically high, we expect the labour market position of young people to worsen. This expectation finds support from the latest available monthly data for 18–24 year olds published by the Office for National Statistics (ONS) (more disaggregated age groups such as 18–21 year olds are only available on a quarterly basis). In the three months to January 2009, the employment level of 18–24 year olds fell by 0.4 per

'...employment prospects for young people deteriorate during a recession... we support retention of the current youth rates – in the current economic climate.'

**Federation of Small Businesses (FSB)**  
oral evidence

cent, the highest fall of any age group except for 16–17 year olds. Their employment rate fell by 0.5 percentage points, again the second highest fall of any age group after 16–17 year olds.

- 5.20** Given that 18–21 year olds have continued to do less well in the labour market than older workers, we believe that lower National Minimum Wage rates for these young people are still justified in order to protect their employment and at the same time reflect the training element attached to younger workers. But we continue to believe there is a case for applying the adult rate from age 21.

## 21 Year Olds

- 5.21** Since 1998, the Commission has consistently recommended that 21 year olds be entitled to the adult rate of the minimum wage. Our view has been that the employment prospects of 21 year olds do not need to be protected by the Youth Development Rate. We set out below our analysis of the labour market position of 21 year olds.

## Earnings

- 5.22** The evidence on earnings suggests that most employers already pay 21 year olds at least the adult rate. According to ASHE, in April 2008 nearly 90 per cent of 21 year olds were paid at or above the adult rate, with only 60,000 being paid less. Around 10,000 of these were on a trainee rate, leaving 9.8 per cent of 21 year olds (not on trainee rates) paid less than the adult minimum wage rate in April 2008. ASHE also suggests that the 21 year olds paid less than the adult rate work mainly in large firms in the retail and hospitality sectors. Many also work in sectors that are not generally low-paying. We believe that the businesses affected should be able to absorb the additional costs imposed by this change.



**5.23** As shown in Table 5.2, data from ASHE indicate that since 2007 hourly earnings at the lowest decile for 21 year olds have been closer to those of 22 year olds than to those of 20 year olds. Pay increases at the lowest decile for 21 year olds were in line with those for 22 year olds and were much higher than for 20 year olds in 2007 and 2008. Between 2005 (not shown) and 2007, ASHE suggests there was a reduction each year in the differential in lowest decile earnings between 21 and 22 year olds. Although this differential increased in 2008, it remains minimal at 10 pence, with the lowest decile earnings for 21 year olds at 98 per cent of those for 22 year olds. In contrast, the differential in lowest decile earnings between 20 and 21 year olds has increased from 7 pence in 2006 to 39 pence in 2008. Earnings for the lowest decile of 20 year olds as a proportion of 21 year olds has fallen from 99 per cent in 2006 to 93 per cent in 2008.

**Table 5.2** Gross Hourly Earnings for Young People, by Age, UK, 2006–2008

£	Lowest decile			Lowest quartile			Median		
	2006	2007	2008	2006	2007	2008	2006	2007	2008
18	4.25	4.45	4.60	4.90	4.98	5.13	5.34	5.50	5.69
19	4.58	4.73	4.95	5.05	5.35	5.52	5.63	5.93	6.00
20	4.98	5.05	5.11	5.23	5.49	5.66	6.00	6.16	6.37
<b>21</b>	<b>5.05</b>	<b>5.35</b>	<b>5.50</b>	<b>5.45</b>	<b>5.65</b>	<b>5.75</b>	<b>6.32</b>	<b>6.60</b>	<b>6.68</b>
22	5.14	5.37	5.60	5.73	5.92	6.08	6.95	7.06	7.43
23	5.31	5.50	5.68	6.14	6.25	6.47	7.58	7.84	7.98
24	5.50	5.64	5.81	6.45	6.57	6.71	8.18	8.50	8.75

Source: LPC estimates based on ASHE 2007 methodology, standard weights, UK, April 2006–2008.

**5.24** Table 5.3 shows that in April 2008 the bite of the Youth Development Rate on 21 year old earnings at the lowest decile was 84 per cent. If, in April 2008, 21 year olds had been entitled to the adult rate, the bite would have been 100 per cent at the lowest decile. This is consistent with the starting age of the Youth Development Rate (age 18), where the bite of the Youth Development Rate at the lowest decile was also 100 per cent. In April 2008 the bite of the adult rate on 22 year old earnings at the lowest decile was 99 per cent, only 1 percentage point lower than what it would be for 21 year olds.

**Table 5.3** Bite of the Minimum Wage, by Age, UK, 2008

Age	Applicable MW rate	Lowest decile (per cent)	Lowest quartile (per cent)	Median (per cent)	Mean (per cent)
18	£4.60	100	92	81	74
19	£4.60	93	86	77	68
20	£4.60	90	84	72	65
21 (YDR)	£4.60	84	82	69	59
21 (Adult rate)	£5.52	100	98	83	71
22	£5.52	99	94	74	66
23	£5.52	97	88	69	61
24	£5.52	95	83	63	56
25+	£5.52	89	73	49	39

Source: LPC estimates based on ASHE 2007 methodology, standard weights, UK, April 2008.

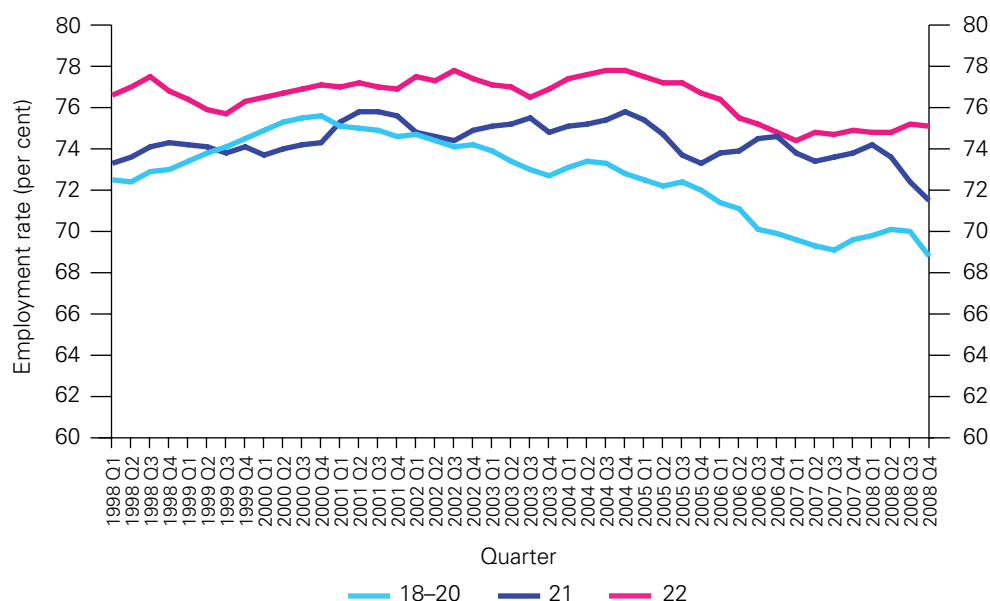
**5.25** As most employers already pay at least the adult minimum wage rate to those aged 21, and the bite of the adult rate at the lowest decile is not more than 100 per cent, we believe a move to start the adult rate at age 21 would have a minimal impact on employers. In addition, hourly earnings at the lowest decile for 21 year olds have been closer to those of 22 year olds than to those of 20 year olds in recent years.

## Labour Market Outcomes

**5.26** As noted in the Government's economic evidence to us in December 2008, and shown in Figures 5.4 and 5.5, the employment and unemployment rates of 21 and 22 year olds not in FTE have been more closely aligned than previously. In recent years, 18–20 year olds not in FTE have fared worse in the labour market than 21 year olds not in FTE.

**5.27** Between the introduction of the minimum wage and the end of 2002, the labour market performance of 21 year olds appeared to follow a broadly similar path to that for 18–20 year olds (see Figure 5.4). In the period 2003–2006, the employment rate of 21 year olds improved relative to that for 18–20 year olds. This is particularly noticeable after the end of 2005 when the employment rate for 21 year olds starts to converge with that for 22 year olds. Employment rates were similar for both ages between the third quarter of 2006 and the first quarter of 2008. But the most recent data suggest that the employment rate for 21 year olds has deteriorated as 2008 has progressed, though it remains significantly above the employment rate for 18–20 year olds.

**Figure 5.4** Employment Rate of 18–22 Year Olds Not in Full-time Education, by Age, UK, 1998–2008

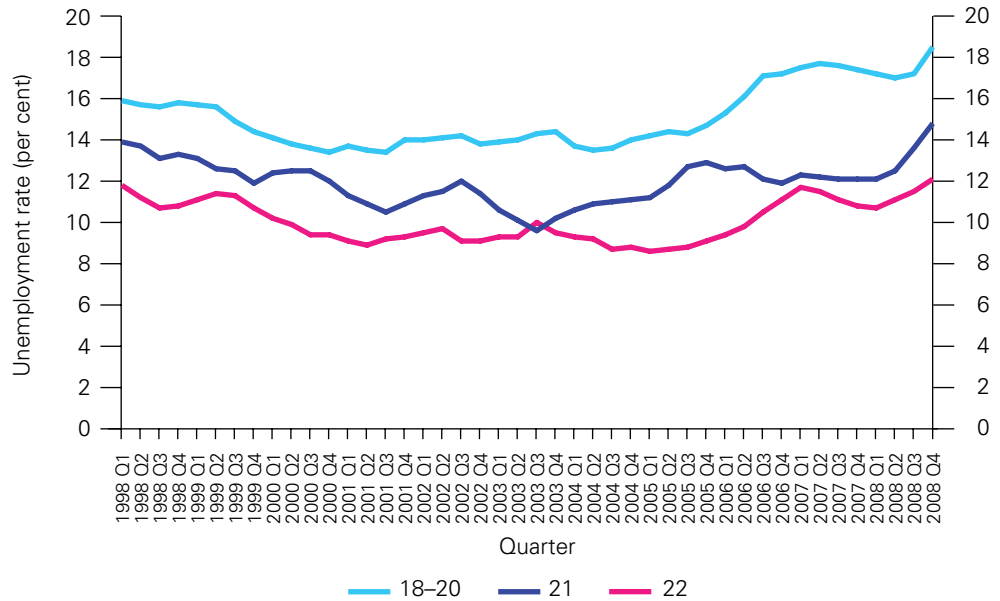


Source: LPC estimates based on LFS Microdata, quarterly, four-quarter moving average, UK, 1998–2008.

**5.28** Looking in more detail at the individual age groups, we find that since 2001 the labour market position of 18 year olds not in FTE has deteriorated more than that of 19–20 year olds, albeit improving since the end of 2006. In the fourth quarter of 2008 the employment rate of 18 year olds not in FTE was 65.1 per cent, 6.2 percentage points lower than in the first quarter of 1999 and 1.1 percentage points lower than in the fourth quarter of 2007. The labour market position of 19–20 year olds has followed a similar pattern to 18 year olds, but they have not fared quite as badly.

**5.29** The unemployment rate for 21 year olds not in FTE has generally been much more closely aligned to that of 22 year olds than to that of 18–20 year olds throughout the whole period since the introduction of the minimum wage in 1999 (see Figure 5.5).

**Figure 5.5: Unemployment Rate of 18–22 Year Olds Not in Full-time Education, by Age, UK, 1998–2008**



Source: LPC estimates based on LFS Microdata, quarterly, four-quarter moving average, UK, 1998–2008.

**5.30** In written submissions and oral evidence, some organisations called for the adult rate to remain applicable from age 22, stating that lowering the age at which the adult rate starts would be an additional cost to employers who rely on young people. The Association of Licensed Multiple Retailers noted that the Youth Development Rate gave an incentive for its members to provide training in-house rather than recruiting those with existing skills and it should continue to apply for ages 18–21. In contrast, many organisations called for a lowering of the starting age of the adult rate. The British Furniture Manufacturers and the CSSA stated they would have no objections to lowering the age at which the adult rate is paid to 21. As shown earlier, many unions also advanced the case that the adult rate start at age 21, but for them it is seen as a stepping stone to the adult rate starting at age 16 or 18.

**5.31** We believe that, on balance, the latest evidence still suggests that lowering the entitlement to the adult rate to the age of 21 will not have any marked impact on the employment prospects of 21 year olds.

**Therefore, we recommend again that 21 year olds should be entitled to the adult rate of the National Minimum Wage.**

‘...21 year olds should be entitled to the adult rate.’

**Unite oral evidence**

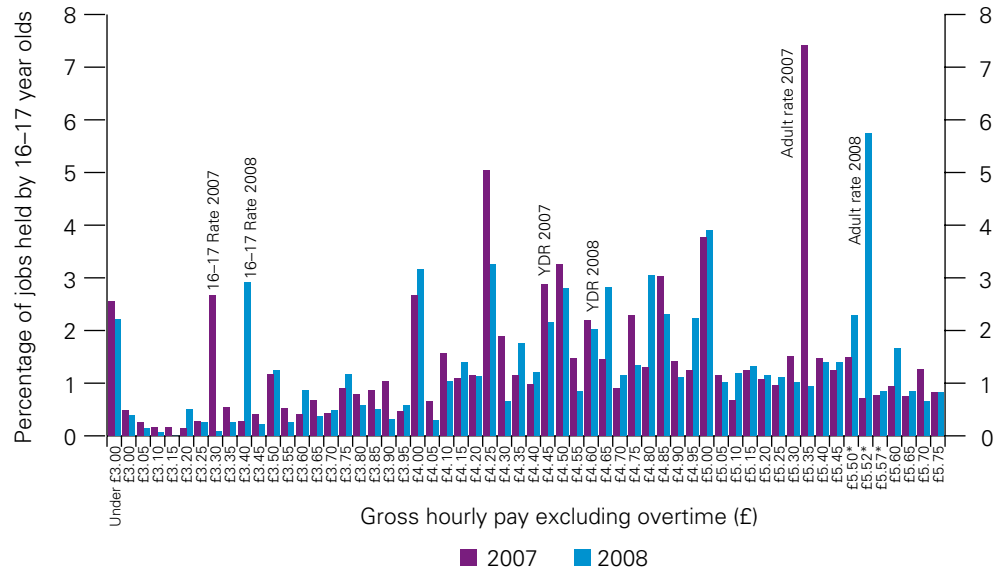
## 16–17 Year Olds

- 5.32** We now turn our attention to the youngest workers covered by the National Minimum Wage, concluding this chapter by looking at 16–17 year olds before going on to review the apprentice exemptions in Chapter 6. When the minimum wage was introduced, 16–17 year olds and apprentices in their first year were exempt from minimum wage legislation. In October 2004, a 16–17 Year Old Rate was introduced at £3.00 an hour. It has since increased by 17.7 per cent to £3.53 in October 2008. This is an increase in real terms of 5.3 per cent (16 pence) when measured against CPI inflation or 2.0 per cent (6 pence) when measured against RPI inflation. In relative terms the 16–17 Year Old Rate has increased by 1.7 per cent (5 pence) when measured against average earnings growth.
- 5.33** The 16–17 Year Old Rate increased by 3.0 per cent in October 2007 and 3.8 per cent in October 2008. Taking the two years together, these increases were similar to those for older youths and adults. In other words, they are roughly in line with pay settlements and average earnings growth in the whole economy, greater than the growth in CPI, but less than the growth in RPI.

## Earnings

- 5.34** Figure 5.6 shows that the concentration of 16–17 year old workers paid at the 16–17 Year Old Rate in April 2007 shifted in April 2008 in line with the rates introduced in October 2007. Despite the uprating in October 2007 being smaller than the previous year (3.0 per cent compared with 10.0 per cent in October 2006), the proportion of 16–17 year olds paid at the 16–17 Year Old Rate in April 2008 was higher than in April 2007. In contrast, the proportion paid at the applicable adult rate (the most popular rate of pay for 16–17 year olds) in April 2008 was smaller than in 2007. There was no pronounced concentration of 16–17 year olds at the Youth Development Rate in either year.

**Figure 5.6** Hourly Earnings Distribution for Employees Aged 16–17, UK, 2007–2008<sup>a</sup>



Source: LPC estimates based on ASHE 2007 methodology, low-pay weights, UK, April 2007–2008.

Notes:

a. 16–17 Rate, YDR and adult rate labels show the youth and adult rates in April of the given year.

\* Five pence bands are used except where stated otherwise (bands labelled by minimum pay amount).

**5.35** Table 5.4 shows that in April 2008, the proportion of jobs held by 16–17 year olds that paid below the 16–17 Year Old Rate was similar to previous years (3.9 per cent). Employers seem to be making more use of youth rates when setting pay levels for 16–17 year olds as the proportion of jobs paying below the adult rate has risen. Despite the smaller increase in the youth rates in October 2007, the proportion of jobs held by 16–17 year olds paying at and above the 16–17 Year Old Rate but below the adult rate rose in April 2008 to 61.9 per cent (from 59.1 per cent in 2007 and 56.5 per cent in 2006). In turn, the proportion paying at and above the adult rate fell to 34.2 per cent in 2008 (from 36.9 per cent in 2007 and 39.7 per cent in 2006). We estimate that about 7 per cent (29,000) of 16–17 year olds were covered by the October 2008 uprating of the 16–17 Year Old Rate.

**Table 5.4** Proportion of Jobs Held by 16–17 Year Olds, by National Minimum Wage Rate, UK, 2004–2008<sup>ab</sup>

Per cent	16–17 Year Old Rate (in April, £)	YDR (in April, £)	Adult rate (in April, £)	Below 16–17 Year Old Rate	At 16–17 Year Old Rate	Above 16–17 Year Old Rate and below YDR	At YDR	Above YDR and below adult rate	At adult rate	Above adult rate
2004 <sup>c</sup>	–	3.80	4.50	–	–	25.0	5.7	27.0	4.9	37.4
2005	3.00	4.10	4.85	4.0	1.8	22.8	2.8	28.3	4.3	36.1
2006	3.00	4.25	5.05	4.0	1.6	25.5	3.8	25.4	3.8	36.0
2006	3.00	4.25	5.05	3.8	1.5	25.5	3.9	25.6	3.8	35.9
2007	3.30	4.45	5.35	4.0	2.7	24.6	2.9	28.9	7.4	29.5
2008	3.40	4.60	5.52	3.9	2.9	26.3	2.0	30.7	5.7	28.4

Source: LPC estimates based on ASHE with supplementary information 2004–2006 and ASHE 2007 methodology April 2006–2008, low-pay weights, UK.

Notes:

- Direct comparisons between the 2004–2006 and 2006–2007 series should be made with care due to changes in methodology.
- We define the minimum wage rates as the five pence band that lies from the applicable rate to strictly less than five pence above the applicable rate (e.g. we define the adult rate in 2008 as from £5.52 to strictly less than £5.57).
- As the 16–17 Year Old Rate was introduced in October 2004 and ASHE measures pay in April, the proportion shown for Above 16–17 Year Old Rate and Below YDR in 2004 (25.0 per cent) is actually the proportion paid below the Youth Development Rate.

**5.36** Aggregate data from ASHE reveal that employers may be making more use of the 16–17 Year Old Rate, although again the results from our commissioned research indicate that this may be confined to only some sectors. IDS (2009) found that the fast food sector was the most likely to pay the minimum wage rates for 16–17 year olds. The research also suggested that the majority of employers in the retail sector tend to use one rate of pay for those aged under 18 and pay adult rates from age 18. More detailed results from ASHE, however, indicate that in April 2008 both retailers and employers in the hospitality sector may have increased their use of youth rates for 16–17 year olds.

**5.37** In written evidence the BRC said that few retailers use the youth rates. On our visit to Leeds we heard from Asda who pay adult rates from age 16. It decided that the tasks carried out by younger and older workers were the same and saw no reason why it should pay younger workers differently. Asda removed its age related pay structure in 2006.

'Increasing the rate for young people by paying them the adult rate would mean those who are studying would be able to work less for the same money, and therefore spend more time studying.'

### Usdaw oral evidence

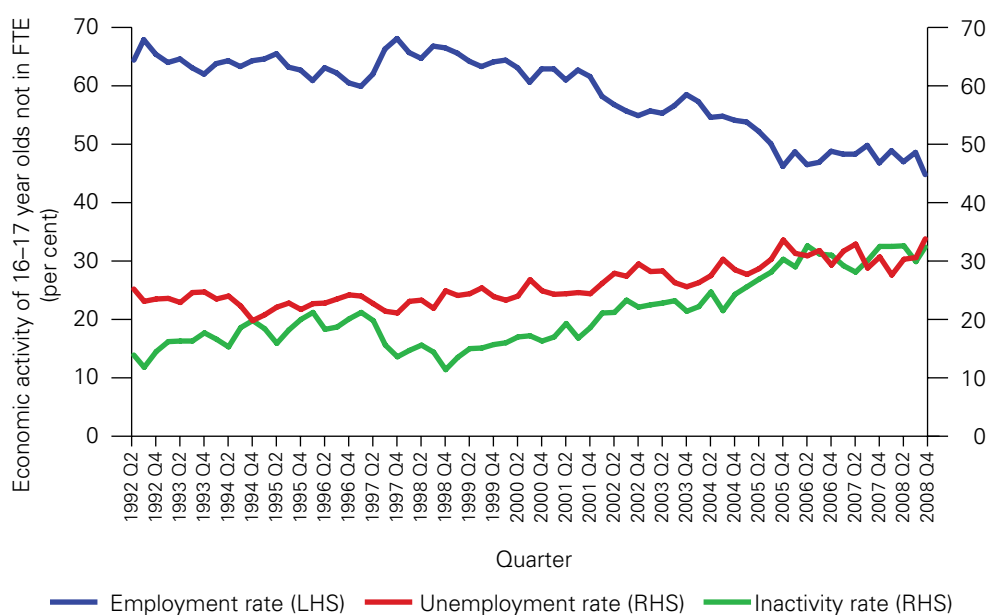
- 5.38** UNISON said during oral evidence that the majority of young people were paid above the current minimum wage rates. UNISON also felt that the adult rate should be paid from age 18, and eventually from age 16. It thought this would not have a significant impact on youth unemployment and would lead to greater value being placed on young workers and lower staff turnover.
- 5.39** Overall, the evidence shows that the minimum wage has had an impact on the earnings distribution of 16–17 year olds. We now look at whether this has led to a negative impact on their participation in education or their employment prospects.

## Participation in Education and Economic Activity

- 5.40** Similar to the 18–21 year old age group, the proportion of 16–17 year olds in education has generally been increasing since before the introduction of the 16–17 Year Old Rate, rising to 77.9 per cent in the fourth quarter of 2008. There is evidence (Battistin, Emmerson, Fitzsimons, Maguire, Middleton, Perren and Rennison, 2005) that the introduction of the Education Maintenance Allowance (EMA) in September 2004 has been an important factor in encouraging more young people to stay in FTE. Despite the increasing proportion of 16–17 year olds in FTE, the Department for Children, Schools and Families (DCSF) estimate that 7.2 per cent of 16–17 year olds (97,000 people) were not in education, employment or training (NEET) in 2007. The 16–17 year old NEET rate has been gradually increasing since the late 1980s, after a sharp decline from 11.0 per cent in 1985 to 5.3 per cent in 1988. We are concerned that the minimum wage should not adversely affect the employment prospects of this group.
- 5.41** Since the mid-1990s, the labour market position of 16–17 year olds not in FTE has been worsening, although over the last two years it has stabilised. Figure 5.7 shows that since the fourth quarter of 2005, the employment rate of 16–17 year olds not in FTE has been steady at just under 50 per cent while inactivity and unemployment rates have also stabilised at around 30 per cent. Recent minimum wage increases, up to 2007, do not appear to have had an adverse impact on the employment opportunities of these young people. For the latest 2008 uprating it is difficult to distinguish between a possible impact from the minimum wage and the impact from the recession.



**Figure 5.7** Economic Activity of 16–17 Year Olds Not in Full-time Education, UK, 1992–2008



Source: ONS, employment rate (AIWG), unemployment rate (AIXR) and inactivity rate (AIYS), for 16–17 year olds not in FTE, quarterly, seasonally adjusted, UK, 1992–2008.

**5.42** There appears to be little evidence to suggest that the absence of a minimum wage for 16–17 year olds between 1999 and 2004 led to a move towards employing 16–17 year olds and away from employing 18–21 year olds, who were subject to the Youth Development Rate. Indeed, the employment rate of 16–17 year olds not in FTE generally fell throughout this period. The rate of decline, however, increased after the introduction of the 16–17 Year Old Rate in October 2004 until the fourth quarter of 2005. No impact is observed following the 10.0 per cent uprating in October 2006.

**5.43** The evidence suggests that the worsening labour market position of 16–17 year olds not in FTE between the fourth quarter of 2004 and the fourth quarter of 2005 was not due to any detrimental impact from the minimum wage. This worsening coincides with the introduction of the EMA that made staying on in education a more attractive option. The downward trend in the employment of 16–17 year olds not in FTE began in the mid-1990s, before the minimum wage was introduced. Further, the labour market position of young people in general has shown signs of stabilising during times of relatively large increases in minimum wage rates.

**5.44** ONS publish monthly data for 16–17 year olds and the latest available data have started to show an effect from the downturn in the economy. In the three months to January 2009, the employment level of 16–17 year olds fell by 5.1 per cent from 517,000 to 491,000, the largest fall of any age group. The employment rate fell by 1.5 percentage points over the same period, again the largest fall of any age group. We will continue to monitor young people throughout the downturn in the economy and thereafter.

## Conclusion

**5.45** The minimum wage has had a major impact on the earnings of young people. High proportions of young people are paid at the youth and adult minimum wage rates, and earnings at the lowest decile remain at least level with the minimum wage.

**5.46** The evidence suggests that the worsening labour market position of young people did not result from any detrimental impact from the minimum wage. For the latest 2008 uprating it is difficult to distinguish between a possible impact from the minimum wage and that from the recession. Young people have continued to do less well in the labour market than older workers and are particularly vulnerable in an economic downturn. Therefore, we believe that lower National Minimum Wage rates for young people are still justified in order to protect employment and at the same time reflect the training element attached to younger workers.

**5.47** But we continue to believe there is a case for starting the adult rate at age 21. We recommend again that 21 year olds should be entitled to the adult rate of the National Minimum Wage. We believe this change would have a minimal impact on employers and would not have any marked impact on the employment prospects of 21 year olds. In the next chapter we report on our review of the apprentice exemptions.

# Apprentices



**6.1** In both our 2006 and 2007 Reports we recommended that the Commission be asked to review the apprentice exemptions from the National Minimum Wage. This reflected the various developments related to apprenticeships in recent years, such as changes to learner support and the introduction of a minimum wage for 16 and 17 year olds. We had also received submissions from a number of stakeholders that some employers were abusing the exemptions by offering both low pay and poor quality training.

**6.2** In November 2007 the Prime Minister announced that the Commission would be asked to look at the apprentice exemptions from the National Minimum Wage, and the Government included the review in the Commission's work for the 2009 Report in the following terms:

*Review the current apprentice exemptions and advise whether they are still appropriate. The Commission is asked to bear in mind the Government's ambition to increase the number of apprentices to 500,000 and the need to ensure that sufficient employed places are available when the education participation age is raised in 2013.*

**6.3** This chapter sets out our review work and findings. It starts by explaining the current exemptions and the rationale supporting them. We then look at the apprenticeship schemes that currently operate in the UK and available data on apprenticeships. The chapter goes on to consider apprentice pay, including differences in pay according to sector, gender, and level of apprenticeship. We analyse the role of pay in employer provision of apprentice places and in workers' consideration of participation in apprenticeships. We also look at the proposals put forward to us by stakeholders for retaining or changing the existing exemptions. The chapter ends with our conclusions and recommendations as to whether the exemptions are still appropriate.

**6.4** In conducting our analysis we used a range of data and other evidence from various sources.

- The findings of independent research (both external and commissioned by us). The key information on apprentice pay was from the pay survey for England commissioned by the Department for Innovation Universities and Skills (DIUS) for 2007 (Fong and Phelps, 2008). We also commissioned our own research as part of our Survey of Employers (details in Appendix 3). Cox, Denvir and Pearmain (IES, 2009) carried out follow-up research to that work which was a small-scale, qualitative study of employers in some of the low-paying sectors to discuss issues relating to apprenticeships and particularly the apprentice exemptions (see Appendix 2).
- Annual Survey of Hours and Earnings (ASHE) and Labour Force Survey (LFS) data. This information is limited as ASHE only identifies 'trainees' (jobs classed by employers as paying a 'trainee' rate), and 75 per cent of the responses to the apprentice question in the LFS are by proxy (hence responses are less reliable).
- Information on apprentices and apprenticeship schemes from the UK devolved administrations and departments with responsibilities for apprenticeships.
- Evidence from stakeholders (including our formal written consultation, Commission visits around the UK, oral evidence sessions with a number of key organisations, and our Secretariat's meetings with stakeholders).
- Information on apprentice minimum wage arrangements in other countries, provided through British Embassies and High Commissions (see Appendix 5).

## Apprentice Exemptions

**6.5** All workers in the UK are entitled to receive payment of at least the National Minimum Wage applicable for their age, unless they fall into one of the groups specifically exempted under the National Minimum Wage Act or the National Minimum Wage Regulations. One of those exemptions is for apprentices. For the purpose of the minimum wage,

an apprentice is a worker who either has a contract of apprenticeship or is taking part in a specified government apprenticeship scheme.

**6.6** The categories of apprentice exempt from the National Minimum Wage (set out in the National Minimum Wage Regulations 1999, Regulation 12) are:

- apprentices under the age of 19; and
- apprentices aged 19 and over in the first twelve months of their training.

**6.7** In addition there are exemptions from the National Minimum Wage for:

- participants on specified pre-apprenticeship schemes (programmes designed to help young people to achieve basic skills and get them ready for an apprenticeship programme, other training, or work); and
- programme-led apprentices in England (apprentices on Further Education courses or Work-based Learning).

## Rationale for the Exemptions

**6.8** When advising the Government on establishing a minimum wage, the Commission took the view that young people in work, particularly 16 and 17 year olds, should receive education and training. It wanted to support and encourage high quality training through apprenticeships.

**6.9** Looking at the wage data available at the time, the Commission found that by the second or third year of an apprenticeship wages are often well above the minimum wage, but for the first year or phase, wages are likely to be low, reflecting the extent to which the apprentice is in training rather than productive work. The Commission did not wish to cut across this means by which young people acquire skills to equip them for well-paid work and recommended that all those on apprenticeships should be exempt from the minimum wage.

**6.10** The exemption, which was subsequently introduced by the Government in the National Minimum Wage Regulations, reflected the Commission's findings. It exempted all apprentices under the age of 19 from the minimum wage. As the minimum wage at the time commenced at age 18, this created a year's exemption. In addition, all those aged 19 to 25 were exempt for their first year. The upper age limit of 25 related to the

availability of funding of government-supported training schemes at the time.

- 6.11** When in 2004 the Commission recommended the introduction of a minimum wage for 16–17 year olds, it considered again the position of apprentices. It recommended that the exemption for those under the age of 19 be retained rather than limiting it to the twelve-month exemption that applied to those aged 19 and over. In particular, it referred to the fact that many 16–17 year old apprentices were still working towards Level 2 (equivalent to GCSEs A\*–C) rather than more advanced qualifications (so pay rates tended to be lower) and that a 17 year old starting an apprenticeship would become eligible for the Youth Development Rate after twelve months. The Commission was concerned that a number of pay agreements had second year apprentice pay rates significantly below the Youth Development Rate. The Commission also recommended an exemption from the minimum wage for young people on specified pre-apprenticeship schemes. The twelve-month exemption for those aged 19 to 25 was later extended to all those aged 19 and over following the introduction of the Equal Treatment Directive.
- 6.12** The exemptions from the minimum wage allow for a balance to be struck. In effect, the possibility of paying apprentices less than employees not in training offsets the costs of providing training incurred by the employer and the state. This is set against the expected future gains for the apprentice in terms of higher earnings and improved employment prospects. There are, of course, also potential longer-term gains for employers and the UK economy, such as higher labour productivity. We consider in more detail the balance of incentives for employers to provide training and apprentices to take up these opportunities later in the chapter. First we look at current apprentice policy and schemes that operate in the UK.

## **UK Apprenticeship Policy, Schemes and Numbers**

### **Implications of Devolved Arrangements**

- 6.13** Although the National Minimum Wage is a reserved matter, and so applies across the UK, education and training are devolved, with

different arrangements operating in England, Scotland, Wales, and Northern Ireland. Given the devolution of responsibilities, data for apprenticeships are produced separately by each administration and their availability and breadth varies. We found only a limited range of data for which comparable information was available for each UK administration. Therefore our analysis of the data has had to focus on England, with use of data from the other parts of the UK only where available and appropriate. This problem of available data was highlighted by both employer and union stakeholders during our consultation, and some called for improvements, particularly in respect of UK-wide apprentice pay data.

- 6.14** The existing apprenticeship arrangements, as well as being different in each administration, are developing. The direction and speed of these developments differ between the UK administrations. A very significant expansion of apprenticeship funding and places is planned in England. This was announced by the Government in November 2007, with the strategy supporting this set out in January 2008 (DIUS/DCSF, 2008a). The Apprenticeships, Skills, Children and Learning Bill in the 2008/09 Parliamentary session is taking these plans forward. The proposals include a new entitlement to an apprenticeship place for all suitably qualified young people from 2013.
- 6.15** At the same time the compulsory participation age in education and training will rise in England from 16 to 18. From 2013 these young people will be required to participate in: full-time education or training; a contract of apprenticeship; or part-time education or training towards an accredited qualification as part of a full-time occupation or alongside an occupation of more than 20 hours a week (Office of Public Sector Information, 2008). Part of the arrangement to facilitate this raising of the participation age will involve a significant expansion of apprenticeship places. The Government envisages that one in five of all young people in England will be undertaking an apprenticeship within the next decade. The report by Lord Leitch (HM Treasury, 2006) recommended that there be at least 500,000 apprenticeships in the UK by 2020, with at least 400,000 of these being in England. The Government projects that the number successfully completing an apprenticeship will rise from over 100,000 now to around 190,000 in 2020. This expansion will require a substantial increase in apprenticeship places provided by employers, and is referred to in our terms of reference set by the Government. We note

Apprenticeships have already proved to be a valuable mechanism for delivering skills to young people, but the scale of the recommended increase is unprecedented....

The Government announced over £1 billion in funding to increase the total of apprenticeship places from 250,000 today to over 400,000 by 2010–11.

**Learning and Skills Council (LSC, 2008a)**

that among the many proposed initiatives to assist this expansion is a contribution to the wage costs of learners for employers who train additional apprentices for the supply chain and also to some small businesses that take on apprentices (DIUS/DCSF, 2008a). We understand that arrangements involving the former are to be trialled shortly (LSC, 2008c).

- 6.16** But, the plans announced for England will largely not be mirrored in other parts of the UK. None of the other administrations plan to raise the compulsory participation age for education and training. The other UK administrations have announced their own plans for apprenticeships, each with their own particular focus and priorities. For example, the Scottish Government has adopted an approach which does not focus on achievement of particular volumes or targets. It views apprenticeships as one component of skills and training opportunities on offer to employers and individuals, as a way of contributing towards its economic strategy. The Scottish Government announced in March 2008 that it would direct support in adult Modern Apprenticeships (MAs) only to sectors related to construction and engineering, equating to a rise of 500 places in these sectors (Scottish Government, 2008). It would also increase the MAs for 16–19 year olds by 10 per cent in all sectors related to construction and engineering – again 500 additional places. More recently, the Scottish Government announced that the budget for 2009/10 would include £16 million to increase apprentice recruitment. This would allow for an additional 7,800 apprentices (Scottish Government, 2009).
- 6.17** The Welsh Assembly Government (WAG) will be looking to increase the number entering apprenticeships as well as the number completing programmes, but does not have specific numerical targets. Wales has had an all-age approach to apprentices for some time, but provision of places has become skewed towards the older age group, over age 19. Therefore, the WAG is looking to increase the number of 16–17 year olds involved in the programme. In January 2009 the WAG announced that there would be an additional £20 million to support apprenticeships during the economic downturn and to help sustain and encourage new apprenticeship recruitment (WAG, 2009).
- 6.18** In Northern Ireland arrangements for apprentices were changed in September 2007. But the administration has already reviewed how the



schemes were working and has revised and re-branded them. It has told us that it is also considering whether to change trainee remuneration arrangements (see section below).

## Apprenticeship and Pre-apprenticeship Schemes

- 6.19** Government-supported apprenticeship programmes are available across the UK, with apprenticeships available at either Level 2 (equivalent to GCSEs grades A\*–C) or Level 3 (equivalent to A levels), as set out in Table 6.1. There are also pre-apprenticeship schemes, aimed at helping young people acquire basic skills (Level 1) and to move onto further training and education or into work. Each UK administration has its own schemes and these continue to develop. For example, in Scotland the Skillseekers (Level 2) scheme is in the process of being replaced by a Level 2 Apprenticeship, with all trainees being waged. Apprenticeships provide a learning framework. They are a form of vocational training involving a mixture of work-based and theoretical learning (DIUS/DCSF, 2008a). They may include: a competence-based element, such as a National Vocational Qualification (NVQ); a knowledge-based element (typically a technical certificate); key or transferable skills; and other elements, such as employment rights and responsibilities or a specialised framework tailored to meet the needs of the employers and the sector. The precise content will vary between each country in the UK.
- 6.20** Public funding of apprenticeships is provided across the UK and is usually channelled through registered training providers, rather than employers themselves. The training providers contract for and administer training arrangements. The state funding regime varies by administration. In England there is a formula, with a number of variables determining the actual funding level for a particular apprenticeship. Funding is higher for younger apprentices, and for schemes that incur greater training costs, overheads, more costly equipment, and longer training programmes (OECD, 2008a). The range of possible public funding levels available to different sectors was illustrated in a recent study of the benefits to employers of investment in apprenticeship training (Hasluck, Hogarth, Baldauf and Briscoe, 2008). The researchers calculated that, for 16–18 year olds, public funding for a Level 3 business administration apprenticeship could be over £5,500, while for a Level 3 engineering apprenticeship it could reach just under £20,000.

**6.21** The same study also illustrated that there were substantial employers' costs in providing apprenticeships. In the case studies reported by the research, these ranged from nearly £4,000 in business administration to nearly £29,000 in engineering.

## Financial Support for Learners

**6.22** Table 6.1 shows that there are also differences between the UK administrations with respect to the financial support arrangements offered to learners. Only in England is there a contractual minimum weekly payment to waged apprentices (£80) on government-funded apprenticeship training.

**Table 6.1** Pre-apprenticeship and Apprenticeship Schemes and Financial Support, by Country, 2008/09

	<b>Pre-apprentice (Level 1)</b>	<b>Apprentice (Level 2)</b>	<b>Apprentice (Level 3)</b>
<b>England</b>	<b>Entry to Employment</b>	<b>Apprenticeship</b>	<b>Advanced Apprenticeship</b>
	EMA <sup>a</sup>	EMA if unwaged Min. £80 per week if waged	EMA if unwaged Min. £80 per week if waged
<b>Northern Ireland</b>	<b>Training for Success<sup>b</sup></b>	<b>Apprenticeships NI</b>	<b>Apprenticeships NI</b>
	EMA plus some expenses <sup>c</sup>	From Sept 2007 must be waged. Encouragement of payment commensurate with the industry rate for the job	From Sept 2007 must be waged. Encouragement of payment commensurate with the industry rate for the job
<b>Scotland</b>	<b>Get Ready for Work</b>	<b>Skillseekers</b>	<b>Modern Apprenticeship</b>
	Min. £55 per week training allowance if unwaged	Min. £55 per week training allowance if unwaged	Waged. Encouragement of payment of the National Minimum Wage
<b>Wales</b>	<b>Skillbuild</b>	<b>Foundation Modern Apprenticeship</b>	<b>Modern Apprenticeship</b>
	Min. £50 per week learner's allowance	Min. £50 per week training allowance if unwaged	All are waged

Source: UK administrations.

Notes:

- EMA (Education Maintenance Allowance) is means tested and currently a maximum of £30 per week.
- One element of Training for Success in Northern Ireland is at Level 2.
- In Northern Ireland a non-means tested EMA of £40 per week is payable for those in unwaged training. In addition to the EMA, contributions in respect of travel, childcare and lodgings may be payable.

**6.23** When introduced, the £80 weekly payment reflected the value of the benefits package that young people could receive if they were in college. In the other administrations there is no such contractual minimum payment to waged apprentices: the Scottish Government encourages payment of the National Minimum Wage, and in Northern Ireland the administration encourages payment of a wage commensurate with the

industry rate for the job. There are training allowances paid for unwaged Level 2 trainees in Scotland and Wales, and in England there is payment of a means tested Education Maintenance Allowance (EMA) to unwaged Level 2 and Level 3 apprentices. Each administration pays an allowance to pre-apprenticeship trainees.

- 6.24** We are aware that some administrations are currently reviewing learner support arrangements. In Northern Ireland, cases of very low pay have come to light and the Executive is considering whether to introduce its own minimum wage arrangements. In Wales the Assembly Government is reviewing whether to continue with Training Allowances or move to an EMA system. In England the Government is considering how the EMA will operate in future when the compulsory education and training age is raised. It has also announced that the weekly £80 payment to waged apprentices will rise to £95 in August 2009.
- 6.25** The vast majority of apprentices are employed and waged, particularly in Level 3 schemes. In their End-to-End Review of the Delivery of Modern Apprenticeships, the Department for Education and Skills (DfES) and the Learning and Skills Council (LSC) (2004) estimated that 86 per cent of new apprentices entered as employees (95 per cent at Level 3 and 83 per cent at Level 2). In oral evidence the LSC told us that it currently estimates that over 90 per cent of apprentices are employed. In research for Scottish Enterprise, Cambridge Policy Consultants (2006) found that 18 per cent of Level 2 apprentices (Skillseekers) had non-employed status, although this rises to nearly half on some of the schemes such as Administration. Those on pre-apprenticeship schemes may have short periods of work experience, but are not usually waged.
- 6.26** We spent a great deal of time researching and understanding the different apprentice wage arrangements in each part of the UK. Public policy has developed since the introduction of the National Minimum Wage and the apprentice exemptions. Since 2005 the LSC rate has, in effect, provided a wage floor for employed apprentices in England. Some stakeholders told us the different wage policies of each administration made arrangements unnecessarily complex, while others urged caution in recommending any change, noting the devolved nature of apprenticeship policy in the UK.

'This is a complex area where policy to increase the quality and quantity of apprenticeships is evolving in different ways in the different nations. The different education and skills strategies of the four governments mean this is far from a simple cut and dried decision.'

#### **CBI evidence**

'...we believe it is an unnecessary complication exempting apprenticeships from the National Minimum Wage while requiring employers to pay a set rate defined by another government department.'

#### **Scottish Government evidence**

## Apprentice Profile

### Number of Apprentices

- 6.27** In 2006/07 the average number of apprentices in learning was 243,000 in England, representing a decline from 259,000 in 2005/06. Only limited comparable data were available to us for the other administrations. The data which were available showed, not surprisingly, that in absolute terms, each of the other UK administrations provided far fewer apprenticeship places. For example, in 2007/08 in Scotland there were 29,000 Modern Apprentices (Level 3) in learning, and in Northern Ireland there were some 3,000 apprentices. In Wales in 2005/06, Modern and Foundation Apprentices in learning totalled 32,000. If we look at places provided as a proportion of the workforce, however, a different picture emerges. Using the latest available data, apprentices in England, Northern Ireland and Scotland represent less than 1 per cent of the working age population whereas in Wales they make up between 1 and 2 per cent.
- 6.28** Apprenticeship starts in England reached 194,000 in 2003/04, but then fell back in both 2004/05 (188,000) and 2005/06 (174,000) when the £80 weekly payment was introduced. The number of starts rose again to reach 224,000 in 2007/08.
- 6.29** In its economic evidence to us (BERR, 2008f), the Government highlighted that the number of apprentices in England had grown rapidly, from 65,000 in 1996/97. But the House of Lords Select Committee on Economic Affairs (House of Lords, 2007) found that most of the increase since the mid-1990s was the result of converting government-supported programmes of work-based learning into apprenticeships. It said that between 2000 and 2006 numbers in apprenticeships in England increased by almost 20 per cent, although by the end of the period growth appeared to have slowed or stalled and numbers in Level 3 apprenticeships had fallen. The failure to expand work-based learning significantly over this period was seen by the House of Lords Committee as suggestive of problems with employer demand. It received other evidence of an over-supply of apprentices for available employer-provided places.

**6.30** The number of apprentices varies greatly by sector. Looking at apprentice starts in England in 2006/07, the sector with the highest number of apprentices was construction (21,000). In the low-paying sectors, hairdressing (17,000), childcare (13,000) and hospitality (13,000) provided the most places, followed by retail (8,000). According to the LFS, in the fourth quarter of 2008 the occupation with highest number of apprentices in the UK was electricians and electrical fitters. Hairdressing, one of the low-paying sectors, was the second highest ranked occupation with 23,000 apprentices. Our Survey of Employers (2008), also UK-wide, found that, within the low-paying sectors covered, 13 per cent of responding firms employed apprentices. But there was a large amount of variation across the sectors, ranging from 48 per cent of hairdressers to only 2 per cent of textile firms. In terms of the proportion of employers offering apprenticeships, the key low-paying sectors were hairdressing, childcare and retail.

More than 100,000 learners now leave the programme each year having passed all elements of the framework for their chosen occupation. This is unprecedented in this country. By 2011, more than 900,000 learners will have completed a full apprenticeship.

**DIUS/DCSF (2008a)**

### Length of Stay

**6.31** Looking at data from the LSC for England, we found that the average length of stay (for completers and early leavers) increased from 60 weeks in 2002/03 to 70 weeks in 2004/05, but then fell to 67 weeks in 2006/07. For Level 2 schemes the average length of stay has remained at 57 weeks since 2004/05, whereas for Level 3 there has been a fall from 100 to 91 weeks over the same period. Looking at average length of stay by sector, there is evidence to support the point made to us by some unions and young people's representatives that the shortening of apprenticeships is particularly noticeable in some sectors where the average length is under twelve months: retail (42 weeks), customer service (43 weeks), business administration (49 weeks), and hospitality (51 weeks). The average length of stay was noticeably higher in electrotechnical (136 weeks), engineering (110 weeks), construction (72 weeks), and hairdressing (70 weeks).

'...most apprenticeships today are of a much shorter nature, many less than a year and most less than 18 months....In these cases the productivity of apprentices will be expected to reach a reasonable level much earlier than in the more traditional models.'

**TUC evidence**

### Age and Level

**6.32** The administrative data on age are not comparable between the four UK administrations, whether by age-band, year, numbers in training, or starts. But it appears from the available data that the age profile of apprentices varies by nation. For example, there are roughly equal numbers of apprentice starts in England aged above and below 19,

whereas the vast majority of apprentices are aged 19 or over in Wales. LFS data for the fourth quarter of 2008, which cover the UK, showed that 49 per cent of apprentices were aged 16–18 and 51 per cent aged 19 and over.

- 6.33** The DIUS pay survey (Fong and Phelps, 2008), which covered England, found the age profile varied significantly by sector. For example 60 per cent of respondents in hairdressing were aged 16–18 compared with 12 per cent in customer service. It found that overall 44 per cent of apprentices were undertaking an apprenticeship at Level 2 compared with 56 per cent at Level 3. But the age profile of apprentices working towards Level 2 was younger (46 per cent were aged 16–18) than that of those working towards Level 3 (20 per cent were aged 16–18). The ‘traditional sectors’ (motor industry, engineering, and electrotechnical), along with early years (childcare), had the largest proportions of apprentices undertaking Level 3 apprenticeships, whereas construction, retail, and hairdressing had the lowest proportions of Level 3 apprentices.

### Gender and Ethnic Minority Groups

- 6.34** Again the administrative data available from the four administrations were not comparable for gender, either by year or whether in training or starts. It would appear, however, that whereas in England and Wales there is a fairly even divide between male and female apprentices, in Scotland and Northern Ireland over two-thirds are male. This overall picture hides very substantial gender segregation by sector, which has implications for apprentice pay and is looked at in the next section. For ethnic minority groups, the same problems arose with data comparability, but it would appear that, for the administrations we have some data on (England, Scotland, and Northern Ireland), 5 per cent or fewer apprentices are from ethnic minority groups. This is half the size of the proportion of ethnic minorities in the working age population of the UK as a whole. In Scotland and Northern Ireland the proportion of apprentices from ethnic minorities is broadly similar to that for the working age population; in England they are proportionally under-represented.

## Apprentice Pay

**6.35** As with data on apprenticeship numbers, the data we had available on pay were mainly for England. Only in England is there a regular survey of apprentice pay, commissioned by DIUS. The TUC said there was a need for higher quality data to be collected on apprentice pay rates, with a lack of data outside England. The CBI also noted the lack of UK-wide evidence. Unite said that neither ASHE nor the LFS provided adequate information on apprentices. The essential features of the DIUS pay survey for 2007 (Fong and Phelps, 2008) were as follows.

- It focused on 11 framework sectors, which account for around three-quarters of learners.
- It measured average net pay per week, not gross pay, and therefore excluded tax and National Insurance Contributions. The survey also excluded tips, bonuses and overtime from these net pay calculations (although some data on these pay elements were presented elsewhere in the survey report). It therefore measured pay in different terms to those used for determining compliance with the National Minimum Wage.
- The respondents in the 2007 survey were more likely to be older, more likely to be male, more likely to have been an apprentice for more than twelve months, and more likely to be undertaking a Level 3 qualification than respondents to the previous survey in 2005. The researchers acknowledged that this may have had some impact on the results.
- Around 12 per cent of respondents reported not being paid for their work as an apprentice and not receiving a training allowance/EMA. These apprentices were excluded from the pay calculations.

**6.36** We now set out key findings on pay from the survey alongside other evidence we received from stakeholders. We also report findings from ASHE, our Survey of Employers (2008), and other commissioned research (IES, 2009). We analyse this information, looking in turn at: average pay and sector differences; the gender pay gap for apprentices; how apprentice pay varies by age, level and duration of the apprenticeship; low pay and enforcement issues; and the hours of work and training for apprentices.

'For evidence based policy decisions on apprentices there needs to be a better data set available.'

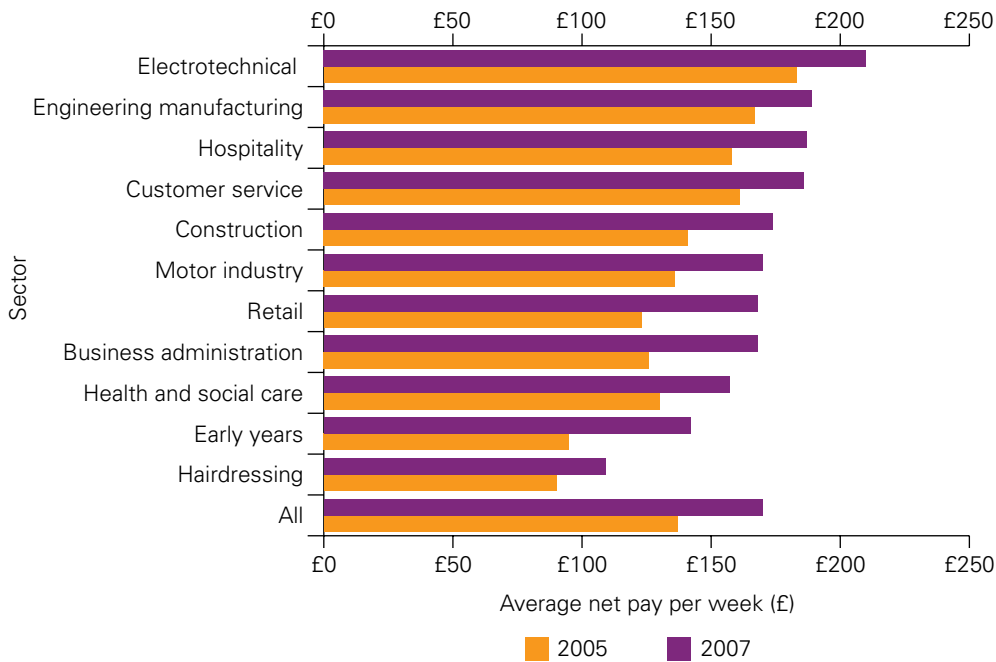
### Unite evidence

## Average Pay and Sector Differences

- 6.37** Figure 6.1 shows the DIUS survey finding that in England average net pay per week for an apprentice in 2007 was £170. This was a substantial increase from 2005 when the average was £137. When the differing profiles of the two surveys are taken into account, however, the researchers' analysis suggested that pay increased in line with inflation between the two periods.
- 6.38** Not surprisingly, the survey found that pay varied substantially by sector. The lowest-paying sectors included hairdressing, early years, and health and social care. The highest-paying sectors were those linked to traditional apprenticeships (engineering manufacturing, and electrotechnical), although hospitality was third highest. The highest average net pay per week at £210 (electrotechnical) was nearly double that of the lowest average at £109 (hairdressing). Some of this difference in pay between sectors could be explained by different demographic and training profiles (some sectors are more likely to have older apprentices, more undertaking Level 3, and more who have been in their apprenticeship for longer). The differences may also be explained by some sectors, such as hairdressing, receiving other payments such as tips, which were not included in the pay calculation. IES (2009) also found pay varied by sector, as well as within sector by employer. For example, first year wages in hairdressing ranged between £50 and £90 per week, and in retail from £100 to £346 per week.



**Figure 6.1** Apprentices, Average Net Pay per Week, by Sector, England, 2005 and 2007



Source: DIUS Pay Survey, England, 2007 (Fong and Phelps, 2008).

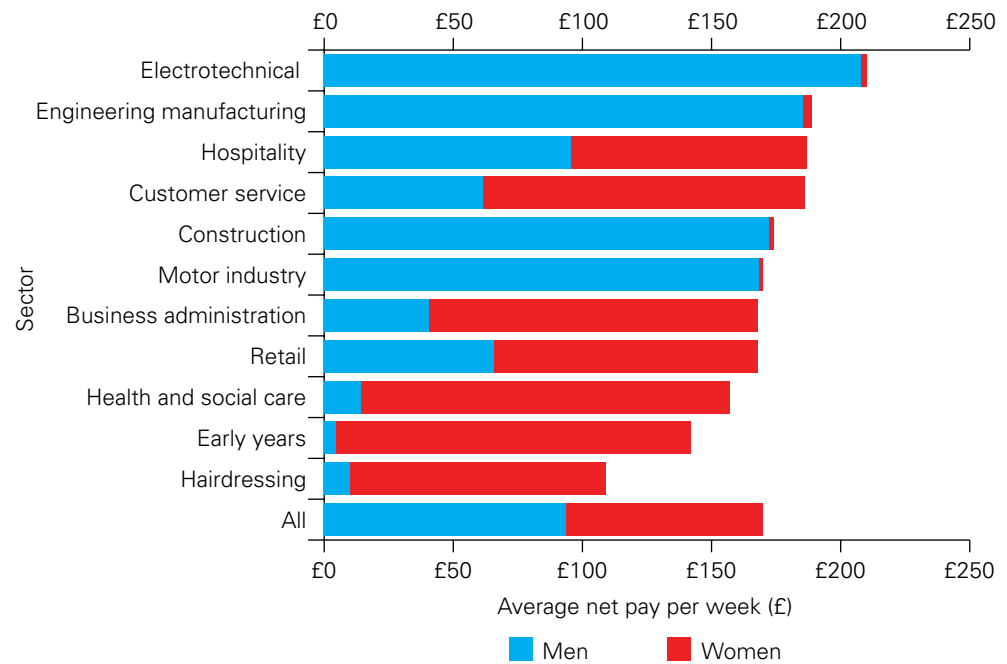
**6.39** Although the DIUS 2007 pay survey only covered England, we have used ASHE data from that time to give us some insight into pay levels in other parts of the UK. For April 2007 we found that the average basic weekly pay for 'trainees' (there is no measure in ASHE for apprentices only) in England was £172 per week. In Scotland it was higher at £197 (perhaps reflecting that the majority of trainees were in higher paid sectors); but in Wales and Northern Ireland pay was lower, at £147 and £144 per week respectively.

## Gender Pay Gap

**6.40** The median gender pay gap for the whole economy in April 2007 (ASHE) was 11 per cent. The gender pay gap for apprentices found by the DIUS survey for 2007 was 21 per cent. This had narrowed from the 2005 survey (26 per cent) as female wages rose faster than male wages. The average male apprentice earned £186 per week in 2007 compared with £147 for the average female apprentice. The gender pay gap may largely be explained by the gender segregation that occurs between sectors as shown in Figure 6.2. The bars show average pay rates by sector and the shading in each bar represents the percentage of male and female apprentices in that sector.

- 6.41** In the two highest-paying sectors the majority of apprentices are male, whereas in the three lowest-paying sectors the majority of apprentices are female. But DIUS found that the gender pay gap also exists in sectors with a more even balance between male and female apprentices (such as hospitality and retail).
- 6.42** In their submissions, the TUC and a number of other stakeholders cited the significant gender pay gap and occupational segregation in apprenticeships, and suggested that removing the exemptions would help close this gap if the exemptions were replaced with a statutory minimum wage that was higher than current pay levels. The TUC referred to the finding that 5 per cent of apprentices were receiving less than the £80 rate in England administered by the LSC and that these apprentices were concentrated in sectors dominated by women. It cited that 8 per cent of female apprentices were paid less than £80 per week compared with 2 per cent of male apprentices.

**Figure 6.2** Apprentice Pay Rates and Gender Split, by Sector, England, 2007



Source: DIUS Pay Survey, England, 2007 (Fong and Phelps, 2008).

**6.43** The Equality and Human Rights Commission (EHRC) pointed to the fact that the apprentice gender pay gap was greater than the overall gender pay gap in the workplace. It referred to an investigation by the Equal Opportunities Commission (EOC) in 2004 into apprenticeships, which led the EOC to recommend that the minimum wage be extended to cover apprentices. Although the EHRC recognised the role of apprenticeships in getting young people into higher paid, skilled jobs, it was concerned about inequalities, with women, disabled, and ethnic minority apprentices disproportionately represented in poorer, lower-paid apprenticeships with fewer opportunities. The push to increase the numbers of apprentices could be at the expense of equality. EHRC believed the exemptions should be removed to ensure a fair wage and to reduce take-up barriers. It called for guarantees of fair and equal pay, quality and greater progression opportunities to accompany the 2013 target for an apprenticeship place for everyone. Unite thought that the removal of the exemptions would help in addressing what it called an ‘undervaluing and exploitation’ of female workers. The GMB believed that ending the exemptions and introducing a national minimum rate would be a first step in making apprenticeships more attractive to women as well as black and ethnic minority, and disabled people.

## Age, Level and Duration

**6.44** The DIUS survey found that apprentice pay in 2007 varied according to age and scheme level, as can be seen in Figure 6.3. This pattern, of pay rising with age and level of scheme, can be seen as consistent with the current exemptions from the minimum wage for all apprentices below the age of 19, and a one-year exemption for those aged 19 and over. Our Survey of Employers (2008) also found that among the low-paying sectors the average of the lowest hourly pay rates for employed apprentices increased with each year of study.

The early stage of the apprenticeship is the least productive for the business while in the later stages the apprentice starts to approach something like the productivity of other employees.

**Steedman (2008)**

**Figure 6.3 Apprentices, Average Net Pay per Week, by Age and Level, England, 2005 and 2007**



Source: DIUS Pay Survey, England, 2007 (Fong and Phelps, 2008).

**6.45** Fong and Phelps (2008) found that pay varied by the length of time the apprentice had been employed. Those who had worked for their employer longer received higher average net pay. IES (2009) also found that pay varied by length of time in the apprenticeship.

## Low Pay and Enforcement Issues

**6.46** The DIUS survey (Fong and Phelps, 2008) found that 12 per cent of the apprentices who responded received neither a wage nor a training allowance/EMA. The previous DIUS survey, covering apprentice pay in 2005 (Ullman and Deakin, 2005), found 10 per cent of apprentices reported not being paid anything. The proportion of apprentices in 2007 who reported they received no pay or allowance varied considerably by sector. The sectors with the highest proportion were retail (41 per cent), health and social care (32 per cent), and customer service (30 per cent). By contrast, the proportion of apprentices reporting no pay was 1 per cent or less in electrotechnical, engineering manufacturing, and construction. The authors thought it was highly unlikely that such a high proportion of trainees received neither pay nor allowances and they suggested that the apprentices might have misinterpreted the information, for instance by seeing the apprenticeship programme as a

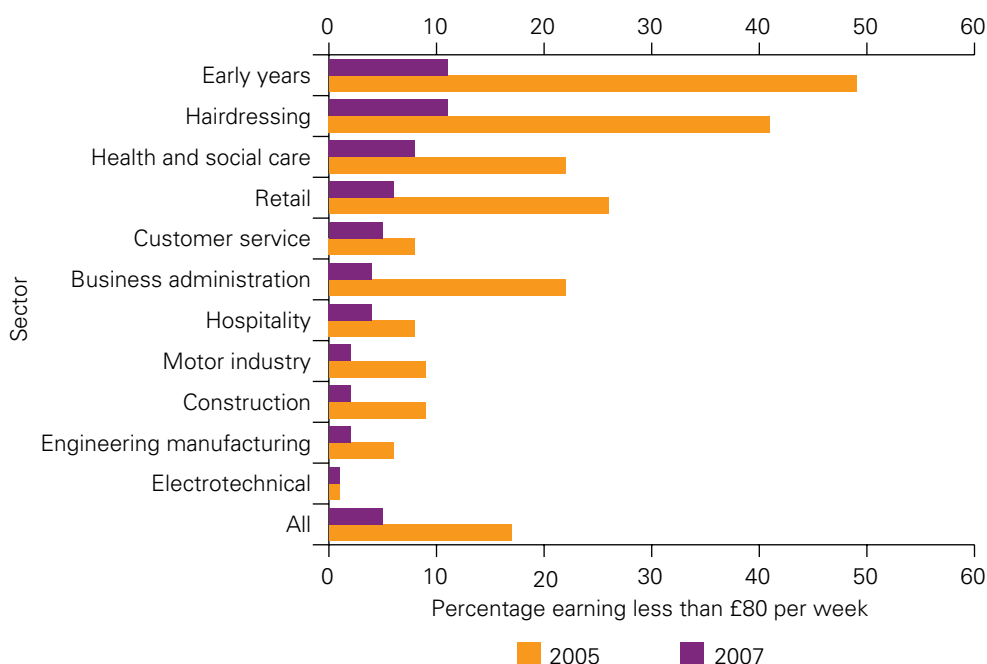
form of qualification and training programme and not associating the pay or allowance they received with it.

**6.47** Furthermore, the survey found that 5 per cent of those who reported being paid said that they were earning less than £80 per week on average. This compared with 17 per cent in 2005 (the survey was conducted just before the £80 minimum contractual requirement was introduced). Figure 6.4 shows that the breakdown of apprentices earning less than £80 per week varies by sector, with early years and hairdressing having the highest proportions at 11 per cent in 2007. The survey found a higher proportion of Level 2 apprentices than Level 3 apprentices receiving less than £80. Those aged 18 and under were also more likely to be receiving less than the £80. But the DIUS survey also showed that the overwhelming majority of apprentices earned substantially more than £80 per week. Calculations based on the DIUS pay survey showed that an estimated 81 per cent of apprentices earned an average net pay of £110 per week or higher (Low Pay Commission and DIUS calculation).

'The exemption is unfair and exploits apprentices. The National Minimum Wage should be the baseline for all, including apprentices. To meet government targets of increased apprenticeships, apprentices need to be given decent pay.'

**Irish Congress of Trade Unions Commission visit to Belfast**

**Figure 6.4** Proportion of Apprentices Earning Less than £80 Average Net Pay per Week, by Sector, England, 2005 and 2007



Source: DIUS Pay Survey, England, 2007 (Fong and Phelps, 2008).

**6.48** The survey found that of the 5 per cent who reported being paid less than £80, 13 per cent were receiving a training allowance or EMA – suggesting they were programme-led apprentices (presumably in work-based learning given the learning stream used for survey sampling).

Although this may explain at least some of the non-payment of the £80, the authors of the research found that there were still 4 per cent of apprentices who earned less than the £80 weekly wage required under the LSC contractual arrangements.

**6.49** Using ASHE for April 2007, we found 6.5 per cent of ‘trainees’ in the UK were paid below £3.30 per hour, and around 1.4 per cent were paid below £2.16 per hour, the latter being equivalent to £80 per week for 37 hours.

**6.50** In our consultation, trade unions also referred to the DIUS pay survey results. They told us that their own findings on pay were that rates for many apprentices remained well below the youth minimum wage levels and that current low levels of apprentice pay were used by rogue employers as a means of employing cheap labour. UNISON told us that apprentices often did a full-time job carrying out the same tasks as colleagues but for significantly less money. The TUC said it was aware of apprentices in England receiving as little as £1.52 an hour. The TUC was also concerned about those who reported receiving no pay or allowance in the DIUS survey. It noted the distinct sectoral bias for those reporting such problems, which we referred to above, and said that this needed to be investigated further. The CBI suggested that many apprentices appeared unsure of their status and this could have led to the 5 per cent of apprentices found to be paid less than £80 a week being an overestimate. The CBI noted that the average wage reported in the survey did not include tips. A fifth of all apprentices in the survey received tips, at an average of £13 per week. The CBI also pointed out that apprentices may additionally receive other benefits, including free or subsidised accommodation or canteens.

**6.51** In our view, the findings of the DIUS survey need to be interpreted with care. Some of those included in the survey were on programme-led schemes rather than waged apprentices, and so were not entitled to the £80 per week. Some payments, such as tips, were not included in the survey’s average net pay calculations, and so apprentices may have received a higher gross pay. Even taking these factors into account, however, the evidence suggested that some apprentices were receiving little or no pay. These worries were reinforced by findings from a recent Office for Standards in Education (OFSTED) report into programme-led apprentices in England (OFSTED, 2008). Although such apprentices are not employed, and not entitled to the £80 weekly wage, the report found

‘Apprentices are, in many cases paid low wages, as we would expect since training is valuable and owned by the trainee. That most apprentices accept the fairness of this position is shown by the over-supply of applications for apprenticeships.’

**Unquoted  
Companies Group  
(UCG) evidence**

some were undertaking periods in the workplace of 30 hours a week and receiving no payment, not even the EMA (which is means tested).

- 6.52** Both union and employer organisations voiced concerns about the lack of enforcement of the LSC wage rate. The TUC said that bringing apprentices within the National Minimum Wage framework would ensure that there was a robust enforcement mechanism in place. The LSC said that although employers were contractually obliged to pay the £80, in reality it did not have the mechanisms for monitoring employers and the wages they paid. It concluded that the current enforcement arrangements were not for fit purpose. The LSC argued for the £80 weekly rate arrangement to be brought within the National Minimum Wage framework so it could be effectively enforced. Some employer groups, such as the Apprenticeship Ambassadors Network, also suggested that consideration could be given to bringing the LSC rate within the minimum wage enforcement arrangements as an apprentice training rate. The CBI suggested that rather than including the £80 within the minimum wage framework, HM Revenue & Customs (HMRC) could check that the apprentice exemptions were being properly applied during its routine enforcement checks on the National Minimum Wage.

## Hours of Work and Training

- 6.53** Part of the rationale for the apprenticeship exemptions is to give an incentive to employers to provide high quality training places. One measure of whether high quality training is taking place is the amount of time devoted to training.
- 6.54** Figure 6.5 illustrates the findings of the DIUS survey (Fong and Phelps, 2008) that, on average, apprentices spent 37.0 hours per week working for their employer (this includes on-the-job training but excludes off-the-job training), a rise from 33.0 hours worked per week on average in 2005. Research we commissioned (IES, 2009) found apprentices typically worked 35.0 to 40.0 hours per week, including off-the-job training. The DIUS survey also found that overall 57.0 per cent of apprentices reported they received off-the-job training, a decrease on 2005 (68.0 per cent), although this differed by sector. Of those who reported receiving off-the-job training, the average they received fell from over 8.5 hours per week in 2005, to 6.5 hours in 2007. There were similar reported falls in on-the-job training, with those reporting they

'The current enforcement mechanism is too weak. The general National Minimum Wage regime would be much better.'

### Unite evidence

'...the current exemption means that monitoring apprenticeship wages falls outside the responsibility of minimum wage inspectors and makes enforcement problematic....The LSC believes that the current exemption of apprentices...should be ended and replaced with a minimum apprentice wage that can be enforced through arrangements for enforcing the National Minimum Wage.'

### LSC evidence

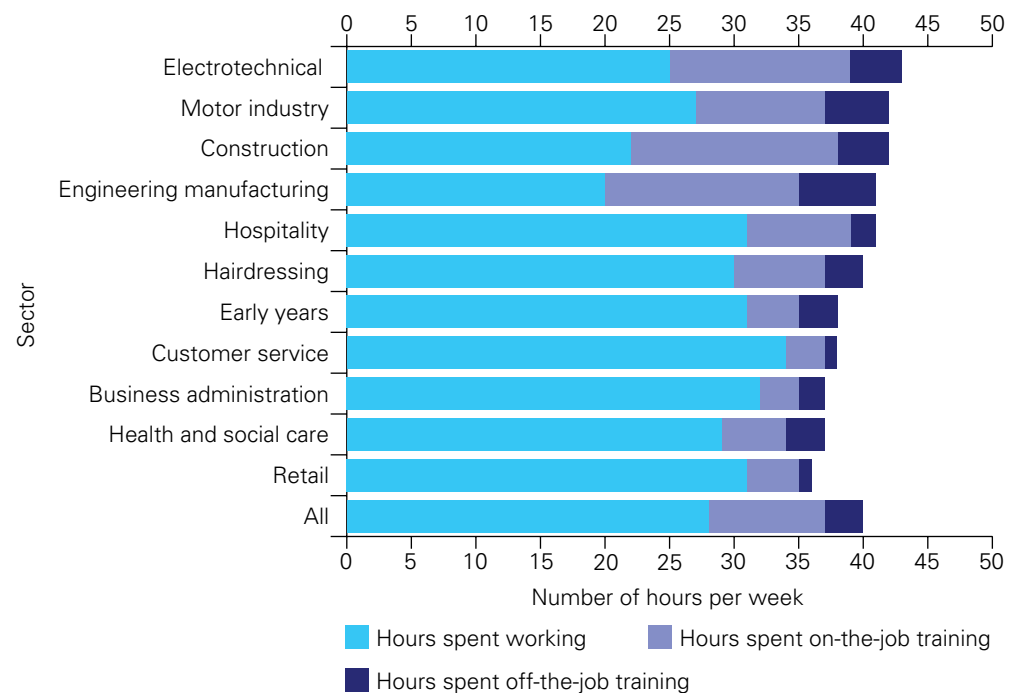
At present, average apprentice earnings in England are around two-thirds of the wage of an unskilled 18–21 year old. This means that the pay on offer in apprenticeships may not look very attractive to young people when little training is on offer.

**Steedman (2008)**

received this declining from 87 per cent in 2005 to 85 per cent in 2007. Those who received on-the-job training also reported a fall in the average number of hours per week, from 15 in 2005 to 13 in 2007.

**6.55** There were substantial sectoral variations in the number of hours spent working and training. For instance, apprentices in engineering manufacturing spent an average of 20 hours working, 15 hours training on-the-job, and 6 hours training off-the-job. In retail, apprentices spent 31 hours working, 4 hours training on-the-job, and 1 hour training off-the-job. Steedman (2008) pointed out that apprentice pay was higher in those sectors where apprentices spent a higher proportion of their time training. She found there were more applicants for training places in these sectors, who were mostly well-qualified, than in sectors offering less training. In the latter, demand for places was lower, with anecdotal evidence suggesting applicants were poorly qualified. Steedman (2008) suggested that a case could be made for lower apprentice pay in those high-paying sectors that had an over-supply of well qualified applicants, and in turn more places could be offered. In some sectors, which already had lower pay and less training, Steedman suggested employers could afford to offer more training and improve its quality.

**Figure 6.5 Apprenticeships, Hours Spent Working and Training (On and Off-the-job), England, 2007**



Source: DIUS Pay Survey, England, 2007 (Fong and Phelps, 2008).



- 6.56** According to Fong and Phelps (2008), the increase in the average number of hours worked per week is possibly linked with the decrease in the proportion of apprentices reporting they received training. This is because apprentices may have mistakenly included training with their answer for number of hours worked, and recent initiatives such as ‘blended learning’ may also have blurred the distinction between training and working.
- 6.57** In our consultation, trade unions were concerned about what they regarded as the low quality of the training received by many apprentices. They also highlighted that as the £80 wage in England was a weekly rate there could be no relationship between pay and hours worked, and that in some cases this led to very low rates of hourly pay. Employers emphasised the importance of employer-provided training for quality apprenticeships and the heavy investment made. The CBI was concerned that rises in wage costs could have an impact on this. It maintained that the DIUS pay survey showed a fall in the amount of training apprentices received after the £80 minimum rate was brought in. It noted that the number of hours worked in the same period increased, and suggested that employers had to extract more ‘value for money’ from their trainees to compensate for the increase in pay.
- 6.58** Although there is no minimum entitlement to off-the-job training, in each UK administration there are inspection arrangements for monitoring training standards. The Organisation for Economic Co-operation and Development (OECD, 2008a) reported that research showed that the quality of off-the-job training was considerably higher in the traditional manufacturing sectors than in the service sector (Hughes and Monteiro, 2005b). The House of Lords Select Committee on Economic Affairs (House of Lords, 2007) received evidence of some apprenticeships providing poor quality training and of great variability in training practices across sectors, referring in particular to the findings of the Adult Learning Inspectorate (ALI) in England. But we found other evidence that suggests there was widespread satisfaction among apprentices with their training. For example, LSC (2008a) found that four in five apprentices rated the quality of their training as good and most apprentices could think of no necessary improvements to the programme. Apprentices on non-traditional frameworks were most likely to suggest that more support and feedback were needed from external trainers or assessors. The TUC accepted that the majority of apprenticeships offered a good programme, but said a minority were exploitative.

‘Many of our survey respondents felt that the payment of apprentices did not accurately reflect the work they were expected to do. Training quality was inconsistent and professionals advising young people on apprenticeships reported frequent misuse of the training rate.’

#### UNISON evidence

‘Employers invest heavily in their apprenticeship training – apprentices are not cheap labour.’

#### CBI evidence

## Pay as an Incentive to Participate in and Complete Apprenticeships

### Pay as an Incentive for Workers to Participate

- 6.59** Our review of previous research revealed a number of important factors in influencing people to take up an apprenticeship (Wiseman, Roe and Boothby, 2003; LSC, 2006 and 2008a; Cambridge Policy Consultants, 2006; and Spielhofer, Nelson, O'Donnell and Sims, 2006). Pay is one factor, but is far from being the only one. Others include: having a paid job with training; the opportunity for qualifications; personal development; future career opportunities; gaining work experience and continuing learning; and gaining qualifications for skills and experience already possessed. Similarly, there were a number of non-pay barriers faced by those wanting to enter apprenticeships, including: a lack of places; a lack of basic skills required to enter training; and inadequate careers advice and information on apprenticeship opportunities (House of Lords, 2007; LSC, 2008a; Cambridge Policy Consultants, 2006; and DIUS/DCSF, 2008a).
- 6.60** We found little research specifically on the role of wages as an incentive or barrier to joining apprenticeship programmes. A study by Spielhofer, Nelson, O'Donnell and Sims (2006) investigated the role of training allowances in creating incentives for young people and employers. The survey covered England and was conducted just prior to replacement of the Minimum Training Allowance by the EMA. It covered trainees, training providers, employers, and local LSCs. The researchers found that the extent to which trainees were motivated to take up an apprenticeship for financial reasons varied. Around 30 per cent of the apprentices surveyed reported that they would have started their apprenticeship even if they had found out before they started that they would not be paid for it. But the remaining trainees would have taken an alternative route, most commonly to other paid employment (33 per cent) or a college course (16 per cent). Just over two-fifths of trainees were so dissatisfied with the level of payment they received that they had considered leaving their apprenticeship. Researchers also found that two-thirds of training providers believed that training allowances were an incentive for young people to take up apprenticeships, particularly those aged 16 and those needing additional encouragement or support.

Cambridge Policy Consultants (2006) found only 4 per cent of Level 2 (Skillseekers) and 7–8 per cent of Level 3 (MA) apprentices cited training while earning a wage as their main reason for participating.

**6.61** Recent research confirmed that an apprenticeship involves a trade-off between lower apprentice wages in the short-term and higher wages and improved employment prospects in the longer-term. McIntosh (2007) undertook a cost-benefit analysis of apprenticeships for DfES and found that in 2004/05 there were substantial wage returns to apprenticeships of around 18 per cent at Level 3 and 16 per cent at Level 2 compared with individuals who were qualified at Level 2 and Level 1 respectively. The wage returns varied by sector, however, with no observed wage effect of apprenticeships in retail. Obtaining an apprenticeship was also found to have employment enhancing properties. LSC (2008a) also found completed apprenticeships had a positive impact on an individual's employment prospects. A caveat of the McIntosh (2007) research was that the results may partly reflect that employers are able to select the most able apprentices, with demand for places exceeding supply.

## Pay Incentives and Employers

**6.62** Research by the LSC (2008a) revealed that the principal attractions to employers in providing apprenticeships were that they: provided them with the most effective route to a skilled workforce; acted as an effective way to train recruits in their way of doing things; and helped to support their recruitment by providing an alternative way of attracting skilled and good quality candidates. Research for Scottish Enterprise by Cambridge Policy Consultants (2006) found similar reasons, with the principal ones being to upskill trainees, as a way of introducing additional training into the organisation, or as a means of recruitment. Anderson and Metcalf (2003) also found that employers used apprenticeships as a way to give staff a chance to gain a qualification, to improve staff retention, and provide opportunities for career progression. We also identified a number of barriers to employers participating, including: a lack of suitable candidates; bureaucracy; the costs involved; a lack of training facilities; a lack of awareness of apprenticeships or consideration of using this means for training staff; apprenticeships not seen as relevant to an organisation; and a sectoral bias in participation, with larger firms and those firms in traditional apprenticeship sectors being

more likely to offer apprenticeships (Wiseman, Roe and Boothby, 2003; Cambridge Policy Consultants, 2006; CBI, 2008; IES, 2009; and LSC, 2008a). The work previously cited, Spielhofer, Nelson, O'Donnell and Sims (2006), tried to understand the impact of training allowances as an incentive for employers to take on apprentices. They found that four-fifths of training providers and three-quarters of local LSCs believed that training allowances acted as a strong incentive for employers to take on young people. The large majority of employers providing an opinion also shared this view.

- 6.63** Just as apprenticeships have a long-term payback for apprentices in terms of higher wages, so there are potential financial incentives to employers. Hogarth, Hasluck and Daniel (2005) found that apprenticeships were deemed to be cost-effective by employers. The costs and risks borne by the employer of investing in training could be high, but this tended to be offset by the funding available, the productive contribution made by apprentices, and being paid a trainee's wage while training. Employers tended to break even on the costs of the apprenticeship. However, the experience of employers varied, particularly by sector, with quicker returns in some than others. Some incurred a substantial net cost over the training period and faced a longer timescale for payback in their investment. Of six sectors looked at in a more recent study (Hasluck, Hogarth, Baldauf and Briscoe, 2008), the research found that the net investment cost was greatest in engineering, with a payback in less than three years. The net cost was least in retail, with a payback in less than two years.
- 6.64** Cambridge Policy Consultants (2006) found that in Scotland the main impact identified by participating employers was in relation to productivity, with 78 per cent stating that it had increased slightly or a great deal as a result of participation. Around 43 per cent of employers felt that participation had contributed to company employment growth. Estimated total additional value added by the programmes was high, with every £1 spent by Scottish Enterprise on direct contributions to trainee costs delivering between 24 pence and 27 pence net additional impact. The research by McIntosh (2007) also provided an indication of higher future productivity returns from apprentices, dwarfing costs incurred by the state and employer.

**6.65** During our consultation, a number of employer groups voiced concern that the removal of the exemptions could lead to an increase in apprentice wage costs and this could have an adverse impact on employers' decisions to provide training places. The National Hairdressers' Federation (NHF) conducted a survey of members and found widespread use of the exemptions, with 91 per cent of the sector supporting their retention. It said 94 per cent of the sector offered training to at least one apprentice, with a sector average of two per salon. Around two-thirds of the sector reported they would either reduce the number of apprentices or employ none at all if the exemptions were removed. The NHF estimated this to mean that up to 60 per cent of apprenticeships (9,000 places) would be lost or put at severe risk. The National Day Nurseries Association (NDNA) also reported use of the exemptions by its members in the childcare sector. Its evidence suggested that removal of the exemptions would have a detrimental impact on the provision of training places, in that some members reported they would not feel it feasible to take on apprentices if they had to pay them more. But stakeholders in other low-paying sectors, such as the British Retail Consortium (BRC) in retail and the British Hospitality Association (BHA)/British Beer & Pub Association (BBPA)/Business In Sport and Leisure (BISL) in hospitality/leisure, told us that use of the exemptions was far less widespread among their members.

**6.66** Our 2008 Survey of Employers asked whether the current exemption regime for apprentices makes firms more or less likely to employ apprentices. As shown in Figure 6.6, three-quarters of respondents stated that the exemptions did not affect the decision to employ apprentices. Hairdressing recorded the largest proportion of firms (53 per cent) that was more likely to employ apprentices as a result of the exemptions. This was followed by the childcare sector with 34 per cent.

**6.67** The CBI did not believe that a significant increase in apprentice pay would help in increasing the number of high quality apprenticeships. It believed more employers must be encouraged to take on apprentices as employer-led apprenticeships are valued more highly and have the highest completion rates. But the Federation of Small Businesses (FSB) found in a survey of members that 82 per cent had supported a wage rise for apprentices; 72 per cent said the current exemption did not have an impact on their decision to employ apprentices; and of those who employed apprentices, 58 per cent said the exemption had no impact on

'If the apprentice exemptions were removed then the nurseries would have no choice but to put up the fees they charge to parents.'

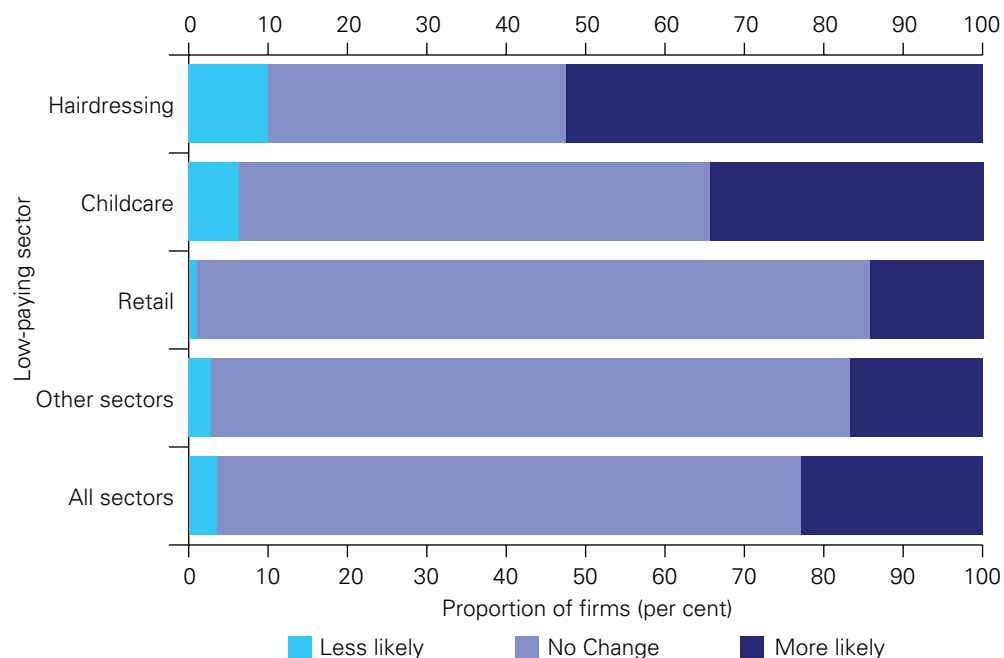
**Nurseries  
Commission visit  
to Nottingham**

'The most significant constraint on apprentice pay is the inability of apprentices to bring in money for the salon. If an apprentice is not earning for the hairdresser, the National Minimum Wage is simply too high a price to pay.'

**Hair Salon  
Commission visit  
to Cardiff**

their decision, whereas 38 per cent said it made them more likely to take on an apprentice.

**Figure 6.6** Likelihood of Employing Apprentices, as a Result of the Current Exemption Regime, UK, 2008



Source: Low Pay Commission, Survey of Employers, UK, 2008.

Note: Base is all firms employing apprentices that responded to the question (12 per cent).

**6.68** The second stage of our 2008 Survey of Employers (IES, 2009) asked employers for their views on abolishing or amending the current exemptions. The following issues were cited:

- Use of the apprentice exemptions from the minimum wage was extensive.
- Employers had strong opinions in relation to the exemptions and possible change.
- Although generally supportive of minimum standards most referred to overriding cost and market pressures that dictated lower levels of pay for those in training.
- For smaller employers and those in the childcare and hairdressing sectors, apprentices were seen to make it possible for the company to operate on a profitable basis.
- There was little support for the exemptions to be abolished and for the age-related National Minimum Wage rates to be applied.

- There was quite widespread support for the introduction of a statutory basis for existing contractual arrangements, subject to certain flexibilities and limitations. Some valued this option as a way to avoid exploitation of apprentices. It was favoured by those who did not employ apprentices.
- Variation in pay according to qualification level and performance were accepted by many as a useful distinguishing factor, but not in isolation.
- Not surprisingly, employers with apprentices were not keen to commit to a separate National Minimum Wage for apprentices without knowing its level. Those without apprentices tended, in general, to favour either a separate National Minimum Wage or a statutory basis for existing contractual arrangements.

## Role of Pay in Completion Rates

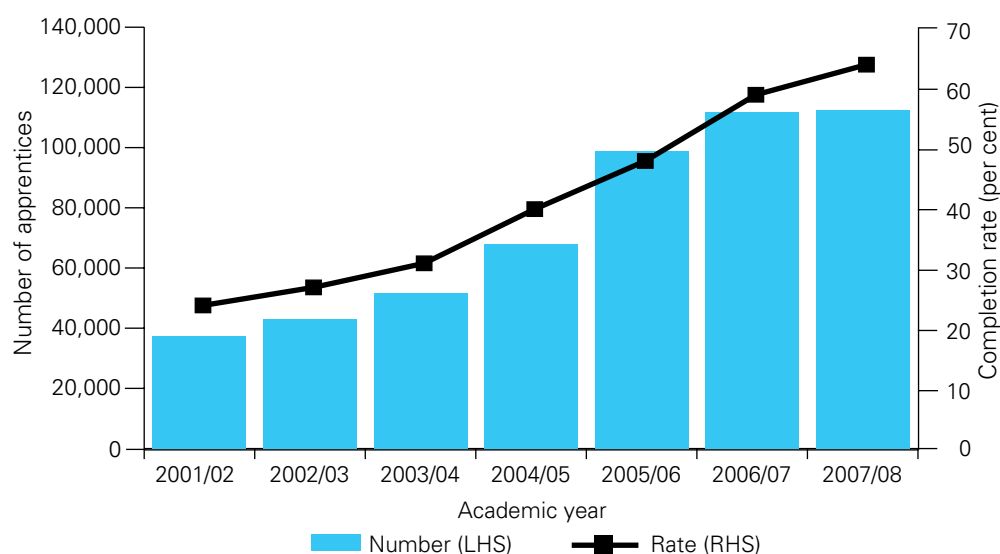
- 6.69** The completion rate in Scotland has remained the highest in the UK, rising from 51 per cent (Highlands and Islands Enterprise schemes) and 60 per cent (Scottish Enterprise schemes) in 2004/05 to 65 per cent (for both organisations) in 2006/07. The overall completion rate in Scotland in 2007/08 was 71 per cent. Completion rates for Level 3 apprenticeships in Wales stood at 43 per cent in 2006/07. The equivalent rate in Northern Ireland was as high as 50 per cent in 2004/05 and is currently estimated at 41 per cent in 2005/06.
- 6.70** One of the most striking developments in recent years has been the improvement in completion rates in England, shown in Figure 6.7. This stood at 64 per cent in 2007/08, up 15 percentage points on 2005/06 and an increase of 24 percentage points since 2004/05. Completion rates vary by sector in all nations. The reasons for non-completion and the variation in rates between administrations are complex. We look below at the range of factors, including pay, that research suggests can play a role in completion rates.
- 6.71** Trade unions believed that removing the exemptions would be likely to have a positive impact on completion rates. The TUC noted that completion rates had improved in England since the £80 rate was introduced, with rates increasing most in sectors with the lowest average pay rates. It also cited research that found that 27 per cent of trainees who dropped out of training stated 'not getting enough money'

'Financial pressures mean that some disadvantaged young people do not have the luxury of being able to invest in their futures by doing an apprenticeship.... Low pay is leading to young women having to drop out of their apprenticeships before they are completed.'

#### YWCA evidence

as their main reason. Usdaw believed that at the current level of pay, apprenticeships are not attractive enough for individuals, so the government targets for increasing numbers in apprenticeships will be missed. Young people's representatives, such as the YWCA, also maintained that low pay is leading to non-completion of apprenticeships. The Scottish Government said that research had found dissatisfaction with pay on Modern Apprenticeship and Skillseekers programmes by a large number of trainees, which is likely to be a major contributory factor to the non-completion rates in both programmes.

**Figure 6.7** Apprenticeship Framework Completion Numbers and Rates, England, 2001/02–2007/08



Source: LSC, administrative data, England, 2001–2008.

**6.72** The Greater Manchester Pay and Employment Rights Advice Service (GMPERAS) believed that the high drop-out rate for apprentices was caused by very low pay rates and remained concerned that apprentices were vulnerable to exploitation. It thought that the availability of better paying apprenticeships would encourage young people to take up positions offering ongoing training and opportunities for their futures. If all apprentices were paid at the National Minimum Wage and apprenticeships were made more accessible, they could become a tool for influencing young people's early career choices. The EHRC said that the National Minimum Wage has not had negative consequences on employer recruitment practices, and the evidence suggested an apprentice minimum wage would have beneficial effects on recruitment, motivation and retention.



- 6.73** Employer organisations, such as the CBI, cited evidence that pay was neither apprentices' key concern nor a cause of apprentices leaving their schemes. The CBI did not believe that pay was the answer to increasing quality or completion rates. It thought the costs of the lower productivity of the apprentice and training needed to be allowed for in some form of offset in wages if apprenticeships are to be attractive to employers. It said that wage costs, on average, represented 40 per cent of apprenticeship costs, varying between 18 per cent and 51 per cent. Member firms' annual investment in their apprenticeship programmes usually ranged between £14,000 and £30,000 per apprentice, depending on the sector, whereas 41 per cent of smaller employers reported that cost prohibited their involvement.
- 6.74** Many research and policy papers have highlighted as a key issue the significant number of trainees that do not complete their apprenticeships. Although completion rates have improved significantly since 2003, non-completion still remains an issue. As noted above, a number of stakeholders have referred to the introduction of the £80 rate in England as an important factor in the improvement in completion rates. But other factors may be at work. OECD (2008a) noted that changes to training providers' remuneration arrangements helped to boost completions. From 2004, training providers were paid only 75 per cent of apprenticeship funding in advance, with the remaining 25 per cent paid when the apprentice completed the course.
- 6.75** We found that much of the research into the reasons for non-completion showed that a complex set of factors was at work, not just low pay. Reasons for leaving included getting a new job with better pay and prospects, the structure and quality of training, support arrangements in the workplace, and gender issues. A study by IFF Research (2000) found a wide variety of reasons why young people did not complete. Reasons varied widely by age, gender, and sector. Most common was getting a new job (typically for reasons of better pay or prospects), followed by difficulty in combining training with job workload (28 per cent of non-completers stayed with the same employer). Results suggested many young people who undertook apprenticeships were still experimenting with the labour market. West (2005) concluded that wrong choices by young people and the attraction of other jobs outside apprenticeship were major reasons for leaving, while poor training quality was not.

'While pay rates are not a key driver of participation and completion for apprentices, employer cost plays a key role for firms.'

#### **CBI evidence**

While those employers interviewed placed a greater emphasis on individual commitment and aptitude as reasons for non-completion, many said that pay was an important factor...

#### **IES (2009)**

- 6.76** West also found that variation in completion rates between local LSCs did not appear to be correlated to any strong degree, or often not at all, to differences such as the sector, the age of trainees, or the labour market. This appeared to support the hypothesis that management practices, by LSCs or providers, explain most of the differences in completion rates. West suggested that good practices, which aid completion of apprenticeships, are likely to lie in a number of areas including: initial briefing of apprentices and employers; arranging trial periods; identifying 'at risk' trainees; thoughtful attitudes to pay issues above the minimum required levels; and clarity with employers about expectations of completion and their obligations.
- 6.77** Gallacher, Whittaker, Crossan and Mills (2004), explored the factors that influenced completion rates for Modern Apprentices in Scotland. Provision of a supportive workplace environment, including management support and interest in training, was a key factor in completion, but low pay was cited by several young people as a reason for leaving. Cambridge Policy Consultants (2006) found the main reason for dissatisfaction for both completers and non-completers in Scotland was pay. Around 20 per cent of completers and 37 per cent of non-completers rated this as poor or very poor; the rate was highest for Skillseekers and lowest for adult MA trainees. Employers interviewed for our commissioned research (IES, 2009) pointed primarily to problems with individual commitment and aptitude as reasons for non-completion, although dissatisfaction with pay was also an issue.
- 6.78** In their research into expanding apprenticeships in England, the LSC (2008a) found that the main reason given by non-completers was that they had left the employer (usually to move to a higher paying job) or that personal circumstances had changed. Around a third of those who had dropped out had done so because of a lack of interest, because they had changed their mind about what they wanted to do, or because they had changed to a different course. Around a fifth of apprentices stated that nothing would have persuaded them to complete the programme. Those who could be persuaded suggested that better pay or greater support with transport, materials, and other costs would have been appreciated. This was more the case for apprentices on traditional frameworks (typically longer than non-traditional ones), whereas those on non-traditional frameworks were more likely to cite more time to train during working hours.

## Stakeholder Proposals for Retaining or Changing the Current Exemptions

**6.79** In response to our consultation, there was widespread common ground among stakeholders in recognising the value of apprenticeships and supporting government plans to expand places. But there was a divergence of views on the principal of retaining the exemptions from the minimum wage.

**6.80** The TUC, and trade unions generally, proposed that the existing exemptions should be removed, and either the National Minimum Wage rates should apply or an apprentice minimum wage be established. The TUC said that an apprentice rate should be set that reflected the National Minimum Wage for each age group, initially with a modest discount to recognise the training element of the programme. Its suggested rates would represent around 90 per cent of the full National Minimum Wage rate for each age band. It believed that, as any changes would apply from October 2009 or possibly 2010, the economy would be in a period of recovery and able to sustain an increase in apprentice pay. Usdaw was among unions that proposed an apprentice rate under the National Minimum Wage rather than abolition of the exemption and use of the existing age rates. It suggested the introduction of a rate for under 18s, at 80 per cent of the current 16–17 year old National Minimum Wage rate, to reflect the training and skills acquisition aspect. It said a similar discount should apply to the minimum wage age rates for those aged 18 and over. Some other unions, such as UNISON, proposed that the current exemptions should be abolished, with the minimum wage rates applied (ultimately with all ages paid at the adult rate). Groups representing young people also generally supported paying the National Minimum Wage rates to apprentices. The EHRC called for the exemption for those 19 and over to be removed and those under 19 to be paid at a wage equivalent to the youth rates.

**6.81** Stakeholders proposing removal of the existing exemptions and the establishment of a rate under the minimum wage framework pointed to a number of possible benefits, many of which we have noted in the preceding sections, including: improving completion rates; addressing issues of very low pay; establishing an effective enforcement regime; helping to reduce the gender pay gap for apprentices; helping with the under-representation of women, ethnic minorities and those with

'...a minority of apprenticeships are exploitative...in these cases the traditional wage bargain is not being fairly implemented and the TUC believes that bringing apprenticeships under the National Minimum Wage regime would be a move towards addressing this issue.'

### TUC evidence

‘It is clear that for the ambition of doubling apprenticeships to become reality, cost is a key barrier. For employers, particularly SMEs, the cost of training is substantial...41 per cent of smaller employers reported that cost prohibited their involvement.’

### CBI evidence

‘The employer role in providing apprenticeship slots tends to be ignored – many more young people wish to become trainees than there are slots available.’

### UCG evidence

disabilities, particularly in certain sectors; and ending the current complex devolved system of potential wage rates set by each UK administration.

- 6.82** Some stakeholders saw other benefits from bringing the apprentice wage within the National Minimum Wage framework. The minimum wage setting process itself provides transparency, through widespread consultation and open consideration of evidence. The LSC, in oral evidence to us, said there would be process benefits of setting the apprentice wage under the National Minimum Wage framework.
- 6.83** While employer organisations also voiced their support for apprenticeships, they generally argued for the maintenance of the current exemptions, noting that an effective and attractive apprentice system was an essential part of a successful UK education and skills strategy. The CBI emphasised the employer role, and the need to encourage a growing number of employers to provide apprenticeship schemes if the Government was to reach its 500,000 apprentice place target. It supported the retention of special treatment for apprentices and did not believe that paying the relevant National Minimum Wage rates was appropriate. The CBI advised us to exercise caution in reviewing the apprentice exemptions at a time when the economy is slowing. The sectors most likely to be exposed as consumer spending slows were among those employing significant numbers of apprentices. CBI members were not yet convinced that moving to an LPC-set apprentice rate, and replacing the existing exemptions, was the right way forward. The UCG said that although some companies would not be affected by the removal of the exemption (i.e. those which already pay considerably more than the minimum wage), some would. Employer groups argued that it made sense for apprentices to pay for skills development by accepting low earnings while in training in order for the employer to offer such training opportunities.
- 6.84** The FSB was one employer group calling for the exemptions to be removed, stating that National Minimum Wage pay levels for 16–18 year olds undertaking apprenticeships must be the same as for 16–18 year olds in employment. It also referred to the availability of government subsidies for wages during training, such as those already in existence under the Train to Gain scheme.

- 6.85** The Scottish Government supported removal of the exemptions, seeing them, and different pay levels set by each devolved administration, as an unnecessary complication. But the Welsh Assembly Government believed the present exemptions recognised that in the early stages of their apprenticeship the trainee is not a fully productive member of the workforce. It also recognised that apprentices receive a substantial investment both from the Government and their employer, which resulted in strong wage returns in future careers. It was concerned that removal of the exemptions might act as a disincentive to employers to take on apprentices – particularly from under-represented groups – and undermine greater take-up of apprenticeships by small and medium-sized enterprises (SMEs). The Northern Ireland administration recently reviewed the Department for Employment and Learning’s (DEL) apprenticeship programme. Its review suggested that while the exemptions made it easier for employers to provide places, some of them were paying very little. In some cases rates are equivalent to the minimum training allowance, with no contribution towards expenses for attendance at college. DEL was considering the introduction of a minimum wage for apprentices to stop employers paying such low wages. In further evidence to us DEL suggested that we consider recommending the introduction of a minimum rate of pay for all apprentices, similar to the stance adopted by the LSC in England.
- 6.86** We received few submissions calling for adjustment of the existing arrangements. Most either wanted them to remain as they are, or to be abolished so that a minimum rate applied to apprentices (either the National Minimum Wage or a rate for apprentices within the National Minimum Wage framework). No one proposed that Level 1 pre-apprenticeship schemes should not be exempt from the minimum wage, although some stakeholders did seek minimum income levels from the state for all young people undergoing training. There was little evidence presented to us by stakeholders on length of exemptions, as a stand alone issue, or on changing the age bands. The main response on length of exemption was from the NHF, which argued in favour of an extension of the exemptions to all apprentices regardless of age for the first two years of their apprenticeship and a one-year exemption for re-training individuals returning to the sector following a career break.

‘...we would wish to see the current exemption for Modern Apprenticeships and Skillseekers removed as we do not believe that this would have an adverse effect on the take up of the programmes here in Scotland.’

**Scottish Government evidence**

‘Removal of the apprenticeship exemption at this point in the economic cycle...would inevitably lead to a significant reduction in training positions. This would cause short term unemployment and long term damage to a key sector in the service industry.’

**NHF evidence**

## Recommendations

- 6.87** Having considered all the evidence before us, we remain of the opinion that the rationale for giving apprentices special treatment under the minimum wage remains compelling. We are not persuaded that apprentices should be entitled to the National Minimum Wage. We believe, however, that the existing special treatment should change. **We recommend that a minimum wage for apprentices should be introduced under the National Minimum Wage framework.** Our rationale for making this recommendation is based on the following factors.
- 6.88** Introducing an apprentice minimum wage would mean the continued acceptance of the principle that apprentices require special treatment. They would be entitled to a minimum pay level but at a discount to the National Minimum Wage. This would recognise the particular costs and benefits involved in the provision of apprenticeships. There is a cost to the apprenticeship provider of both the training itself, of lower productivity during training, and the opportunity cost of managing the apprentice at the workplace. There is also considerable investment by the state in apprenticeships. In return for lower pay, there are considerable gains to individual apprentices through higher future earnings and increased employment prospects. Although there are also potential longer-term gains for employers, without some discount in the apprentice wage during training, there is a danger that insufficient employers would provide places and there are particular low-paying sectors where this would have most impact (e.g. hairdressing and childcare). The evidence we have received points to an over supply of apprentices relative to the places made available by employers.
- 6.89** We believe that removing the current apprentice exemptions from the National Minimum Wage and applying the current age-related minimum wage rates would give rise to unrealistic and unaffordable increased costs to employers. A rise in apprentice pay from the current £80 per week in England to the level of the minimum wage would be equivalent to an increase in wage costs to employers of at least 63 per cent (based on the current 16–17 year old minimum wage rate and a 37-hour week). And this is at a time when government strategy in England is to encourage a substantial expansion of employed apprenticeship places. Giving an entitlement to the National Minimum Wage would act as a

significant disincentive for employers to engage with apprenticeships, particularly those in the low-paying sectors of hairdressing and childcare, and would be likely to have an adverse impact on the achievement of government apprenticeship targets. While we found that the rationale for treating apprentices in a special way under the minimum wage continues to be sound, developments in public policy towards apprentice wages since the minimum wage and the exemptions were introduced lead us to conclude that a different approach is now appropriate.

**6.90** The National Minimum Wage provides a wage floor for workers across the UK, regardless of the area they work. Employed apprentices are workers, but are given an exemption from the minimum wage, recognising the need for them to have a wage discount. Most apprenticeships are provided through publicly funded schemes and each of the UK administrations has the ability to set, on a contractual basis, a wage for the employed apprentices on those schemes. Such a wage, in effect a minimum apprentice wage rate, was introduced in England in 2005 and administered by the LSC. Although in Northern Ireland, like in Scotland and Wales, no contractual requirement for a minimum wage exists, its administration is concerned about very low levels of apprentice pay, and is currently considering the introduction of a similar arrangement to that which operates in England. Although we acknowledge that the different apprentice arrangements between the respective administrations of the UK are a function of devolved responsibilities, we find the different entitlements to a minimum wage unsatisfactory and unnecessarily complex – a view supported by the administration in Scotland. If there is to be a wage rate set for apprentices by public authorities, we believe a more appropriate approach, in keeping with the rationale of a wage floor for workers across the whole of the UK, would be to operate it under the National Minimum Wage framework. In line with other minimum wage rates it would be set on the basis of a recommendation by the Low Pay Commission, and be applied across the UK under the National Minimum Wage framework, rather than by each devolved administration or government department.

**6.91** Placing an apprentice minimum wage under the National Minimum Wage framework would have other benefits. We heard in evidence from some stakeholders that they found that the current process for determining the level and timing of uprating the £80 weekly wage in



England lacked openness and transparency. The increase now due in August 2009 will be the first since its introduction in 2005. The process used for setting the National Minimum Wage would provide the opportunity for widespread and regular consultation together with open consideration of all the available evidence.

- 6.92** There is a need for better enforcement. At present there is an £80 weekly minimum entitlement for LSC apprentices in England, but there is no effective mechanism for enforcing it. Evidence exists from the DIUS pay survey for England of apprentices receiving less than the £80 minimum entitlement. The LSC voiced concern on this point and proposed that a minimum apprentice wage be placed within the National Minimum Wage arrangements so as to improve enforcement arrangements. Any minimum wage that is introduced by the administration in Northern Ireland will also face the need for effective enforcement mechanisms. We also heard evidence from a number of stakeholders that the current position of no statutory minimum pay for apprentices had led to a detrimental impact on apprentices: exploitation through very low wages; low quality training; poor completion rates; and a higher gender pay gap for apprentices than generally in the UK workforce. We would not wish to overstate the scale of evidence we have received on very low levels of apprentice pay, with the overwhelming majority of apprentices earning far more than £80 per week and receiving good training opportunities. But having an apprentice minimum wage should assist in enforcement and in minimising any exploitation as far as possible.
- 6.93** We require more time and further information to be able to consider properly and make recommendations on what the apprentice minimum wage rate should be and the detailed arrangements that should replace the existing exemptions. In particular, we would like to commission additional research on apprentice pay to establish better data than currently exists on apprentice wage rates on a UK-wide basis. **We recommend that the Government asks the Low Pay Commission, as part of the work for its 2010 Report, to consider the detailed arrangements for an apprentice minimum wage under the National Minimum Wage framework, and to recommend the rate and arrangements that should replace the existing exemptions, together with the timing for its introduction.** We acknowledge that in setting such a wage floor for apprentices, and in determining the



'discount' from the National Minimum Wage, we would need to take a cautious approach so as to not have an adverse impact on the supply of apprenticeship places provided by employers. Also the timing of introduction would require us to take into account the likely path of the economic downturn.

**6.94** In considering the detailed arrangements for an apprentice minimum wage, we would need to look at the appropriate level(s), age band(s), and duration for the wage. We would also need to bear in mind other changes that will impinge on employers and young people, such as the rise in the compulsory education and training age in England from 2013. We would also wish to gather further information on how arrangements for an apprentice minimum wage operate in other countries. We would consider how the existing unwaged training opportunities are handled within the new framework. In addition we would have to determine whether the apprentice wage should be on a weekly or hourly basis. The rate of the apprentice wage would need to be considered against existing apprentice wage rates and the prevailing National Minimum Wage rates. We will want to gather additional evidence, looking in further detail at apprentice wage rates and arrangements across the UK. In undertaking this work we would consult widely with stakeholders, including the relevant government departments and the Devolved Administrations which have responsibility for apprenticeship policy.

## Conclusion

- 6.95** We were asked by the Government to review the current apprentice exemptions and advise if they were still appropriate. In undertaking this task we gathered a range of evidence, including information on the current arrangements for apprenticeships and apprentice pay in each country in the UK; unfortunately, however, data restrictions meant data on pay were almost entirely limited to England. We also reviewed the current relevant research in the area of apprenticeships as well as supplementing this with our own commissioned work.
- 6.96** Contributions from stakeholders provided a further insight into how the current exemptions operated and the possible impact of any change to these arrangements. Female apprentices dominate the sectors that have lower average apprentice pay, and there remains a substantial gender pay gap. We found that although average apprentice pay was well above

the £80 weekly entitlement set in England, it varied greatly by sector, with around ten per cent of apprentices in the early years and hairdressing sectors earning less than this level. This raised issues around enforcement.

- 6.97** Apprenticeships offer those who undertake them the prospect of higher future earnings and better employment prospects. Although there are also longer-term paybacks for employers, such as higher productivity, without a discount in the apprentice wage during training there is the danger that employers are less likely to make the investment. Fewer places would result and Government targets could be missed.
- 6.98** We concluded that the evidence remained strong for continuing to give apprentices special treatment under the minimum wage. A number of factors led us to recommend that there should be a change to the current arrangements, and that a minimum wage for apprentices should be introduced. We require more time and further information, however, to consider adequately, and make recommendations on, the rate and detailed arrangements. We recommend that the Government asks us to undertake this work as part of our remit for our 2010 Report.
- 6.99** The factors which led us to recommend the introduction of a minimum wage for apprentices included the changes to public policy on apprentice wages since the minimum wage was introduced, with the different treatment of apprentice pay in the home nations. The administration in Northern Ireland told us that it was considering the introduction of its own minimum wage for apprentices. We concluded that effective enforcement of apprentice pay arrangements was important: apprentices should be confident of receiving the pay due to them. Having an apprentice minimum wage within the National Minimum Wage framework should help achieve this goal. Effective enforcement in general is the cornerstone for a successful National Minimum Wage and we turn in the next chapter to look in more detail at this area.

## Chapter 7

# Compliance and Enforcement



- 7.1** The Commission has always maintained that compliance and rigorous enforcement are essential to the success of the minimum wage. Our view has not changed. Indeed, in the current economic circumstances and with businesses under increasing pressure, those in low-paying sectors (potentially the most vulnerable workers) may increasingly become a target for exploitation. It is important, therefore, that compliance and enforcement continue to be high priorities and receives the necessary attention and funding.
- 7.2** Over the last few years, we have paid close attention to the work the Government has done to strengthen the enforcement regime. We have made a number of recommendations on enforcement and highlighted areas where we believe shortfalls existed. Some of the concerns we had were the lack of resources for enforcement activities, a lack of awareness of the minimum wage among vulnerable workers, and the absence of prosecutions undertaken and of compensation paid to workers who had been paid less than the minimum wage. We are encouraged that the Government has responded positively to these concerns. Some of the actions taken by the Government to strengthen the enforcement regime include increasing funding by 50 per cent for each year until 2011, introducing a programme of targeted enforcement, establishing a prosecution strategy, and setting up vulnerable worker pilots.
- 7.3** In this chapter we examine how effectively the minimum wage is being enforced and the levels of compliance around the UK, drawing both on written evidence and our visits programme. We report on changes that have taken place, particularly in relation to the enforcement activities of HM Revenue & Customs (HMRC), and we look at changes that came into force in April 2009. We also look at enforcement in relation to groups that are particularly vulnerable.

**7.4** Although we acknowledge that progress has been made in strengthening the enforcement regime, there can be no room for complacency. The changes that came into force in 2009 are welcome, but these alone will not stop all the abuse. There will undoubtedly continue to be some employers who will flout the law, for example those who operate in the informal economy, and these are the ones who must be targeted, especially since the pull of the informal economy will become greater during times of recession.

## Awareness

**7.5** Central to the effective enforcement of the minimum wage is a high level of awareness, both for workers and employers. Workers need to understand their entitlement and how to enforce it. Employers need to understand their liability for paying the minimum wage. We have made a number of recommendations on raising awareness since the minimum wage was introduced and these have been acted upon by the Government. We continue to receive evidence that progress has been made in raising awareness of the minimum wage. But there remains some concern about whether those who are particularly vulnerable (e.g. migrant workers) are hearing the message.

**7.6** In our 2008 Report we noted that some organisations continued to raise concern about the low levels of awareness of the minimum wage. The Department for Business, Enterprise and Regulatory Reform (BERR) had allocated a substantial increase in the funding for publicity in 2007/08 and it committed to maintain this at an appropriate level going forward.

**7.7** In its evidence this year, BERR informed us that the communications budget for 2007/08 was around £1.2 million and that its approach had been to undertake five co-ordinated campaigns over a six month period from October 2007 to March 2008. The campaigns focused on raising awareness, online activity, migrant workers and a face-to-face outreach programme. BERR used a number of different means to communicate, including radio advertising, posters, an outreach bus and an online campaign.

**7.8** BERR reported that the bus campaign received press coverage across 32 different newspapers. Visibility figures show that more than 700,000 people actually saw the bus and the team issued over 130,000 leaflets

and had communications with more than 87,000 people. Figures from the HMRC helpline show that calls to the language line increased by 400 per cent during the weeks of the campaign. BERR's research showed that, during this period, levels of awareness of the minimum wage rose from 89 per cent to 91 per cent and that awareness levels of the different age rates rose significantly from 10 per cent to 70 per cent.

- 7.9** Another communications campaign is being run in 2008/09. From experience gained in the previous campaign, the Government has advised that it will choose channels that allow them to impart more detailed information. As with 2007/08, the focus of the campaign for 2008/09 will be migrant workers, young people and employers. It will be run through the use of radio, posters and the internet as well as a more general campaign aimed at raising awareness.
- 7.10** In its evidence this year, Canterbury College Students' Union advised that not all young people know about the minimum wage and that it should be publicised more, with clearer information about to whom to complain if workers are not being paid the minimum wage. The GMB expressed support for BERR's plans for more regional publicity awareness campaigns and have offered assistance to BERR through their regional offices.
- 7.11** We recognise that considerable efforts have been made by the Government to promote greater awareness and that this work would continue in 2008/09. As awareness of the minimum wage among workers increases, the Government will need to ensure it focuses its attention on those who are not receiving the message. Efforts to raise awareness must continue to be focused on those groups who are particularly vulnerable and those who are the hardest to reach. We note the work undertaken in this area and will continue to monitor progress.

## Non-compliance

- 7.12** Although it is accepted that the majority of employers comply with the minimum wage, we do not know the extent of undetected non-compliance. Official statistics estimate that around 288,000 jobs were paid below the minimum wage in April 2008. This figure cannot be used to determine non-compliance, however, as there are legitimate reasons for paying below the minimum wage (e.g. it could include apprentices

exempt from the minimum wage and those legitimately subject to the accommodation offset).

- 7.13** There will also be workers who are not receiving the minimum wage and who do not show up in the official statistics, such as those working in the informal economy. It is likely to be the workers who do not show up on the official radar who are most vulnerable to underpayment and exploitation. As with previous years, we have no way to determine the extent of such non-compliance, so in our assessment we have drawn on the work of HMRC's enforcement team and the evidence from our consultation.
- 7.14** First, we look at HMRC's enforcement activities. Table 7.1 shows that over 46,000 enquiries were received by the HMRC helpline during 2007/08. This is a decrease of 10 per cent on 2006/07 and 24 per cent on 2005/06. Although there has been a drop in the number of calls to the helpline in 2007/08, the number of complaints of non-payment has increased substantially. Over 3,200 complaints of non-payment of the minimum wage were received in 2007/08, an increase of 46 per cent on 2006/07 and 51 per cent on 2005/06. HMRC completed around 4,500 investigations into minimum wage underpayment in 2007/08, which arose either from complaints made by a worker or a third party, or were identified through its risk assessments of employers that were considered most likely to be non-compliant. The number of enquiries completed in 2007/08 was an increase on 2006/07 but a decrease on 2005/06. The increased complexity and technical nature of many of the investigations may be one explanation for this.
- 7.15** The rate of non-compliance found during HMRC investigations in 2007/08 was 36 per cent. This increased on the previous two years, where it was 34 per cent in 2006/07 and 32 per cent in 2005/06. The total arrears identified have fluctuated between the years. In 2007/08 arrears totalled £3.9 million, an increase of 30 per cent on 2006/07. But average arrears per worker in 2007/08 were £202, a decrease of 6 per cent on 2006/07, when the average arrears per worker was £214. Relatively few large cases, in terms of arrears or workers, can have a major impact on these results.

**Table 7.1** National Minimum Wage Enquiries and Complaints to HMRC and Enforcement Action Taken, 2005/06–2007/08

	2005/06	2006/07	2007/08
Enquiries received by the Helpline	60,629	51,454	46,849
Complaints of underpayment	2,141	2,210	3,231
Enquiries completed <sup>a</sup>	4,904	4,500	4,524
Cases of non-compliance	1,582	1,523	1,650
Strike rate (per cent) <sup>b</sup>	32	34	36
Enforcement notices issued	81	71	59
Penalty notices issued	1	2	25
Value of underpayments identified (£million)	3.3	3.0	3.9

Source: HMRC, UK, 2005–2008.

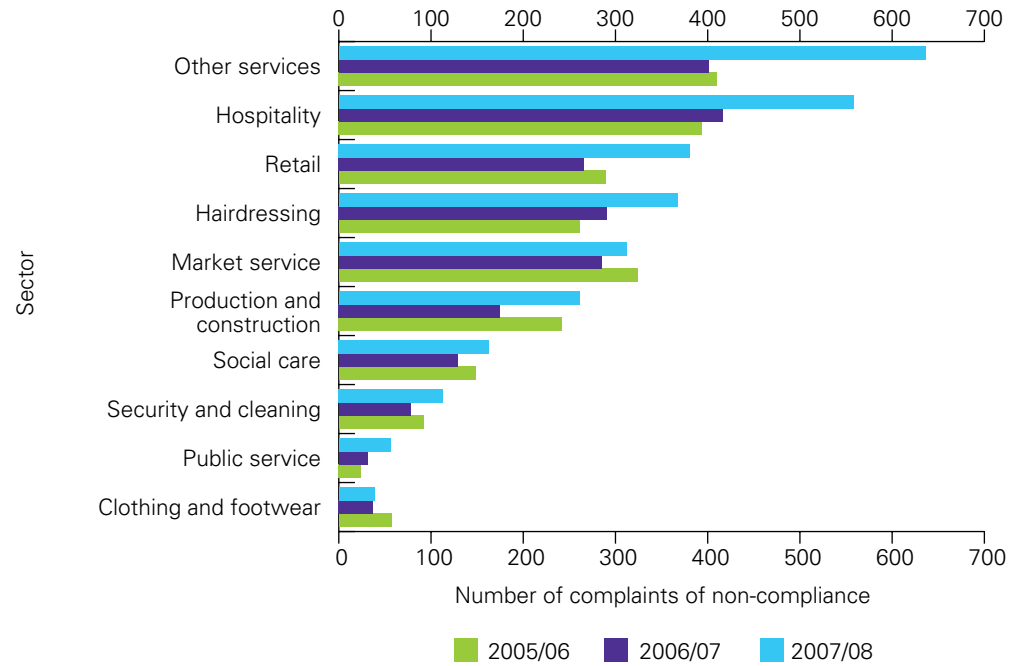
Notes:

- Enquiries completed are the number of cases closed after an inspection has been made.
- The strike rate is the percentage of the cases investigated where non-compliance was found.

**7.16** Figure 7.1 shows the breakdown of complaints by sector over the last three years. The hospitality sector continues to be the sector that saw the largest number of complaints. This was to be the subject of a targeted enforcement campaign in 2007/08. This campaign was suspended, however, as a result of delays in the introduction of a new fair arrears and penalties regime, and will not now take place until 2009/10.

**7.17** We have heard again this year that many workers who are paid below the minimum wage are afraid to make a complaint for fear of victimisation or dismissal. In its written evidence, Citizens Advice Northern Ireland stated that after nearly ten years there was still an unacceptable number of employers being reported to HMRC who are not complying with the legislation and that some workers were still reluctant to complain formally due to fear of harassment or dismissal. Usdaw called on the Commission to recommend that trade unions be allowed to take representative action to an employment tribunal on behalf of a group of workers who have been paid less than the minimum wage. The National Union of Journalists (NUJ) has called for better third party enforcement procedures to allow them to act without the individual needing to come forward. Equity felt it was desirable that trade unions should be able to bring cases on behalf of groups of workers as many of them with minimum wage problems were too scared to enforce their rights.

**Figure 7.1** Complaints to the HMRC Minimum Wage Helpline, by Sector, UK, 2005/06–2007/08



Source: HMRC, UK, 2005–2008.

**7.18** In its written evidence, Oxfam reported that their Migrant Workers Project had highlighted reluctance among vulnerable workers to report problems. In relation to the entertainment industry, Clive Hurst commented that non-compliance brought the minimum wage into disrepute and because it was on such a scale, support for it in the entertainment industry was eroded.

**7.19** In our 2008 Report we noted that a number of trade unions supported calls for third parties to be informed of the outcome of a complaint. The Government has advised that, as part of the outcomes of the Vulnerable Workers Employment Forum (VWEF), HMRC will provide feedback to the TUC on minimum wage cases brought to its attention by unions. The feedback will aggregate the outcome for a number of cases to preserve the confidentiality of individual employers. We report further on the VWEF later in this chapter.

**7.20** In previous years we have received evidence advocating a policy of ‘naming and shaming’ employers who fail to pay the minimum wage. In our 2007 Report we stated that a ‘name and shame’ policy should be put in place to expose those employers who show wilful disregard for the minimum wage. The Home Office in 2008 ‘named and shamed’ a number of companies that employed illegal immigrants as part of their

‘The vast majority of firms are compliant with the National Minimum Wage, but they face unfair competition from firms who operate with a competitive advantage because of their non-compliance.’

**CBI evidence**



drive to crack down on people smuggling. In its written evidence this year, Unite called for a 'name and shame' policy to be adopted towards those employers found to be in breach of minimum wage legislation.

- 7.21** Widely publicising details of employers who do not comply with the law can be an effective deterrent. The employer concerned is unlikely to want to be 'named and shamed' for fear of damage to reputation and consequent loss of business. For workers, it highlights that the law is being enforced and may encourage more to come forward and report abuses. We recognise that with the introduction of the new penalty regime in April 2009, all employers found to be non-compliant with the minimum wage regime will be served with a penalty. We continue to believe, however, that 'naming and shaming' would act as a deterrent to non-compliance and **recommend that a 'name and shame' policy should be put in place to expose those employers who show wilful disregard for the minimum wage.**

## Targeted Enforcement

- 7.22** In 2005 the Government announced a programme of targeted enforcement to tackle non-compliance in each of the low-paying sectors in turn. In 2005/06 the sector chosen was hairdressing, in 2006/07 it was childcare, in 2007/08 the hotel sector was targeted, and the wider hospitality sector was chosen for 2008/09. The choice of the hotel and hospitality sectors follows from previous recommendations we have made that low-paying sectors employing a large number of migrant workers should be targeted as a priority.
- 7.23** The Government suspended the 2008/09 campaign in the hospitality sector when it became clear that the Employment Act had become delayed and that the October 2008 start date for the new penalty regime was not possible. The delay in the start date for the new penalty regime meant that the first part of the campaign – targeted awareness raising – would contain guidance that would be outdated by the time the enforcement drive began. The Government has announced that targeted enforcement in the hospitality sector will now be undertaken in 2009/10.

'Failure to ensure the National Minimum Wage is enforced will mean that the increases argued for will fail to realise their potential impact on poverty.'

### Oxfam evidence

- 7.24** We have noted in the past that targeted enforcement should be evaluated thoroughly to ensure it justifies the extra resource. In their evidence this year, the Government reported that the preliminary findings from their evaluation raised concerns about the effectiveness of the existing style of their targeted enforcement campaigns. Evidence suggested that the publicity part of the campaign was not reaching workers and that employers felt they were receiving general guidance of which they were already aware. The leaflets were welcomed, however, as being clear and accessible and the use of graphics was popular.
- 7.25** One of the measures used by HMRC to assess the year-on-year level of non-compliance is the strike rate. This is the percentage of cases investigated in which non-compliance is found. The results of the preliminary evaluation of targeted enforcement paint a mixed picture with regard to the strike rates for each of the three campaigns. In all cases, in the year that the targeted enforcement took place, there was a drop in the average strike rate. This would indicate that the first part of the campaign, awareness raising, was successful. In the years following the first two campaigns, however, the strike rate rose to previous levels, or in the case of hairdressing, rose to its highest level so far.
- 7.26** It is not clear from the Government's preliminary findings how effective targeted enforcement is. The rationale for implementing a targeted enforcement campaign remains valid and while the preliminary evaluation into this activity paints a mixed picture, we believe it is important that the Government undertakes the targeted enforcement campaign in the hospitality sector as soon as is practicable in 2009/10. We look forward to receiving details of the final outcome of the evaluation of this activity.

## Resourcing Enforcement Activities

- 7.27** In December 2006 the Chancellor announced that funding for monitoring and enforcement of the National Minimum Wage would be increased by 50 per cent, an additional £2.9 million, in each of the next four years. We have welcomed this announcement as a positive step forward.
- 7.28** BERR has developed a coherent enforcement strategy to make best use of this additional funding. An additional £1.6 million has enabled HMRC to recruit 20 more staff to strengthen enforcement. Almost all of these

staff are now in post. With additional funding, BERR's publicity and awareness budget for 2007/08 was £1.2 million and this enabled it to carry out a co-ordinated campaign on raising awareness. Some of the additional funding has also been used to undertake an evaluation of the targeted enforcement campaign.

**7.29** In their evidence this year, the Public and Commercial Services Union (PCS) stated that funding had not increased adequately this year to enable better policing of the minimum wage. It wanted to see additional funding allocated to enforcement activities to enable compliance officers to spend more time dealing with rogue employers who either do not pay the minimum wage or victimise workers who have sought to exercise their rights. UNISON called for the enforcement budget to be increased to allow for more proactive and targeted enforcement, especially in those sectors where migrant workers predominate. We note that there has already been a substantial increase in the resources for enforcement activities and this will continue until 2011. We will continue to monitor how this extra resource is being used to ensure that it is going into areas where it is most effective.

## Employment Act 2008

**7.30** There are a number of changes to the National Minimum Wage, particularly in relation to enforcement, as a result of The Employment Act 2008 coming into force. This was originally expected to happen in October 2008 but, because of delays, the Act came into force in April 2009. The Act seeks to improve the UK's current employment law framework in line with the Government's aim of increasing both economic prosperity and social justice.

**7.31** We will report on specific provisions in the Act elsewhere in this chapter and, where appropriate, it has also been covered in other chapters of this report. The main provisions in relation to enforcement activity are:

- penalties for employers who have not paid the minimum wage and additional powers for National Minimum Wage enforcement officers and employment agency inspectors to enable them to deal more effectively with serious cases of non-compliance;
- a new method of calculating minimum wage arrears to take account of the time that has elapsed since the underpayment took place;

'A County Down club employed door staff who complained that their wages were below the National Minimum Wage. HMRC identified 6 staff who were paid less than the National Minimum Wage and entitled to arrears of £15,670.'

### Citizens Advice Northern Ireland evidence

- increased penalties for offences against the Employment Agencies Act 1973 and improved investigative powers for the Employment Agency Standards Inspectorate; and
- offences under the National Minimum Wage Act will be able to be heard in a Magistrates' Court or Crown Court.

**7.32** We welcome the introduction of these provisions, some of which are in response to previous recommendations we have made. We are disappointed over the delay of their introduction, however, particularly as this has had a knock-on effect on targeted enforcement activities. We will monitor closely the impact of these new provisions.

## Penalties and Fair Arrears

**7.33** Until the first prosecution under the National Minimum Wage Act in 2007, HMRC's compliance officers relied on the use of civil powers to enforce the minimum wage. These powers included the issuing of Enforcement and Penalty Notices on employers. These notices have been issued only on limited occasions. In 2007/08, 1,650 employers were found to be non-compliant, but only 59 Enforcement Notices and 25 Penalty Notices were issued. In our 2005 and 2007 Reports we said a worker paid below the minimum wage could suffer financial hardship even if arrears were eventually paid, since the worker would not receive any recompense to reflect the late payment. We recommended that this situation should be rectified.

**7.34** Following a public consultation in 2007, to which we responded, the Government announced that it would be introducing a system of 'fair arrears and penalties' as part of the Employment Act. Delays in the passage of this Act mean that the new provision only came into force in April 2009. The fair arrears clause in the Act provides that arrears should be repaid at the current minimum wage rate when this is higher than the rate that was in force at the time of the underpayment. The Act allows for this to be applied retrospectively, which means that where arrears of the minimum wage are outstanding when the Act came into force, all entitlement to repayments are calculated to reimburse underpayment of pay in accordance with the new legislation. The penalty clause in the Act is a change of direction: the basis for issuing a penalty will move from non-compliance with an Enforcement Notice to non-compliance with the

requirement to pay the minimum wage. The penalty will be set at half of the arrears, subject to a minimum of £100 and a maximum of £5,000. If employers pay the full arrears quickly, they will be eligible for a reduction in the penalty by half.

- 7.35** The Government advised that the aim of these new provisions is to provide for a penalty that is proportionate to the level of non-compliance and that will also provide an incentive for employers to repay arrears to workers quickly. It also believes the new regime will make it clear that underpayment is unacceptable, and it will be simpler than the current penalty regime and thus act as a better deterrent. A number of stakeholders who have responded to the consultation and those we have spoken to have expressed support for the new regime.
- 7.36** We fully support the introduction of these new provisions and recognise that they represent perhaps the biggest change to the enforcement regime since the introduction of the minimum wage. We believe a strong deterrent is necessary as there are still too many employers who are not paying the minimum wage. The imposition of a penalty on every employer who does not pay the minimum wage should provide such a deterrent. In addition, there is absolutely no reason why workers who have not been paid the minimum wage should lose out financially. Fair arrears should adequately compensate these workers. As noted above, the provisions only came into force in April 2009, so we are unable this year to comment on their impact. There has been widespread support for the new provisions and we will monitor with interest their application.

## Criminal Prosecutions

- 7.37** The National Minimum Wage Act provides for criminal prosecutions for six offences relating to the minimum wage. These include refusing or wilfully neglecting to pay the minimum wage and furnishing false records or information. The penalty is a fine of up to £5,000 for each offence.
- 7.38** In 2006 the Department for Trade and Industry (DTI) agreed a policy on National Minimum Wage enforcement and prosecutions with HMRC. Additional resources were allocated so that appropriate cases could be investigated with a view to prosecution. In our 2008 Report, we noted that two successful prosecutions were completed in 2007 and that more

'The black market will grow during a recession reflecting a wage level that people are prepared to work at which may be below the minimum wage.'

**UCG member,  
cleaning services,  
evidence**

were being taken forward. We welcomed the progress that had been made but again recorded our disappointment that only a handful of prosecutions were planned each year.

**7.39** In its evidence this year, the Government advised that in the period April 2007–February 2008, 38 cases were referred to HMRC's Criminal Investigation Team for consideration of prosecution. It stated that taking a case through to prosecution is a time-consuming process and that a range of factors need to be taken into account before deciding which cases should be prosecuted. This year there have been a further three successful prosecutions bringing the total number since 2006 to five. In their evidence to us this year, the National Council for Work Experience (NCWE) made a point that no companies have been prosecuted for failing to pay students when they should have.

**7.40** Under existing legislation, prosecutions can only take place in a Magistrates' Court where the maximum fine is £5,000 per offence. In April 2009, changes came into effect through the Employment Act that mean cases can either be heard in the Magistrates' Court or the Crown Court. If heard in a Crown Court, upon conviction, a potentially unlimited fine could be imposed.

**7.41** Although we note there have been three further successful prosecutions, we believe this falls significantly short of a number that is sufficient to act as a deterrent. We also note that of the five, only one was for neglecting or refusing to pay the minimum wage (whereas the others were for failing to produce records or obstructing officers). We still believe that a tough and systematic approach to prosecutions is required to act as an effective deterrent to employers who persistently flout the minimum wage rules and that the current level of prosecutions is not sufficiently forceful. The increase in the penalties so that an employer could face an unlimited fine upon successful prosecution is welcome, but there is no evidence that this new provision will actually lead to more prosecutions, which is what we would like to see.

**We recommend that the Government allocates sufficient resources to HMRC to increase significantly the number of errant employers prosecuted in a criminal court.**

## Informal Economy

- 7.42** We continue to be concerned about the extent to which current enforcement activities can tackle those in the informal economy who pay less than the minimum wage. This issue is important, particularly in relation to the exploitation of migrant workers. There is understood to be a small core of employers who deliberately do not comply with the minimum wage and, most likely, a range of other employment and tax requirements. Evidence previously presented to the Commission has highlighted this issue.
- 7.43** Reaching those in the informal sector is clearly difficult and it is a problem faced by other government enforcement teams. Enforcement is particularly difficult in cases where there is collusion between employers and workers. In their written evidence, the Association of Labour Providers (ALP) felt that HMRC did not have the tools to pursue people in the informal economy and that enforcement bodies tended to concentrate on easy targets, typically those operating in the formal economy with records to inspect. It called for the Commission to examine the interaction of the minimum wage and the informal economy. The Unquoted Companies Group (UCG) thought black market non-compliance was more of a problem during a recession and that legitimate businesses were being undermined by black markets.
- 7.44** In their written evidence, the Cleaning and Support Services Association (CSSA) reported that some cleaning contractors were becoming aware of gangmasters in the cleaning sector recruiting falsely self-employed staff. The gangmaster was then able to bid for work knowing that cleaners can be paid under the minimum wage because they are 'self-employed'. The CSSA believes this sort of activity puts a sharp focus on the need to ensure that enforcement is targeted on the informal economy. The CBI reported that informal employment can also be attractive to some workers as they avoid the Pay As You Earn (PAYE) system and migration checks and can commit benefit fraud.
- 7.45** We understand that tackling those who operate in the informal economy requires extra effort and resource and results may not appear to justify the effort put in. This is true of tackling any activity in the informal economy. Actions planned to enable enforcement agencies to more readily share information and intelligence will, we believe, help make

'Some labour providers feel they have little choice but to join those evading tax or go out of business.'

### Association of Labour Providers evidence

headway as those operating in the informal economy are unlikely to be complying with a range of employment and tax laws, not just the minimum wage. As we move further into an economic downturn, the lure of the informal economy will become greater for some employers, and as unemployment rises, for some workers. **We recommend that the Government gives urgent consideration to measures that can be taken to effectively tackle employers in the informal economy.**

## Vulnerable Workers

- 7.46** In our 2008 Report we noted that the Government had set up the VWEF and two Vulnerable Worker Pilots in 2007. The VWEF was established to help ensure that all workers enjoyed their workplace rights in full, and to address enforcement issues. The pilots were established to identify practical ways of improving the advice and support available to vulnerable workers to help ensure they secure their full entitlement to employment rights and to provide opportunities for them to develop new skills.
- 7.47** In August 2008 the Government published the final report and conclusions of the VWEF (BERR, 2008b). The key enforcement issues identified by the VWEF were that: there was a low awareness of rights and how to enforce them; vulnerable workers were reluctant to report problems or, in some cases, there was a lack of knowledge of how to do so; there was a confusing enforcement picture with different government agencies enforcing different rights; and the low profile of some of the enforcement bodies.
- 7.48** To address these issues the Government has detailed a number of actions it will take. These include: establishing a single enforcement helpline through which vulnerable workers will be able to report abuse and access information and advice; running a significant, sustained campaign with delivery partners to raise awareness of basic employment rights; taking action to tackle the legal barriers that prevent enforcement bodies sharing information; providing feedback to the TUC on minimum wage cases brought to its attention by unions; and establishing a Fair Employment Enforcement Board to ensure continued progress towards joint working.



- 7.49** The Vulnerable Worker Pilots were set up in 2007 and are expected to run for two years. One is based in London and focuses on the cleaning and building services sector and the other is based in Birmingham and focuses on the hospitality sector. In October 2008 the Government published an interim evaluation report (BERR, 2008c) on these pilots. The report advised that there had been some success in achieving the objectives of the pilots. But both pilots had experienced longer lead-in times than originally planned and consequently, less work had taken place with vulnerable workers and employers than had been expected.
- 7.50** In February 2007 the TUC established a Commission on Vulnerable Employment (CoVE) to look at the causes of and solutions to vulnerable employment. The Commission's members came from business, academia, trade unions and civil society organisations and it published its report 'Hard Work, Hidden lives' in May 2008 (TUC CoVE, 2008). The report concluded that vulnerable workers are often exploited because the law was not strong enough to prevent mistreatment. This led to insecurity for workers who do not have contracts of employment, work through agencies, or have reduced rights because of their immigration status. Specific recommendations of the CoVE are picked up elsewhere in this chapter.
- 7.51** We welcome the actions that have been announced as a result of the VWEF and believe they will help those who are most at risk from exploitation. In addition, we are pleased to see that progress is being made with the Vulnerable Worker Pilots. We will monitor progress on the implementation of these actions over the coming year and we urge the Government to keep these high on its agenda.

'Many workers with minimum wage problems are too scared to enforce their rights. They fear retribution from their employer.'

### Equity evidence

## Migrant Workers

- 7.52** In Chapter 4 we looked at the labour market position of migrant workers from European accession countries. Migrant workers have been identified as a group at particular risk of being paid less than the minimum wage, as well as at risk of losing out on other basic employment entitlements. We have continued to receive evidence about the problems faced by migrant workers, although less evidence this year than has been received in previous years. There could be a number of reasons less evidence has been received this year: the number of migrant workers coming to the UK is decreasing; a large

'A Polish worker is working 58 hours a week as a waitress and is paid £150. She has approached the bureau for help getting money due to her and is aware that she will probably lose her job.'

### Citizens Advice Scotland evidence

number have now been here for a few years so will be more aware of their rights; and the actions taken by the Government to address issues faced by migrants has been successful. In addition, the Gangmasters Licensing Authority (GLA) has now been successfully operating for two years in areas which traditionally employ a large number of migrant workers.

- 7.53** Oxfam advised us that its Migrant Workers Project has highlighted a number of issues that are relevant to all workers but which affect migrant workers disproportionately. These include illegal deductions, such as travel or accommodation costs, which are set artificially high, and a reluctance among migrant workers to report problems. In their evidence this year, Unite called for clarification in the law that employers may be prosecuted for not paying the minimum wage whether the workers have legal contracts or not. Citizens Advice Northern Ireland reported that in 2007/08, 14 per cent of all the complaints received by its minimum wage helpline were in relation to migrant workers. This compared with 5 per cent in 2006/07. Citizens Advice Scotland said its evidence showed that migrant workers who were paid less than the minimum wage were at risk of dismissal if they tried to take action to receive what they are due. These workers may not be able to afford to lose their employment, which put them in a 'Catch 22' situation.
- 7.54** The Government has taken a number of actions to strengthen the enforcement regime and some of these are specifically aimed at migrant workers. One element of the 2007/08 communications campaign run by the Government was a migrant worker campaign, which targeted Polish, Lithuanian and Slovakian workers. The aim was to increase awareness of the minimum wage and increase awareness of the helpline. It took in elements from other campaigns, including outreach work in migrant communities, bilingual posters, press articles and online activity. Literature was made available in Polish, Lithuanian and Slovakian and online in a number of other ethnic languages. The Government has advised that it will repeat this communications campaign. It has also announced that it has recently strengthened the information and guidance available to migrant workers about their employment rights and responsibilities. A revised and updated bilingual '*Know Your Rights*' leaflet produced in partnership with the Polish Government is now available and other languages (beginning with a leaflet for Romanian migrant workers) are in the pipeline.

- 7.55** Since November 2004, HMRC's National Minimum Wage team has carried out checks on a sample of employers who use migrant workers. Each month up to 15 employers are selected from around the UK on the basis of a risk assessment and information taken from the Worker Registration Scheme. Between November 2004 and March 2008, 29 per cent of the employers investigated were found to be non-compliant, with arrears of £417,162 identified for 3,114 workers.
- 7.56** The Government has advised that following work on a Joint Workplace Enforcement Pilot (JWEP), which we reported on in our 2008 Report, the UK Border Agency (UKBA) has introduced new partnership arrangements with HMRC and other workplace enforcement agencies to improve collaborative working on enforcement. The JWEP had indicated there was strong anecdotal evidence that employers who were employing illegal immigrants may also be underpaying on tax and NICs, or exploiting vulnerable workers by paying less than the minimum wage. The collaborative measures in the new partnership arrangements will, among other things, promote effective intelligence sharing between government departments. We strongly welcome this initiative, as sharing information effectively will make the best use of finite resources. This will also be the case with the actions planned as a result of the VWEF.
- 7.57** We recognise that the Government has targeted, and is continuing to target this group and also that the GLA is having a positive impact. But, we still have concerns over the vulnerability of migrant workers. We will continue to monitor closely the impact of the minimum wage on this group and also the impact of specific actions planned to help them.

## **Agency Workers and the Employment Agency Standards Inspectorate**

- 7.58** In Chapter 4 we reported on some of the issues around agency workers. In this section, we look again at agency workers but specifically in relation to enforcement.
- 7.59** In previous reports we have noted that, although most agencies complied fully with the minimum wage, evidence was received that related to the level of deductions made by some agencies. In the worst cases, deductions were used to bring down a worker's take-home pay to very low levels. Research conducted in 2006 (French and Möhrke, 2006),

Many employers and employment agencies making use of vulnerable workers regularly flout the law and get away with it.

**CoVE (2008)**

albeit based on a small sample, reported that where the worker was employed through an agency, there was more likely to be evidence of abuse. We remained of the view that the problems arising were best tackled through effective enforcement. This year, in their evidence, UNISON reported that unscrupulous employers and employment agencies were continuing to take advantage of migrant workers.

- 7.60** One of the government bodies responsible for enforcement in relation to the agency sector is the Employment Agency Standards (EAS) Inspectorate. The activities of employment agencies and employment businesses are regulated by the Employment Agencies Act 1973 (as amended) and by the Conduct of Employment Agencies and Employment Business Regulations 2003. The Act is enforced by the EAS. In 2007/08, nearly 1,300 complaints were investigated and over 200 targeted inspections carried out, resulting in 518 corrective letters being sent to agencies. In 2007 two agencies were successfully prosecuted and five individuals were prohibited from being involved in the running of an agency on the grounds of unsuitability due to previous misconduct.
- 7.61** In September 2007 the Government announced that the number of EAS inspectors would be doubled from 12 to 24. We have been advised that these inspectors have now been recruited and are undergoing on-the-job training. When fully operational, the inspectorate will be able to investigate a greater proportion of agencies in sectors where there is perceived to be a higher risk of breaches of the legislation. In April 2008 amendments to the Regulations came into force that were intended to address key abuses affecting vulnerable workers. One of these amendments was the introduction of a seven-day cooling-off period, during which entertainment and modelling agencies could not take fees for including details of a work-seeker in a publication. We have received evidence this year of up-front fees being charged and the TUC have called for the law to be amended to ensure that the minimum wage rules are applied in full to casting agents and the rules rigorously enforced. The Government has advised that it has received representations regarding these fees and is monitoring the effectiveness of the seven-day cooling-off period and the new provisions that came into force in April 2008.

**7.62** There remains concern over the treatment and exploitation of some agency workers. We recognise that some actions to strengthen enforcement announced by the Government, and reported on elsewhere in this chapter, will be of benefit to agency workers. In addition, the Government is monitoring the new provisions that came into force in 2008 and there are provisions in the Employment Act that increase the penalties for offences against the Act and also improve EAS inspectors' investigative powers. Time will be needed to see what comes out of the Government's monitoring and the effects of the new measures in the Employment Act.

'Gangmasters are diversifying from areas covered by the GLA to other sectors bringing their unfair pay practices with them.'

#### PCS evidence

## Gangmasters Licensing Authority

**7.63** The GLA is a government body that was set up in April 2005 and aims to curb the exploitation of labour within the agriculture, horticulture, fish processing and shellfish gathering industries, and in the packing or processing of these products. The GLA has been processing applications for licences from labour providers since April 2006, but it did not become an offence to operate without a licence until October 2006. From December 2006 it also became an offence to use an unlicensed gangmaster. There are stiff penalties for operating without a licence: up to a maximum ten years imprisonment and/or a fine on conviction. A labour user engaging an unlicensed labour provider faces up to 51 weeks imprisonment and/or a fine on conviction.

**7.64** The GLA's compliance team is responsible for carrying out compliance inspections on GLA licence holders. The GLA's Licensing Standards (GLA, 2006), against which licence applications and subsequent compliance inspections are assessed, include key areas of interest to us such as the payment of wages and improper deductions, and workers' accommodation. The Licensing Standards specifically state that the worker must be 'paid at least the national or agricultural minimum wage, taking into account the rules on the accommodation offset', and this standard has been given a 'critical' category (the most serious category of non-compliance) by the GLA. Revised and updated standards came into force in April 2009. In addition to its own compliance team, the GLA works closely with other government departments and agencies to share intelligence to ensure legal requirements are met and enforced.

- 7.65** In our 2008 Report we noted that the GLA had been operating for a relatively short period but, according to the evidence we had gathered, it was already held in high regard and was seen to be making a difference. Research by Balch, Brindley, Geddes and Scott (2009) on behalf of the GLA found that 69 per cent of labour providers felt the GLA was doing a good job, 62 per cent thought GLA inspections were vigorous or very thorough, and just under 75 per cent felt the GLA scheme should be extended to other sectors. Unite was concerned that the effectiveness of the GLA was forcing unlicensed gangmasters into different industries from the agriculture and farming sectors. It called for the GLA's remit to be extended into hospitality, social care, and the betting and gaming sectors. The CoVE recognised that the GLA had made an impressive start. It noted that the GLA had demonstrated that it can enforce standards effectively in its sector and it recommended in its report (May 2008) that the Government should be prepared to extend the GLA licensing regime to cover sectors characterised by vulnerable employment. The CoVE reported that agencies that enforce specific employment rights employ committed staff but are under-resourced, do not have sufficient powers, and do not work together.
- 7.66** Since it began operations, the GLA has licensed around 1,200 labour providers. It has revoked 85 licences, 8 with immediate effect, and 1 person has been prosecuted for operating without a licence. The GLA has reported that more prosecutions are forthcoming and that it is increasing its activities with an 18-month programme of unannounced visits.
- 7.67** The GLA has been in existence for a relatively short time, yet its impact is being felt, particularly as it is reported that gangmasters are now moving into sectors not policed by the GLA. We have already reported on the moves being made to help enforcement agencies share information and intelligence, which will include the GLA. In addition to this, given their impact, it may be that other agencies can learn and improve their own performance by examining the working methods and practices of the GLA. We would like to see agencies, where appropriate, assess their working methods and practices against that of the GLA.

## Employment Tribunals

- 7.68** The Employment Tribunal system provides an important means for workers to pursue claims for payment of the minimum wage. Previously, stakeholders have complained that the tribunal does not have the power to enforce an award and so the worker must seek payment through the civil court system. There has been no data available to show the extent of non-payment of tribunal awards in respect of the minimum wage, and we have been concerned that those employers who show no regard to awards made are tackled robustly.
- 7.69** In their evidence Usdaw and Unite both wanted trade unions to be allowed to take up representative and group cases regarding underpayment to Employment Tribunals. In addition, Usdaw and the TUC believed further enforcement action was necessary to ensure employers pay tribunal awards more quickly. Equity believes that enforcement would be enhanced if the barrier to cases being brought only by individuals was removed. PCS commented on changes going through in the Employment Bill, specifically the imposition of penalties against non-compliant employers. It believed this is likely to lead to a large increase in the number of appeals to employment tribunals and, consequently, an increase in the workload for investigators. We will monitor this situation to assess whether an increase in the number of cases going to an Employment Tribunal is deflecting investigators from their other enforcement duties.
- 7.70** Figures from the Employment Tribunal Service (ETS, 2008) show that, in 2007/08, 511 cases relating to the National Minimum Wage were completed. Of these, 22 per cent were settled through ACAS conciliation and 19 per cent were successful at Tribunal. The remainder were not successful for a number of reasons (e.g. withdrawn, dismissed, etc). In 2008 Citizens Advice Bureau evidence briefing (CAB, 2008) on the enforcement of Employment Tribunal awards showed that around one in ten of all monetary awards made needed to be enforced. The Tribunal Service has also undertaken research into the non-payment of tribunal awards and the results are due to be published in spring 2009.
- 7.71** The Government has advised that changes that will come into force in April 2009 through the Tribunals, Courts and Enforcement Act 2007 will make it easier for individuals to enforce the payment of Tribunal awards.

In addition, it is producing a leaflet to inform claimants of the various forms of enforcement available to them and it is working on setting up a customer services general enquiries line to aid claimants in pursuit of enforcing their awards. The leaflet and customer services general enquiries line are designed to bridge the gap between the court-led enforcement process and tribunal-led ruling. The Government is also in discussion with stakeholders about further measures to ease the costs and burdens of the enforcement process for unpaid Employment Tribunal awards.

- 7.72** We are encouraged that research has been undertaken to look at the extent of non-payment of Tribunal awards and that steps are being taken to reduce the costs and make the enforcement process less burdensome. We urge the Government to continue to look for steps to simplify and speed up the process to show those who have not been paid the minimum wage that the Employment Tribunal system is an effective mechanism for claiming their entitlement.

## Conclusion

- 7.73** In this chapter we have highlighted a number of positive developments that have taken place, or have recently come into force, in relation to awareness and enforcement of the minimum wage. A number of changes, introduced in April 2009, are arguably the most significant shift in the enforcement regime since the minimum wage was introduced ten years ago. These changes have been welcomed by stakeholders and we will monitor closely how they are implemented over the next year.
- 7.74** There remain, however, a large number of workers who are not receiving their full entitlement under the National Minimum Wage Act. Although the developments taking place are a step in the right direction, we have entered a period of economic uncertainty and many workers in the low-paying sectors will become more vulnerable to exploitation as employers look to reduce their costs. There is, therefore, no room for complacency from the enforcement agencies.
- 7.75** We remain concerned about enforcement, and have made recommendations to the Government on the number of prosecutions, the informal economy, and a 'naming and shaming' policy. We believe that further action can be taken in these areas that will not be directly



affected by other initiatives. Overall, we are pleased with the steps being taken to enforce the minimum wage but believe there is still more that can be done to strengthen the regime.

**7.76** In the next chapter, we conclude our report with our analysis of the economic climate and stakeholder views on the minimum wage rates for 2009. We close with our recommendations on the adult minimum wage, Youth Development Rate, 16–17 Year Old Rate, and the level of the accommodation offset.



## Chapter 8

# Setting the Rates



- 8.1** As in previous years, the Commission has gathered a wide range of evidence and data to inform its recommendations. In this final chapter we focus on three areas: the broad economic climate, the findings of our wide-ranging research programme, and stakeholder views on the rates. In addition, we summarise the findings of our continued monitoring of the increase in annual leave entitlement to 5.6 weeks in April 2009, and consider other regulatory changes.
- 8.2** We then go on to set out our recommendations for the National Minimum Wage for adults and young people for October 2009 and comment on the position for October 2010. We make our recommendation concerning the accommodation offset and conclude the chapter by giving our assessment of the likely impact of the recommended rates on coverage, the wage bill, and public finances.

## Economic Climate

- 8.3** From its inception to the spring of 2008, the National Minimum Wage existed in a period of unprecedented, continuous economic growth. Forecasts at the time of our last report anticipated that the economy would slow after the growth experienced in 2007, but they did not anticipate the sharp decline that saw it move into recession in the third quarter of 2008, nor the likelihood that the UK would still be in recession in the autumn of 2009. The rate and timing of the slowdown influenced the timing of this report. Our remit from the Government requested our report by the end of February 2009. To meet this timetable, we would have had to have agreed our recommendations in January of this year, at which time the latest data covered the third quarter of 2008, with limited monthly data on employment for October and November 2008. Given the scale of the change in the economic climate and because the third quarter was the first quarter of negative growth, we judged that further

data would allow a better understanding of the trajectory of the recession and its impact on the low-paying sectors. In January this year, therefore, we wrote to the Secretary of State for Business to request an extension to our reporting deadline. This allowed us access to two months' additional information, including a further Inflation Report from the Bank of England, employee jobs data for December 2008, Gross Domestic Product (GDP) data for the fourth quarter of 2008, and average earnings information up to January 2009. The additional months also enabled us to conduct further in-house analysis of the current recession, to complement research commissioned earlier and to seek additional views from stakeholders.

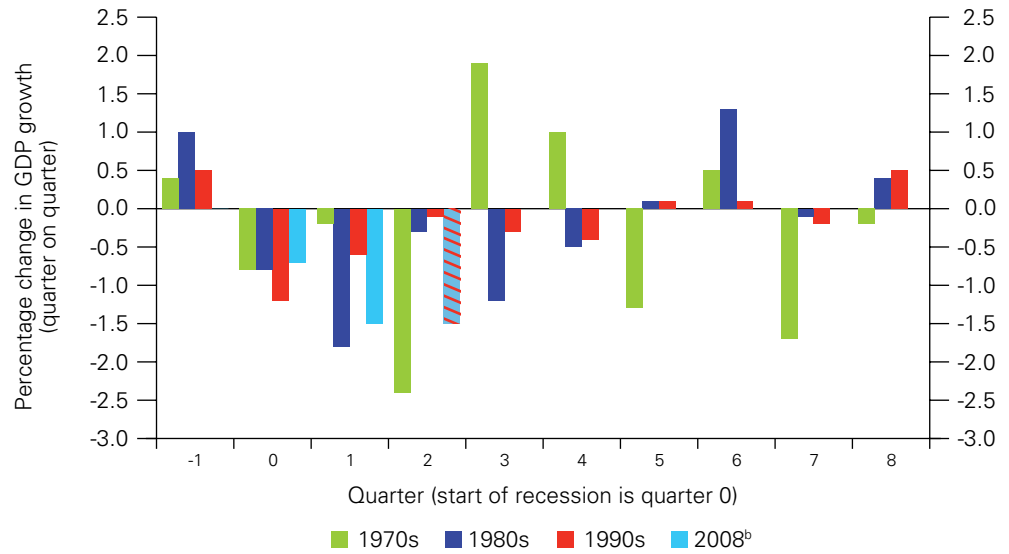
## Recession

- 8.4** Technically, a recession is defined as a period in which there are at least two consecutive quarters of negative growth in output. During a recession the demand for (and output of) goods and services in the economy contracts. This has consequences for employment and wages. The reduction in output reduces the need for labour. How businesses react to this depends on how long and how severe they believe the recession will be.
- 8.5** Firms are generally reluctant to make workers redundant, particularly if they are skilled or experienced. Thus in the early stages of a recession they typically restrict hours, particularly overtime hours and the hours of temporary workers, and introduce short-time working. In this way they constrain labour costs without recourse to redundancies. We therefore expect the first signs of a recession to show up in hours worked (especially paid overtime). When firms have to cut employment they try to do this through natural wastage, by reduced hiring and not filling vacancies as they arise. This will have the greatest impact on new entrants to the labour market, particularly school leavers and women seeking to return to work. Both groups will find their opportunities limited.
- 8.6** If the recession continues, firms will resort to redundancies. Where the choice is available, they will seek redundancies from among those who are least skilled. For this reason it is young people who will be the most affected by a recession. They will find it difficult to get a job and may

also be the first to lose their jobs if employers decide to reduce their workforce. In the extreme, firms will close and all their workers will be made redundant.

- 8.7** Prior to 2008, there had been three major recessions since World War II: from the third quarter of 1973 to the third quarter of 1975 (the 1970s recession); from the first quarter of 1980 to the first quarter of 1981 (the 1980s recession); and from the third quarter of 1990 to the third quarter of 1991 (the 1990s recession). These major recessions generally had an adverse impact on output for around two years, on employment for about three years, and on unemployment for about four years.
- 8.8** When we met in March to agree our recommendations, official data confirmed that the UK economy had stalled in the second quarter of 2008 and had gone into recession in the third quarter of 2008. By the fourth quarter of 2008, output had fallen by 2.2 per cent from its peak in the second quarter of 2008 (falling by 0.7 per cent in the third quarter and 1.5 per cent in the final quarter of 2008). The National Institute of Economic and Social Research (NIESR) estimated that the economy declined by a further 1.8 per cent between December 2008 and February 2009, suggesting a fall of at least a further 1.5 per cent in the first quarter of 2009. As shown in Figure 8.1, this loss of output over these three quarters would be cumulatively larger than that in both the 1980s and 1990s recessions, and more than that in the very severe early stages of the prolonged 1970s recession, when the cumulative fall over the first three quarters was 3.4 per cent.

**Figure 8.1** Comparison of Output Growth in Previous Recessions, UK, 1973–2008<sup>ab</sup>



Source: ONS, GDP quarter on quarter growth (IHYQ), constant prices, quarterly, seasonally adjusted, UK, 1973–2008.

Notes:

- a. Quarter 0 is the first quarter of the recession (Q3 1973 for the 1970s, Q1 1980 for the 1980s, Q3 1990 for the 1990s and Q3 2008 for the 2008 recession).
- b. The hatched area is a forecast for Q1 2009.

**8.9** The current recession technically started in the third quarter of 2008, although growth stalled in the second quarter, and it appears to have different causes than the other post-war recessions. Unlike the two most recent recessions, this one was triggered by difficulties in global financial markets that have squeezed credit availability and reduced demand worldwide. Consumer spending has fallen sharply in the UK and this will affect many of the low-paying sectors. Another difference is that the previous recessions have been characterised by high levels of inflation, which constrained policy options. Interest rates had been raised and fiscal policy tightened. This recession has been very different, with reverse policies enacted. Interest rates have been reduced until they are close to zero and governments across the globe have implemented fiscal stimuli.

**8.10** Table 8.1, comparing the current recession with the three previous ones, shows that the 1980s recession was eventually the deepest in terms of output loss, a cumulative fall of 4.7 per cent (or 6.1 per cent if starting in the third quarter of 1979). It also had the greatest impact on the labour market with unemployment rising by between 1.75 million and 2.03 million, depending on the measure used. The 1990s recession had less impact on output than the one in the 1970s but it had a much greater

impact on the labour market. The 1970s recession revealed the quickest initial recovery, though there were quarters of negative growth for up to two years after the onset of the recession.

**Table 8.1** Change in Output, Employment and Unemployment in Recent Recessions, UK, 1973–2009

	<b>GDP</b>	<b>Employee jobs</b>	<b>Employment</b>	<b>ILO Unemployment</b>	<b>Claimant count</b>
<b>Whole recession</b>	Cumulative loss percentage	Cumulative fall percentage	Cumulative fall (thousands)	Cumulative rise (thousands)	Cumulative rise (thousands)
Early 1970s recession <sup>a</sup>	3.3	-	218	532	663
Early 1980s recession <sup>b</sup>	4.7	9.8	1,650	1,755	2,029
Early 1990s recession <sup>c</sup>	2.6	6.3	1,685	1,022	1,353
<b>Early stages of each recession</b>	First two quarters (percentage)	First two quarters (percentage)	First eight months (thousands)	First eight months (thousands)	First nine months (thousands)
Early 1970s recession <sup>a</sup>	1.0	-	2	(120) <sup>d</sup>	(35) <sup>d</sup>
Early 1980s recession <sup>b</sup>	2.7	1.0	230	416	519
Early 1990s recession <sup>c</sup>	1.8	0.8	415	294	537
2008 recession <sup>e</sup>	2.2	1.3	162	393	567

Source: ONS, GDP growth (ABMI), employee jobs (BCAJ), total employment (MGRZ), working age ILO unemployment (YBSH) and claimant unemployment (BCJD), seasonally adjusted, UK, 1973–2009.

Notes:

- Early 1970s recession is judged to begin in Q3 1973 (July 1973 for monthly data).
- Early 1980s recession is judged to begin in Q1 1980 (January 1980 for monthly data).
- Early 1990s recession is judged to begin in Q3 1990 (July 1990 for monthly data).
- Figures in parenthesis indicate a fall in unemployment over the first eight or nine months.
- 2008 recession is judged to begin in Q3 2008 (June 2008 for monthly data).

**8.11** Initial recession forecasts at the third quarter of 2008 suggested that the overall loss in GDP would be between the levels recorded in the 1980s and 1990s recessions. Table 8.1 shows that after the first two quarters of the current recession, the loss in output is less than in the 1980s but more than in the 1990s recession. A major difference between the current recession and those of the 1980s and 1990s is that the forecast reduction in GDP for the first quarter of 2009 is much greater than the reduction in the third quarter of either of the two previous recessions, as Figure 8.1 clearly shows.

**8.12** As the latest recession has progressed, the initial forecasts have been revised and now imply that this could be at least as deep as the 1980s recession. Some forecasters are even predicting that it may be closer to the Great Depression of the 1920s and 1930s.

- 8.13** At this stage in the current recession, the picture concerning the labour market is still somewhat mixed. The reduction in employee jobs and rise in claimant unemployment have both been greater in this recession. Although data from the Labour Force Survey (LFS) suggest that up to the fourth quarter of 2008 unemployment on the ILO definition had risen only slightly less rapidly than in the 1980s, the data also show that employment had fallen substantially less than in either of the two previous recessions at this stage. As Table 8.1 clearly shows, however, on the claimant count the cumulative rise in unemployment is greater than in the two previous recessions.
- 8.14** In the three previous recessions, consumer spending had declined less rapidly than output but investment had fallen more sharply, particularly in the recessions of the 1980s and 1990s. Government spending, on the other hand, had generally been a positive factor. Again these have been features of the current recession. The fall in consumer spending in particular will have an adverse effect on many low-paying sectors.
- 8.15** In 2005, when commissioning the research projects for our 2007 Report, there had been a slowdown in the economy, particularly among those sectors – retail and hospitality – dependent on consumer spending. Concerned to understand what might happen in a less positive climate, we commissioned Incomes Data Services (IDS) to investigate the impact of the early 1990s recession on pay increases and the low paid.
- 8.16** In the 1990s recession, claimant unemployment increased to nearly 3 million. IDS (2006a) found that recession had mainly affected the manufacturing, construction and financial services sectors and that the low-paying sectors had been much less affected than those sectors in terms of employment or earnings. It found that employment in the two biggest low-paying sectors – retail and hospitality – remained relatively stable throughout, as did employment in other low-paying sectors. In this recession, the impact on the low-paying sectors is expected to be much greater. As we showed in Chapter 3, the number of employee jobs in retail and hospitality has fallen faster in the current recession than the number of jobs in the economy as a whole.
- 8.17** IDS (2006a) found that in the 1990s recession, pay increases did not vary much by sector. Earnings in the low-paying sectors generally kept pace with consumer price inflation, which fluctuated a great deal. It argued that the Wages Councils, which set minimum wages and working



conditions in many of the low-paying sectors, provided a wage-rise floor for many low-paid workers. Further, it noted that organisations started to lift their lowest rates of pay in 1991 in anticipation that the Labour Party might be elected and a minimum wage introduced in 1992.

- 8.18** IDS (2006a) concluded that, despite the large increase in aggregate unemployment, employment in the low-paying sectors remained reasonably stable throughout the recession of the 1990s, even though pay increases in the low-paying sectors matched or slightly exceeded inflation. But it noted that a recession that had different causes, such as a collapse in consumer spending, might have a greater impact on the low-paying sectors than the recession of the early 1990s.
- 8.19** One important difference between the current and the three previous recessions is that the rates of increase in average earnings, pay settlements and inflation were all much lower entering the current recession than when going into any of the three earlier recessions. Prior to the start of the recessions of the 1970s, 1980s and 1990s, inflation was around 10 per cent, 20 per cent and 10 per cent respectively, with average earnings growth mirroring the increase in prices. In stark contrast, inflation was much lower, at around 5 per cent, with earnings growth flat or falling in real terms for six of the seven quarters prior to the fourth quarter of 2008. Forecasters expect Retail Price Index (RPI) inflation to turn negative during 2009, with positive inflation returning in early 2010. There was no period of deflation in any of the three earlier recessions, so none of these provide any guide as to what will happen to pay awards in a period of deflation.
- 8.20** In response to the onset of the recession and concerns about inflation subsiding, interest rates have now fallen to their lowest level since the Bank of England was established in 1694. This has reduced mortgage interest payments but also lowered the return on savings. Inflation, as measured by the Consumer Price Index (CPI), RPI and the Retail Price Index excluding mortgage interest payments (RPIX), has also started to decline from its peak of around 5 per cent in September 2008. The decline in the RPI measure, which includes housing costs, has been sharpest, falling to just 0.1 per cent in January 2009. The falls in mortgage payments, house prices and motoring costs outweighed the continued rises in food and energy costs (especially electricity and gas). As housing costs do not form part of CPI, it had only fallen to 3 per cent

by January 2009. Business-to-business services price inflation, as measured by the Services Producer Price Index (SPPI), has been relatively muted, with price rises in line with CPI. This might imply that firms have been able to increase prices but they may have had to absorb some costs, such as energy prices, which have risen faster.

- 8.21** Wage growth has been relatively stable throughout 2008 on various measures. Across the economy the difference between base pay settlements and average earnings growth, known as pay drift, is zero or marginally negative. This is particularly pronounced in the private sector. Average earnings growth excluding bonuses fell from 3.9 per cent in April 2008 to 3.5 per cent in January 2009 but pay settlements generally remained between 3.5 and 4.0 per cent.
- 8.22** Average earnings growth including bonuses fell more sharply from 4.0 per cent in January 2008 to 3.1 per cent in December 2008, falling below growth excluding bonuses in the spring of 2008. The evidence suggests that there are substantial downward pressures on the aggregate measures of settlements and earnings, especially in the private sector. The bonus season is concentrated between January and April and it was evident that there had been a widespread reduction in bonuses in January 2009 when the average earnings including bonus series fell to 1.8 per cent, with growth of just 1.4 per cent in the private sector. Public sector pay growth has been above that in the private sector since the summer of 2008. These pressures are likely to continue and the gap between public and private sector earnings growth may widen further.
- 8.23** There is significantly more variation than previously in pay changes across companies and sectors, and focusing on averages can be misleading. The latest analysis from IDS and Industrial Relations Services (IRS) suggests the emergence of two distinct groups of settlements: those above 3 per cent and those at zero. Increasing proportions of pay settlements in the private sector are freezes or deferrals, and some employers are postponing their decision until their circumstances become clear. There is, however, also a substantial group of awards over 3 per cent, and the overall settlement median lies around 3 to 3.5 per cent. The median is likely to fall over coming months as pay settlements decline in the private sector.

## Prospects for the UK Economy in 2009 and Beyond

- 8.24** In recommending the rates for 2009, in addition to our analysis of the recession, we took account of the prospects for the economy. We considered the latest data on the economy and the labour market in particular, focusing our attention on employment, unemployment and earnings information. We also noted the trends in inflation.
- 8.25** The recession is global. In January 2009, the International Monetary Fund (IMF, 2009) forecasted that the world economy will shrink for the first time since World War II. This continued weakness in world demand will affect the prospects for the UK economy. The two largest UK export markets, the US and the Eurozone, both contracted by over 1.5 per cent in the final quarter of 2008. This recession is now looking likely to be more severe than the 1980s recession in terms of the fall in output.
- 8.26** The UK economy (along with the world economy) is forecast to be in recession throughout 2009 and forecasts available when we met to discuss our recommendations in March 2009 predicted that it may last into 2010. Some commentators were even predicting that it might persist until 2011. Almost all sectors and regions are likely to be affected. High debt levels and the fall in house and equity prices are likely to affect the UK more than many other nations. As a consequence, consumer spending is forecast to be severely squeezed as consumers look to reduce debts.
- 8.27** By March 2009, the consensus forecast was that GDP in 2009 would fall by 3.1 per cent, which is considerably lower than the positive growth of 2.1 per cent forecast by the same panel of experts in January 2008. The consensus expert view now is that growth over 2008 and 2009 combined will be considerably below the consensus at the time we met to make our recommendations for 2008.
- 8.28** Table 8.2 shows the consensus of forecasts available in March 2009 for 2009, 2010 and 2011 for a range of variables that we took into account when making our recommendations. Actual data for 2008 are given for comparison. As discussed above, output is expected to weaken further in 2009 but it is then forecast to slowly pick up in 2010. The fall in output and consequent sluggish recovery will have adverse effects on employment and unemployment. The consensus forecast is that employment will fall by 2.6 per cent in 2009 and by a further 1.6 per cent

in 2010. That suggests a fall in the number of jobs of over 800,000 in 2009, followed by another fall of around 500,000 in 2010. In all, this implies that the number of jobs is forecast to fall from 31.7 million in 2008 to 30.4 million in 2010. Claimant count unemployment is forecast to rise from its current level of 1.2 million in February 2009 to nearly 2 million by the end of this year, peaking at around 2.4 million in the last quarter of 2010.

**Table 8.2** Actual Outturn and Independent Forecasts of GDP Growth, Inflation, and Average Earnings, UK, 2008–2011

Percentage change over a year earlier (unless stated otherwise)	2008 (Actual)	2009 (Forecast)	2010 (Forecast)	2011 (Forecast)
GDP growth over the year	0.7	-3.1	0.4	2.2
Average earnings growth over the year to the fourth quarter	3.2	2.7	2.6	
CPI inflation in the fourth quarter	3.9	0.4	1.5	1.8
RPIX inflation in the fourth quarter	3.8	-0.1	1.9	
RPI inflation in the fourth quarter	2.7	-2.1	2.2	2.8
Employment growth over the year	0.6	-2.6	-1.6	
Claimant unemployment total (millions) in the fourth quarter	1.08	1.98	2.36	2.02

Source: HM Treasury (March 2009 (forecast for 2009 and 2010) and February 2009 (forecast for 2011)) and ONS, GDP growth (ABMI); AEI including bonuses (LNNC); total employment as measured by Workforce Jobs (DYDC); claimant unemployment (BCJD), seasonally adjusted, RPI (CZBH); RPIX (CDKQ); and CPI (D7G7), not seasonally adjusted, UK (GB for AEI), 2008.

**8.29** The UK is likely to experience deflation (in terms of RPI inflation) for much of 2009. The consensus forecast is for inflation to be negative, on two of the three measures, with CPI inflation only just above zero by the end of 2009. The downward pressure from mortgage payments and the reduction in VAT is likely to persist through 2009. Low-paid workers, however, are less likely to benefit from interest rate cuts as they are less likely to have a mortgage. These downward pressures are likely to increase as energy prices also fall but the depreciation in sterling might prevent food prices from falling. By early 2010, the VAT reduction will have been reversed and mortgage payments are unlikely to fall further, which is likely to lead to inflation picking up. It is forecast to rise towards the target rate by the end of 2010. There is, though, still an uncertain impact on inflation from the aggressive monetary and fiscal policies that policymakers across the globe have implemented.

**8.30** The consensus forecast for annual average earnings growth is 2.7 per cent in the fourth quarter of 2009 and 2.6 per cent in the fourth quarter of 2010. These are much lower than the growth in earnings forecast for recent years (4–4.5 per cent). These forecasts reflect the lower earnings growth in the private sector, which has fallen back sharply following lower base pay awards in some areas, lower bonus payments, and moves to shorter hours to reduce costs. This downward pressure is likely to continue over the coming months. The Bank of England Regional Agents suggest that pay settlements will be lower in 2009 with a large number of freezes and moderation (2–3 per cent) for the others. Different pressures exist in the public sector where pay settlements can be more directly influenced by government policy. In the early stages of this recession public sector earnings growth was largely immune from these pressures. The limited number of public sector awards agreed for 2009/10 by the time of this Report have set base pay increases at around 2.5 per cent, which is only slightly lower than a year ago.

## Implications of the Forecasts for Setting the Rates

**8.31** The National Minimum Wage for adults increased in October 2008 to £5.73 per hour. If it increased further in October 2009 by the anticipated growth in average earnings (2.7 per cent in the year to the fourth quarter of 2009), it would rise to £5.88 per hour. If, instead, the minimum wage were to rise in line with the expected increase in prices (-3.2 per cent to 0.4 per cent in the year to the fourth quarter of 2009), the adult minimum wage would be somewhere between £5.61 (a cut of 12 pence an hour) and £5.75 an hour, depending on the price index used. If the adult minimum wage were to rise in line with current median pay settlements (around 3.1 per cent in January 2009), it would rise to about £5.91 per hour in October 2009.

## International Comparisons

**8.32** We also considered the position of the UK's minimum wage in relation to those in other countries. We again looked at the level of the National Minimum Wage in comparison with the 12 Organisation for Economic Co-operation and Development (OECD) countries that we have examined in previous reports, using data provided by British Embassies, High Commissions, and the OECD. We have described the approaches

adopted across countries for updating their minimum wages, enforcing the provisions, and applying age variations under minimum wage systems. This year, taking into account our remit to review the current apprentice exemptions, we have included details, where available, of exemptions for apprentices in other countries. Detailed information for each country, including the UK, is provided in Appendix 5.

- 8.33** We can compare the monetary value of the minimum wage across countries by using exchange rates or purchasing power parity (PPP). The exchange rate, the price of one currency expressed in terms of another, generally reflects the costs of goods and services and financial assets that are traded internationally but does not take account of those goods and services that are not traded internationally. PPP measures the monetary amount needed to buy the same representative basket of consumer goods and services in each country. Differences in internal price levels mean that goods and services may cost more in one country than in another. Thus PPP allows a more accurate comparison of standards of living across countries than exchange rates.
- 8.34** The UK has experienced depreciation in its exchange rate which has reduced the value and purchasing power of the pound. This has resulted in a fall in the relative value of the National Minimum Wage compared with the minimum wages in other countries. When we compared minimum hourly wage rates across countries, as at the end of 2008, the UK minimum wage was 6<sup>th</sup> highest of the 13 countries we examined in terms of exchange rates and 4<sup>th</sup> highest in terms of purchasing power. This is in contrast to the previous year when the UK minimum wage, as at the end of 2007, was 4<sup>th</sup> highest in terms of exchange rates and 3<sup>rd</sup> in terms of purchasing power.
- 8.35** When we measure minimum wage rates relative to full-time median earnings in each country (the bite), the UK minimum wage expressed as a proportion of median earnings is ranked in the middle of the 13 countries, a position unchanged from last year. As part of the Government's evidence (BERR, 2008f) to us on the economic effects of the minimum wage, it provided international comparisons of the minimum wage as a percentage of median earnings. The Government's data showed that the bite of the UK minimum wage was above the G7 average and 4<sup>th</sup> highest in its list of 13 countries. It is, however, difficult to compare our estimates directly with those of the Government

because of differences in methodology. We have used the most recent data that are available from the OECD. They are for mid-2007 and are produced using a consistent methodology. The Government has used a mixture of OECD and country data. Where it has used OECD data it has extrapolated the data in order to calculate the bite at more recent dates, but it has not done this consistently between countries. Caution should always be exercised when drawing comparisons between countries as definitions of what counts towards the minimum wage differ. There are also differences with regard to the age at which the minimum wage rates apply, whether there are any exemptions, and in the overall coverage of the respective mechanisms.

- 8.36** We continue to take an interest in developments among the countries with an established minimum wage like New Zealand, which replaced its youth minimum wage in April 2008 with a new entrants' minimum wage, and in countries like Germany, where there is a debate about the possibility of implementing a statutory national minimum wage.

## Research Findings and Analysis

- 8.37** Previous econometric research had focused on the introduction and initial upratings of the minimum wage. Our research programme for this report has concentrated on the impact of the more recent, larger upratings in the minimum wage between 2003 and 2006. As such, it does not cover the recent downturn in the economy but it does help paint a clearer picture of the impact of the minimum wage prior to the current decline.
- 8.38** The research and other evidence continue to show that the minimum wage is having a significant impact on the earnings of individuals at the bottom end of the earnings distribution. Our Survey of Employers (2008), commissioned research by IDS (2009), and anecdotal evidence from our visits and meetings with various organisations found that, over time, more firms had been affected and that pay structures had been changed as a result of the minimum wage. Although employees had seen increases in their base pay, IDS also found that many firms had reduced premia payments (for example, for overtime, shift-work and unsocial hours) and other perks (for example, bonuses, subsidised meals, staff discounts and pensions). In contrast, annual leave entitlement had generally increased as legislation was enacted that increased paid leave to 5.6 weeks by April 2009.

- 8.39** Despite the evidence showing that the minimum wage has had a significant impact on wage costs for the most affected firms and has led to increased total labour costs, our in-house analysis and commissioned research found that firms generally appear to have been able to absorb these additional costs without an adverse impact on employment, hours or productivity. In line with previous research, Dickens, Riley and Wilkinson (2009), and Dolton and Wadsworth (2009) found little evidence that the minimum wage had adversely affected employment opportunities. The latter study even found small positive effects on employment after 2003. At the same time, however, the former study found evidence that the larger upratings may have had small adverse impacts on hours worked for particular groups. This supports the negative findings on hours from previous research by Stewart and Swaffield (2004). Experian (2009) found that the introduction of the minimum wage had increased job retention but that the subsequent upratings had not. It concluded that the minimum wage had not significantly affected job-to-job moves among low-paid workers nor had it affected recruitment difficulties among their employers.
- 8.40** Forth, Harris, Rincon-Aznar and Robinson (2009) found some industry-level evidence of a negative impact on profitability and that increases in the minimum wage were associated with increased exit from the industry (firm closure). But their plant-level investigations were generally inconclusive. In neither analysis did they find significant effects on productivity and they concluded that the overall muted impact of the minimum wage on business performance was consistent with the modest impact found on industry wage bills. In previous research, Wadsworth (2008) found that, since the introduction of the minimum wage, prices had risen at a slightly faster rate for minimum wage goods and services than in the economy as a whole. The research programme is summarised in greater detail in Appendix 2.
- 8.41** The impact of the minimum wage to date was investigated in detail and summarised in Chapters 2–5. These showed that the minimum wage had maintained its value against both prices and wages in recent years. Coverage had, however, been a little lower. Despite the impact on earnings, we found little evidence of any impact of the minimum wage on employment, hours, profits, prices or productivity at the aggregate



level. Looking at the low-paying sectors and low-paid workers in detail also failed to reveal substantive evidence of the impact of the minimum wage on these key indicators.

- 8.42** We have set out the impact of the minimum wage on the low-paying sectors and noted some developments in these industries in Chapter 3. We now incorporate further developments in the low-paying sectors in our discussions of stakeholder views and the impact of changes to various government regulations.

## Stakeholder Views

- 8.43** We continue to seek views from stakeholders with an interest in the minimum wage. As in previous years, we undertook a comprehensive visits programme, visiting individuals and organisations at 9 locations in the UK. We heard oral evidence from 15 key interest groups over 2 days in December 2008, and the Secretariat held informal meetings with over 40 interested parties throughout the year.
- 8.44** We conducted a formal written consultation over the summer of 2008 that was in two parts. The first part was on the current apprentice exemptions and whether they are still appropriate. The second part focused on the National Minimum Wage, the rates for October 2009, and whether we should make provisional recommendations for 2010. We received 36 responses to the first part of our consultation and 80 responses to the second part. The deadline for the submission of our Report to the Government was extended from February 2009 to May 2009 to enable us to consider additional economic data. As a result of this extension, 14 organisations submitted further written evidence.
- 8.45** A list of individuals and organisations that were involved in our consultation, and gave consent for us to publish their names, can be found in Appendix 1. We pay considerable attention to the evidence gathered from our consultation exercise and this, alongside the macroeconomic data we have access to, helps inform our deliberations.
- 8.46** Views on the appropriate level of the minimum wage for October 2009 can roughly be divided into two camps. There were those, including employers, who asked us to exercise caution in reviewing the rates, given the worsening economic situation; while others, mainly unions and

'It is vital that the Low Pay Commission does not exacerbate pressures on employment by increasing costs for the lower-paying sectors at a time when they are unaffordable for most businesses.'

### CBI evidence

independent lobby groups, argued that minimum wage increases needed to be higher than inflation to help maintain or increase the real value of the income of the low paid.

- 8.47** The CBI said that the UK was likely to enter an economic downturn greater than any faced since the minimum wage was introduced, and called on us to take a 'risk averse' approach for 2009. It also said we should avoid definitive decisions about setting a rate for 2010 because of the unpredictable economic situation. In oral evidence the CBI revised its position and proposed a freeze in the minimum wage in 2009. In March 2009 the CBI submitted further evidence calling for no change in the minimum wage in 2009 in order to protect employment. It believed that the low-paying sectors were being particularly affected by the recession, with firms having to let staff go. Raising the minimum wage would place additional pressure on employers facing increasing costs from such changes to employment regulation as the increase in statutory annual leave.
- 8.48** The British Retail Consortium (BRC) said that the minimum wage had started to reach a point where harm was being caused to business, with 18 per cent of retailers attributing a decrease in average staffing levels to an increase in the minimum wage. The outlook for the retail industry had deteriorated with retail sales being negative in six of the last seven months on a like-for-like basis. In its written evidence the BRC called for future increases in the minimum wage to fall on the lower side of average earnings – which for 2009 meant not exceeding 3 per cent. In March 2009 the BRC submitted further evidence that reflected more up-to-date data, illustrating the difficult trading conditions and the number of casualties within the sector. It called for any increase in the minimum wage to be kept to no more than 1–1.5 per cent.
- 8.49** The British Hospitality Association (BHA), British Beer & Pub Association (BBPA) and Business In Sport and Leisure (BISL) reported in their written evidence a deteriorating economic situation for the hospitality and leisure sectors. In oral evidence to us later in the year, the associations said there should be a freeze in the minimum wage in 2009 because of the impact on jobs and, because of uncertainty over the economic situation, no provisional rate for 2010 should be recommended in this Report. In further

evidence in March 2009, the BBPA and BISL repeated the call for no rise in 2009 and the BHA included examples of businesses in the sector implementing wage freezes and recruitment embargoes.

**8.50** The Association of Convenience Stores (ACS) said in its oral evidence that it did not believe any increase was justified at this time, but if there is to be an increase, any amount greater than the recent public sector pay awards, of around 2 per cent, would not be justifiable. The ACS submitted further evidence in March 2009 recommending that the minimum wage be frozen in 2009 and 2010 to prevent job losses and a reduction in working hours. The British Shops and Stores Association (BSSA) wanted any increase in 2009 and 2010 to reflect the current economic challenges faced by the sector. The Federation of Small Businesses (FSB) called for no rise in the minimum wage in 2009 and recommended that businesses give a rise that is affordable to them.

**8.51** The British Chamber of Commerce (BCC) said that even a moderate increase in the minimum wage could pose serious risks to future employment prospects, particularly among small and medium-sized enterprises (SMEs). The BCC wrote to us again in December 2008 calling for a freeze in the minimum wage. The Scottish Licensed Trade Association (SLTA) thought that any increase in the minimum wage should be in line with inflation and believed that an independent wages council should be re-introduced. The British Apparel & Textile Confederation (BATC) pointed out that, as a result of a 'devastating decline' in business across the sector, there were delays in wage negotiations, pay freezes and reductions in pay levels. It urged us to recommend no increase in the minimum wage in 2009 and postpone a decision regarding a rise in 2010. The National Hairdressers' Federation (NHF) said a survey of its members found that 47 per cent wanted no increase in the minimum wage and 43 per cent wanted an increase of no more than 3 per cent. The Unquoted Companies Group (UCG) thought that as the UK was facing recessionary conditions, wages should go down, not up.

**8.52** In summary, submissions to us from employers became more cautious regarding any rise in the minimum wage, because of the worsening economic situation. At the time of the written consultation in October 2008, when employers proposed a particular figure for an increase, this generally ranged from a freeze to a 3 per cent increase, although a

'The current downturn in economic conditions means there could hardly be a less propitious time to raise minimum wages.'

#### UCG evidence

‘Setting the highest levels of minimum wage that can be sustained without adverse side effects will be a vital part of the broader fight against poverty.’

### TUC evidence

couple of submissions advocated a reduction in the rates. As we took oral evidence in December, an increasing number of employer organisations proposed no increase in the minimum wage. And by the time of additional written evidence in March 2009, an overwhelming majority of employers who responded supported this position.

- 8.53** Trade unions recognised the slowdown in the economy but pointed to possible future improvements and argued that there was room to make larger increases in the minimum wage. In its written evidence, the TUC referred to predictions that the current economic slowdown would reach its lowest point early in 2009, with economic growth improving by 2010. It said that the adult rate of the minimum wage should be more than £6.10 by October 2009 and at least £6.50 by October 2010. The TUC believed that a freeze in the minimum wage would have a detrimental effect on low-paid workers at a time when food and fuel prices were rising. In its oral evidence in December 2008, it reiterated its view that the UK was well placed to ride out the recession. In further evidence, submitted in March 2009, the TUC recommended an increase in the minimum wage for October 2009. It said that the effects of a further reasonable increase in the minimum wage on employer costs would be modest and employers would find them easy to absorb. It noted that many low-paid workers were covered by Wages Councils in previous recessions, and they consistently received reasonable pay rises in difficult times, with no Wages Council finding it necessary to impose a pay freeze during the recession of the early 1980s.
- 8.54** The TUC also reported that employment in low-paying industries was holding up well so far. It argued that a minimum wage increase would generate a modest fiscal stimulus as low-paid workers have a high propensity to spend minimum wage rises. As a result, it believed that increases in wage costs would be likely to be offset by increased sales in the retail and hospitality sectors. It cited evidence from the USA that showed minimum wage workers spent 100 per cent of wage rises. In its response, the GMB said that the minimum wage should be increased to £7.00 per hour to become a ‘living wage’, but it recognised that this was a high rate and supported the minimum wage recommendations of the TUC.

**8.55** Unite called for the minimum wage to increase to at least £6.71 an hour in 2009 and at least £6.91 by 2010, to have an impact on the gender pay gap and income inequality. It said that the UK labour market remained healthy with total employment and hours worked increasing. In its oral evidence in December 2008, Unite said that even allowing for falling prices, the economy could afford a 4.7 per cent increase in the minimum wage, which would boost spending. UNISON said that a worker needed around £7.37 for a 'living wage' without recourse to in-work benefits, and recommended a minimum wage of £7.45 an hour by October 2010. It maintained this stance in its oral evidence in December 2008. Oxfam also referred to a 'living wage' and said that the minimum wage should aspire to keep people out of poverty. It would like to see a minimum annual increase equal to the rate of inflation (including housing costs) or average earnings growth, whichever was higher. Usdaw acknowledged the major economic uncertainty that existed but said that an increase in the minimum wage was needed to improve the living standards of the low paid. In its oral evidence in December 2008, Usdaw said that an increase in the minimum wage would be a small part of overall business costs and is affordable.

**8.56** The National Union of Rail, Maritime and Transport Workers (RMT) said that the minimum wage is an essential legal safeguard in preventing the exploitation of workers and ensuring that the lowest paid receive an annual pay increase. It wanted the minimum wage to be set at half male median earnings, working towards its eventual goal of two-thirds of male median earnings. The Public and Commercial Services Union (PCS) called for a minimum wage of £8.25 per hour, which it said was close to two-thirds of median earnings. It thought this level, which reflected the impact of increases in living costs on low income households, should be affordable to good employers.

**8.57** In summary, trade unions argued that despite the economic situation in the UK, a further increase in the minimum wage could be afforded. Where specific rates were proposed by unions, they ranged from £6.10 to £6.71 in 2009, and from £6.50 to £7.45 in 2010. One union called for £8.25, but without specific timing for its introduction. Unions also highlighted that the low paid had faced higher rates of inflation than the headline official rates for the economy. Any decision not to increase the minimum wage would, therefore, be regarded by trade unions as unfair

'Previous LPC recommendations have been too cautious and only by forcing reluctant employers into paying a significantly higher minimum wage will ensure that workers are kept above the poverty threshold.'

#### **RMT evidence**

and as having a particularly detrimental impact on low-paid workers. They did not believe there was an economic necessity to take this course.

- 8.58** Employer organisations and trade unions had conflicting views on whether to maintain or abolish the youth rates. Employer groups generally supported the retention of the youth rates, while trade unions and organisations representing young people called for their abolition. The CBI stressed the importance of maintaining the youth rates and their differential, citing international experience of the correlation between youth unemployment and the level of the minimum wage. The Association of Licensed Multiple Retailers (ALMR) said that the youth and development rates should be maintained in order to provide incentives for members to embark on training in-house rather than recruiting those with existing skills. The National Day Nurseries Association (NDNA) said that any changes in the development rate would have an impact because 40 per cent of the nursery sector's workforce is under the age of 24.
- 8.59** The TUC supported a reduction in age for the adult rate to 21, and an increase in the 18–20 year old rate by more than predicted average earnings growth. It sought similar rises in the 16–17 year old rate so that it reached £4.00 by 2010. Unite thought that the removal of the Youth Development Rate would have a minimal impact on employment prospects for 18–21 year olds and called for the adult rate of the minimum wage to be paid at age 18 rather than 22. PCS wanted young workers to be paid adult rates, calling for the 18–21 year old rate to be phased out. The GMB would like the adult rate to be paid at age 18 and, as a first step, supported our recommendation to lower the adult rate to age 21. UNISON said that as well as being discriminatory, the lower minimum wage rates for young people do not reflect the value of the work they do and result in hardship. It called for the elimination of differential rates based on age. The RMT called for the full adult rate to be paid from age 16.
- 8.60** The National Union of Students (NUS) said that unequal minimum rates of pay compounded workplace age discrimination and recommended abolishing youth rates. Canterbury College Students' Union also said that the age rates constituted unfair age discrimination and pointed out that some students have to work to support themselves and their families.

The British Youth Council (BYC) campaigned for a minimum wage for everyone aged over 16 and submitted a petition of letters signed by around 1,800 young people calling for equal treatment under the minimum wage. The BYC said that the principle of age-related pay did not take into account that young people often have the same costs and responsibilities as those aged over 22. The YWCA said that the youth rate is lower than the basic income required to live on and called for the youth rate to be abolished. Like the BYC, it said that it did not cost any less for a young person to pay rent and bills than for an adult. Richard Huish College students said that long hours of work had a negative impact on education. The NUS also made this point and argued that many students needed to support themselves and said they would work fewer hours if they were paid more.

- 8.61** A number of employer organisations commented on the accommodation offset rate in their evidence. The BHA, BBPA, BISL and ALMR said that the current level of the offset fell short of its economic value. The ALMR called for the rate to rise to £60 per week, arguing that the current rate acted as a disincentive for employers to supply accommodation. The National Farmers' Union (NFU) said that the current rate is mirrored by the Agricultural Wages Order and that the figure is too low in terms of providing accommodation to a reasonable standard. The Association of Labour Providers (ALP) said that the current offset arrangement had led to a shortage of accommodation provided by employers. It called for workers to be given free choice to agree to accommodation outside any requirement in their employment contracts. The Gangmasters Licensing Authority (GLA) also said that a number of labour providers were not providing accommodation because it was not economically viable to do so and suggested local variations on the offset linked to fair rates used by local authorities.

## Consideration of Other Government Legislation

- 8.62** A number of employer organisations referred to statutory measures other than the minimum wage that have an impact on their costs, or ability to recruit and retain their workforce. They thought that the Commission should assess the impact of the minimum wage and any future revisions in the context of these wider regulatory changes by the

Government. The CBI said that the cost of legislative change since 1998, based on BERR figures, was £48 billion, which CBI members considered a conservative estimate. The regulatory changes referred to by stakeholders included the following.

## Annual Leave

- 8.63** A number of employer organisations referred to the impact of the increase in statutory leave entitlement, which had seen an additional four days introduced in October 2007, with a further four days in April 2009. We were required by our terms of reference for both our 2007 and 2008 Reports to take these changes into account. In our 2008 Report we noted that, in coming to our recommendation on the rate of the National Minimum Wage, the available evidence on the impact of the increased statutory entitlement was deficient. We said we would, therefore, keep the matter under review during the coming year in light of our analysis of relevant data from the LFS and the results of our ongoing consultations with stakeholders.
- 8.64** Some organisations again submitted evidence to us on the impact of the increase in statutory leave, particularly in the social care and hospitality sectors. The EEF called on us to once again take into account the forthcoming increase, of a further 4 days, in April 2009. The CBI said that members in affected sectors did not believe it had been fully taken into account and that we should consider its impact in a year of economic slowdown. It said the rise from 24 to 28 days is expected to cost £2.2 billion in April 2009, with some firms seeing it as a 1.7 per cent rise in wage levels. In social care the United Kingdom Home Care Association (UKHCA) said each increase in leave had added approximately 2 per cent to the wage bill of care providers, but in a 2007 survey it found only 18 per cent of councils recognised this increased cost when commissioning care. The English Community Care Association (ECCA) also said that, in reality, the cost of the increased leave is not covered by higher fees from local authorities. The BHA, BBPA and BISL reported that it was still probably too early to draw firm conclusions about the impact of the increase in paid holidays, but they estimated from a BHA survey of its members that the combined costs of both four-day increases will be around £150 million.



- 8.65** Evidence from the research we commissioned from IDS (2009), which looked at the low-paying sectors, found some 30 per cent of the organisations in the study were affected by the increase to 24 days in October 2007. It showed the increase had most impact in social care; fast food, pubs and restaurants; childcare; and leisure. It found little impact in hotels and retail, where most employers already met the new statutory requirements. The research found a higher level of impact for the April 2009 increase, with 40 per cent of organisations saying they would be affected. The main impact would be on costs, but problems in recruiting and providing staff cover were also mentioned. Almost three-quarters of those organisations in the social care sector that said they would be affected were small organisations employing up to 100 people.
- 8.66** Our latest estimates of the cost, based on the fourth quarter of the 2007 LFS and the BERR Paid Annual Leave Survey 2006, give results similar to those available to us at the time of our 2008 Report: namely, broadly in line with sector estimates. The cost to the whole economy of the increase in April 2009 to 5.6 weeks from 4.8 weeks is estimated at 0.3 per cent of the total wage bill. The impact rises to 0.6 per cent of the total wage bill in the low-paying sectors and is highest in the hospitality sector, at a cost of 0.9 per cent of the total wage bill.

## Tips

- 8.67** Our response to the Government's proposals for no longer allowing tips to be used to make up minimum wage pay is summarised in Chapter 4. Although trade unions welcomed the move to end this practice and called on us to consider how the Government's commitment to exclude tips from minimum wage pay will be implemented and enforced, some employer organisations voiced concern. The CBI said that the Government's proposals would have a pronounced impact on the hospitality sector, with roughly half of the 30,000 restaurants in the country estimated by the BHA as being affected. It said the BHA argued that some staff, through the interaction with National Insurance Contributions, may find themselves worse off. The CBI also referred to BHA estimates that the change could cost the hospitality sector £400 million and lead to the loss of up to 45,000 jobs. In contrast, the TUC's view was that the number of beneficiaries would not exceed 20,000 across all industries, and that the overall impact would therefore be very modest.

## Workforce Regulation and Registration

**8.68** Employer organisations in social care voiced concern at increased costs for providers through changes to their access to migrant workers and developments in registration of their workforce. The UKHCA claimed that the wage rates in social care, which are achievable through local authority commissioning, do not attract sufficient British workers to the sector, and the migrant workforce is essential to fill the gaps. It claimed that migration from EU countries was not meeting this shortfall and that the new points-based migration system would limit the ability of homecare providers to recruit from outside the European Union. In addition, UKHCA advised us that there would shortly be an obligation on homecare workers in England to register and pay an annual fee of £20 – likely to be subsidised by providers – with the other countries of the UK also preparing for registration. There would also be a new vetting and barring system in England, Wales and Northern Ireland in October 2009, at an estimated cost to the sector of £18 million. The UKHCA thought this was not likely to be reflected in local authority fees paid to social care providers.

**8.69** The CBI expressed concern that the Agency Workers Regulations will add to costs for business and may increase unemployment. It said that, given the likely employment situation in 2009 and 2010, there was a need to avoid unnecessary barriers to creating alternative employment, such as high minimum standards.

## Changes to the Law on Public Smoking and Gambling

**8.70** The ban on smoking in public places was introduced in Scotland in 2006 and then later in other parts of the UK. The SLTA said a survey it conducted found that 34 per cent of respondents had to reduce staffing levels as a result of this change in the law. The BHA, BBPA and BISL said the smoking ban had an impact on pubs and bingo clubs, with the latter also affected by the Gambling Act 2005, contributing to a substantial fall in revenues and a rise in establishment closures.

## Recommended Rates

- 8.71** Since its first recommendations for April 1999, the Low Pay Commission has sought to balance the potential benefits of the National Minimum Wage to low-paid workers against the risk of adverse economic effects. In each of its first ten years, research showed that around 1 million low-paid workers benefited from the minimum wage, with no measurable adverse effects on employment or inflation. This reflects the cautious approach that the Commission has taken in difficult times, balanced with more generous recommendations when times were good.
- 8.72** This year the UK faces a significant economic challenge. GDP growth, which at the time of our last report was forecast to be 2.3 per cent for 2009, has taken a significant turn for the worse, with forecasts for 2009 now at -3.1 per cent. The fall in employee jobs since the beginning of the recession is greater than the falls in both the 1980s and 1990s recessions. Consumer spending, vital to hospitality and retail, two of the largest low-paying sectors, has declined sharply since the beginning of 2008. Both sectors, employing around a half of all low-paid workers, are performing worse than the economy as a whole.
- 8.73** In discussion about this year's recommendations, one argument was that the minimum wage should rise in line with forecast average earnings. It was acknowledged that the economy was in recession, but noted that there were still over 29 million people in employment and that the number of employee jobs in the low-paying sectors was falling more slowly than in the economy as a whole. Pay settlements were still between 3 and 4 per cent for the majority of workers, underlying average earnings growth (excluding bonuses) was 3.5 per cent in the three months to January 2009 and the economy is forecast to pick up towards the end of 2009 and into 2010. Further, the forecasts for inflation were driven by the falls in mortgage interest payments and the temporary reduction in VAT, and minimum-wage workers, who spend much more of their incomes on food and energy, were likely to face higher inflation rates than those forecast for the average household.
- 8.74** On the other hand, an argument was also made for a freeze in the minimum wage. The economy has been in recession since the middle of 2008 and is forecast to return to growth in late 2009 at the very earliest. Consumer spending has fallen sharply, with the low-paying sectors and

unskilled workers disproportionately affected. The number of employee jobs in the low-paying sectors, particularly retail and hospitality, fell sharply in the year to December 2008. Deflation is widely forecast for most of 2009, with the fall in prices being greatest around the time of the October 2009 implementation. RPI could be lower than -3.0 per cent at that time, with CPI just above zero. Average earnings growth including bonuses has fallen from 3.2 per cent in December 2008 to just 1.8 per cent in January 2009. This has been particularly acute in the private sector as bonuses have fallen sharply compared with last year. This is likely to continue through 2009. There has also been downward pressure on pay settlements, with evidence provided of an increase in the number of pay freezes across the economy, although most have been in manufacturing.

- 8.75** These are unprecedented times for the minimum wage and the Commission has concluded that a cautious approach is the only option. We believe that the pressures on average earnings are on the downside and that the forecasts on earnings for the fourth quarters of both 2009 and 2010 could prove optimistic. Companies in the low-paying sectors are under great pressure from a combination of different factors: the reduction in consumer spending, the paucity of credit available, and the removal of credit risk insurance. **We therefore recommend that the adult minimum wage rate should increase from £5.73 to £5.80 in October 2009.**
- 8.76** We have again recommended that 21 year olds be entitled to the adult minimum wage. We believe that the evidence supports this conclusion. Fewer than 60,000 21 year olds (about 10 per cent) are currently paid less than the adult rate. Some of these will be on apprentice schemes and will be exempt anyway. Our analysis also suggests that most of these work in large firms in the retail and hospitality sectors. We have again found that their employment and unemployment rates are closer to those of 22 year olds than of the 18–20 year old age group. Despite the current climate, we believe that the impact on individual employers will be minimal, that any additional costs that arise can be absorbed, and that 21 year olds will not suffer detrimental employment effects from the change.

- 8.77** In considering the rates for those aged below 21 years old, we noted the calls from many organisations that there should be a single minimum wage for everyone regardless of age. But, we continue to believe that it is right that young people, in their initial entry to the labour market, should share with their employers some of the costs of training and gaining work experience. As explained earlier in this report, young people are likely to experience a larger adverse effect from the recession than other, more experienced groups. We are concerned that we should not do anything to price young people out of the labour market, but we were not persuaded of the case for a freeze or a cut to young people's wages. We note that Bell and Blanchflower (2009) concluded that 'it does not appear that young people are pricing themselves out of work currently, unless their relative productivity is falling especially sharply, but we have no evidence to suggest that this is the case'. They also found no evidence of an impact from the National Minimum Wage on the employment of young people.
- 8.78** After careful consideration, we concluded that the relative value of the youth rates to the adult rate should be maintained. **We recommend that the Youth Development Rate should increase from £4.77 to £4.83 in October 2009 and that the rate for 16–17 year olds should increase from £3.53 to £3.57 in October 2009.**
- 8.79** The Government asked us, as appropriate, to consider recommending rates for the minimum wage in 2010. As there is a great deal of economic uncertainty at this time, we do not believe it is appropriate to make a recommendation for 2010. If economic forecasts prove unduly pessimistic, and key labour market indicators are out of line with our expectations at this time, this will be reflected in our deliberations for 2010.
- 8.80** In Chapter 4 we set out the views of stakeholders and our conclusions on the accommodation offset. There continue to be concerns from employer representatives about the low level of the offset and that more employers are ceasing to provide accommodation because it is not economically viable to do so. The TUC again raised concerns that the offset is being abused, especially for migrant workers.
- 8.81** In our 2005 Report we gave reasons why we believed the offset should increase by the same proportion as the proposed increase in the adult rate of the minimum wage. To date, the daily rate has broadly risen in line with

the hourly adult rate, remaining at around 77–79 per cent of the hourly adult National Minimum Wage. The evidence received this year has not persuaded us to deviate from our normal practice. **We recommend that the accommodation offset should increase from £4.46 per day to £4.51 per day in October 2009.** We are concerned, however, by the views expressed by stakeholders on the offset and so, as part of our review next year, we will invite stakeholders to submit further and more detailed evidence so we can better understand the impact of the offset.

## Implications of the Recommended Rates

### Coverage

- 8.82** The recommended increases in the minimum wage rates for October 2009, at around 1.2 per cent, are lower than the forecast increase in average earnings but higher than the forecast change in prices. If implemented, these changes are likely to cover a slightly smaller proportion of jobs compared with the proportion covered by the 2008 upratings (assuming earnings for low-paid workers grow in line with average earnings) and a smaller proportion compared with previous years when the upratings were in line with, or exceeded, the growth in average earnings.
- 8.83** In April 2008, according to ASHE, there were around 1.73 million jobs that paid less than the minimum wage rates we are recommending for October 2009. These were made up of 1.57 million jobs held by those aged 21 and over (6.4 per cent), 120,000 jobs held by 18–20 year olds (9.2 per cent), and 36,000 jobs held by 16–17 year olds (8.5 per cent).
- 8.84** In order to estimate coverage, we need to make assumptions about how the wages of the low paid would have changed in the absence of any minimum wage upratings. In other words, we need to estimate the real value of the October 2009 minimum wage rates at April 2008 (the date of the latest earnings data) by downrating using estimated wage growth. We use actual and forecast changes in prices or earnings to estimate this growth.
- 8.85** Assuming that 21 year olds would be entitled to the adult minimum wage from October 2009, in line with our recommendation, and that the wages of the lowest paid would increase in line with forecast average

earnings, we estimate that about 833,000 jobs or 3.4 per cent of all jobs held by those aged 21 and over would be covered by the new rate of £5.80 in October 2009, as shown in Table 8.3. If we assume instead that the wage growth of the lowest paid would match forecast price inflation, a greater number of jobs would be estimated to be covered (as the forecast growth in prices is lower than that of earnings) – between 1.13 million and 1.62 million jobs (4.6 to 6.6 per cent) held by the adult workforce, depending on the price index used. Using the earnings assumption, we estimate that the new adult rate for the minimum wage will achieve a lower level of coverage than the £5.73 uprating in October 2008 (when 985,000 or 4.1 per cent of jobs held by those aged 22 and over were covered). Alternatively using prices, estimated coverage of the new adult rate is higher than for the previous year (862,000 to 985,000 jobs or 3.6 to 4.1 per cent using CPI or RPI respectively).

- 8.86** We have recommended increases for the Youth Development Rate and the 16–17 Year Old Rate roughly in line with our recommendation for the adult minimum wage: 1.3 per cent and 1.1 per cent for the Youth Development Rate and the 16–17 Year Old Rate respectively in October 2009.

**Table 8.3** Estimated Number and Percentage of Jobs Covered by the Recommended October 2009 National Minimum Wage Upratings, UK, 2009

Estimated number and percentage of jobs covered		Earnings basis	Price basis	
October 2009 hourly minimum wage rates		AEI including bonuses	RPI	CPI
Adult rate (aged 21 and over)	£5.80	833,000	1.62 million	1.13 million
		3.4%	6.6%	4.6%
Development Rate (18–20 year olds)	£4.83	88,000	121,000	105,000
		6.8%	9.3%	8.1%
16–17 Year Old Rate	£3.57	29,000	36,000	29,000
		6.8%	8.5%	6.9%
Total		950,000	1.77 million	1.26 million
		3.6%	6.8%	4.8%

Source: LPC estimates based on ASHE 2007 methodology, low-pay weights, UK, April 2008; ONS, AEI including bonuses (LNNC), seasonally adjusted, RPI (CZBH) and CPI (D7G7), not seasonally adjusted, UK (GB for AEI), April 2008 to October 2008; and HM Treasury Panel of Independent Forecasts at March 2009, UK, 2009.

- 8.87** Assuming that young workers' wages would increase in line with average earnings, we estimate that 88,000 jobs held by those aged 18–20 will be covered by the October 2009 Youth Development Rate,

representing around 6.8 per cent of jobs held by these young workers. Based on the price assumption, the coverage is higher and our estimates range from 105,000 to 121,000 jobs (between 8.1 and 9.3 per cent of all jobs held by that age group).

- 8.88** We estimate, based on the earnings assumption, that 29,000 jobs held by 16–17 year olds (or 6.8 per cent of all jobs held by these workers) will be covered by the October 2009 uprating. Using the price assumption, the coverage increases to between 29,000 and 36,000 jobs for this age group (between 6.9 and 8.5 per cent of jobs).
- 8.89** Overall, we estimate, therefore, that the total coverage of the recommended October 2009 upratings will be approximately 950,000 jobs (3.6 per cent of all jobs), if the wages of the low paid were to increase by the forecast growth in average earnings between April 2008 and October 2009. If they were to increase in line with predicted prices, we estimate coverage of between 1.26 million jobs (4.8 per cent of all jobs) and 1.77 million jobs (6.8 per cent of all jobs).
- 8.90** As we discussed in Chapters 2 and 4, women are more likely than men to be working in low-paid jobs. Based on the earnings assumption, we estimate that the October 2009 adult minimum wage would cover around 289,000 jobs held by men and 544,000 jobs held by women. Using our alternative price assumption, we expect that up to 531,000 jobs held by men and 1.09 million jobs held by women would be covered by the increase to £5.80. On all measures, jobs held by women aged 21 and over are expected to make up around two-thirds of all jobs covered by the 2009 October increase in the adult rate.

## Position Relative to Average Earnings

- 8.91** The ‘bite’ of the minimum wage, that is its relationship to average earnings (measured at the median or the mean), is another way of assessing the impact of the minimum wage on the earnings distribution. In April 2008, according to ASHE, the median gross hourly earnings (excluding overtime) of all employees aged 21 and over (full and part-time) was £10.74 an hour. In order to be able to compare median earnings with the October 2009 adult rate, we need to uprate it by the growth in average earnings (including bonuses), both actual and predicted. On that basis, the adult rate of £5.80 is expected to be about 51.6 per cent of forecast average earnings for those aged 21 and over



(£11.23) in October 2009. This result is slightly lower than the bite of the October 2008 rate of £5.73 for employees aged 22 and above (51.7 per cent), which implies that increasing the rate by less than predicted average earnings offsets the impact of including 21 year olds in the adult rate. In comparison with previous years, the bite for the adult rate was 45.7 per cent when the minimum wage was introduced in 1999, around 51.0 per cent for the October 2006 rate of £5.35, and was around 50.7 per cent for the October 2007 rate of £5.52.

- 8.92** Using the mean, we estimate that the bite in October 2009 will be around 40.0 per cent for employees aged 21 and over based on the earnings assumption. This is 0.2 percentage points lower than the bite at the mean for the October 2008 adult rate.

## Impact on Household Income

- 8.93** When the adult minimum wage increased to £5.73 in October 2008, gross weekly income would have been £200.55 for a 35 hour week. Using HM Treasury estimates for the 2009/10 tax year, this gross income would be equivalent to a net income of £196.57 for a single person working full-time with no children (a net wage of £5.62 an hour for a 35 hour week). The corresponding amount for a couple with one child (one partner working and the other not) would be around £317.17 (equivalent to a wage of £9.06 an hour for a 35 hour week).
- 8.94** Again assuming a 35 hour week, gross weekly income would have increased by £2.45 to £203.00 following the minimum wage increase to £5.80 in October 2009. The net weekly income for a single person would rise by 74 pence to £197.30. For the one-child family, net income would rise by just 11 pence to £317.28. The effective hourly rate for the single person would be £5.64 and for a one-child family £9.07 an hour. In conclusion, changes in the minimum wage are expected to lead to low-paid workers, on average, increasing their net take-home pay by less than the increase in gross pay. At this stage we are unable to assess the impact of the changes to the tax and benefit regime for 2010/11.

## Wage Bills

- 8.95** We anticipate that the direct impact of our recommendations on the average wage bill is likely to be smaller than in recent years as the recommended increase in the minimum wage is lower than the

predicted rise in average earnings. But our recommendation that 21 year olds should be entitled to the adult minimum wage could lead to an increase in wage bills for some firms. As we saw in Chapter 5, around 90 per cent of jobs held by 21 year olds are already paying at least the adult rate, so the impact of this recommendation on the wage bill should be small. We estimate that it would add up to 0.06 per cent, at most, to the wage bill for 21 year olds.

### Public Sector

- 8.96** The lowest rates of pay in the public sector tend to be above minimum wage levels and, as we saw in Chapter 2, very few jobs in the public sector are paid at the minimum wage. We therefore expect a very small direct impact on the public sector wage bill from the recommended October 2009 rates. Given that many public bodies employ private sector firms under contract to provide services such as cleaning, our recommended increase may lead to a small indirect impact.
- 8.97** An increase in the minimum wage can also affect the public sector through savings to the Exchequer, resulting from increased tax receipts and reduced benefits. Table 8.4 is based on information supplied by the Government and illustrates the effect of the 7 pence increase in the adult rate of the minimum wage.<sup>1</sup> We estimate that in total the Government will gain around £100 million from the 2009 minimum wage upratings, over half of which consists of additional yield from income tax (£38 million) and National Insurance Contributions (£20 million) as the earnings of minimum wage employees increase. The Government also stands to make savings from a reduction in Working Tax Credits (£22 million) and other benefits (over £21 million in total).

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<sup>1</sup> The Government provided us with estimates of yield and savings for hypothetical increases to the minimum wage of 10 pence and 20 pence.

**Table 8.4** Estimated Exchequer Yield and Savings from the 2009 National Minimum Wage Uprating, £ million, UK, 2009/10

£ million	Exchequer yield and savings from the increase in the minimum wage to £5.80 in October 2009
Income tax	38
National Insurance Contributions	20
Working Tax Credit	22
Child Tax Credit	6
Income Support	3
Housing Benefit	3
Council Tax Benefit	9
<b>Total</b>	<b>100</b>

Source: LPC estimates extrapolated from HM Treasury calculations using 10 pence increases based on Family Resources Survey 2006/07, uprated to 2009/10, UK, full year 2009/10.

Note: These figures take account of changes in tax credits, benefits, taxes and National Insurance Contributions but do not take any account of likely behavioural change caused by an increase in hourly pay, such as changed levels of employment or hours worked. In addition, they do not include the effect of the £25,000 disregard in tax credits, which allows income to rise between one year and the next by up to £25,000 before tax credits begin to be withdrawn. This means that the reductions in tax credits would in practice be significantly smaller, at least in the initial tax year.

## Conclusion

- 8.98** The Commission is fully committed to ensuring that low-paid workers are treated fairly in these difficult economic times. Our recommendations were made this year in a climate of economic volatility and reflect the difficulty of making a judgement in such conditions. They were shaped by the need to help low-paid workers by protecting their jobs as well as their earnings. The minimum wage has been a huge success for ten years and is there to uphold the principle of fairness whatever the economic climate. After a finely balanced discussion, we reached the conclusion that the evidence pointed to the need for a modest increase.
- 8.99** In reaching our conclusions, we took account of a range of labour market forecasts. Our recommendations are based on the expectation that employment levels in the low-paying sectors will fall more sharply than those for the economy as a whole. We are aware that predictions for the growth in average earnings have continued to fall on a month-by-month basis, and so our recommendations are informed by the assumption that current predictions will prove to be too high. Our recommendations are also based on an assumption of falling prices during 2009, which means that even a very modest increase in the rates would lead to a real

increase in the living standards of minimum wage workers. Finally, our recommendations are intended to ensure that the National Minimum Wage will broadly keep pace with the modest growth in pay settlements and average earnings forecast for the coming year.

- 8.100** The Commission is committed to protecting low-paid workers through the recession. As the Commission works on its 2010 Report this autumn, it will review whether these assumptions were upheld and will take this into account when considering the rates that should apply from October 2010. In doing so, the Commission will pay particular attention to the volatility of the current economic climate and how it can best communicate its thinking to employers and low-paid workers so as to help them with their forward planning.
- 8.101** This year's proposed rates should not be taken as a sign that we will continue to make such modest recommendations. In the period between 2003 and 2006, our evidence-based approach led to a series of increases that outstripped the growth of average earnings, since when our recommendations have become more moderate in order to take account of the higher probability of job loss in the cooling economy. It follows that, when economic conditions improve, the minimum wage could once again increase at a faster rate. In making its recommendations, the Commission's view will always be driven by the prevailing economic evidence.

## Appendix 1

# Consultation

We are grateful to all the people and organisations that helped us by providing oral and written evidence, and by organising or participating in visits and meetings. All organisations that participated, and gave consent for us to publish their names, are listed below according to the nature of their contribution.

### **Oral Evidence to the Commission**

Association of Convenience Stores  
British Beer & Pub Association  
British Hospitality Association  
British Retail Consortium  
British Youth Council  
Business In Sport and Leisure  
Cleaning and Support Services Association  
Confederation of British Industry  
English Community Care Association  
Federation of Small Businesses  
Learning and Skills Council  
National Day Nurseries Association  
National Hairdressers' Federation  
Trades Union Congress  
Union of Shop, Distributive and Allied Workers  
UNISON  
Unite

### **Written Evidence to the Commission**

Adam Gates  
Apprenticeship Ambassadors Network  
Association of Convenience Stores  
Association of Labour Providers

Association of Licensed Multiple Retailers  
British Apparel & Textile Confederation  
British Beer & Pub Association (Joint submission with British Hospitality Association and Business In Sport and Leisure.)  
British Chambers of Commerce  
British Furniture Manufacturers  
British Hospitality Association (Joint submission with British Beer & Pub Association and Business In Sport and Leisure.)  
British Retail Consortium  
British Shops and Stores Association  
British Youth Council  
BUPA Care Services  
Business In Sport and Leisure (Joint submission with British Beer & Pub Association and British Hospitality Association.)  
Canterbury College Students' Union  
Cinema Exhibitors' Association Ltd  
Citizens Advice Northern Ireland  
Citizens Advice Scotland  
Cleaning and Support Services Association  
Clive Hurst  
Communication Workers Union  
Confederation of British Industry  
Department for Employment and Learning, Northern Ireland  
Donna Butterfield  
EEF the manufacturers' organisation  
Employers Forum on Age  
Employment Information Services  
English Community Care Association  
Equality and Human Rights Commission  
Equity  
Federation of Small Businesses  
Food and Drink Federation  
Frederic Robinson Ltd  
Gangmasters Licensing Authority  
GMB  
Greater Manchester Pay and Employment Rights Advice Service  
Greggs Plc  
Guy Hutchinson  
Habia (Joint submission with National Hairdressers' Federation.)

Her Majesty's Government  
Institute of Payroll Professionals  
Jackie Howse  
John A Dutton  
Learning and Skills Council  
Llandudno Hospitality Association Ltd  
Local Government Employers  
Manchester Metropolitan University  
Mark Watson  
National Association of Master Bakers  
National Council for Work Experience  
National Day Nurseries Association  
National Farmers' Union  
National Group on Homeworking  
National Hairdressers' Federation (Joint submission with Habia.)  
National Union of Journalists  
National Union of Rail, Maritime & Transport Workers  
National Union of Students  
Northern Ireland Assembly  
Northern Ireland Public Service Alliance  
Oxfam  
Peter Hartley  
Public and Commercial Services Union  
Richard Huish College Students' Union  
Robin Manners  
Rosie Edwards  
Rural Shops Alliance  
Sanctuary Group  
Scottish Association of Master Bakers  
Scottish Government  
Scottish Grocers' Federation  
Scottish Licensed Trade Association  
Tesco Stores Ltd  
Trades Union Congress  
Union of Shop, Distributive and Allied Workers  
UNISON  
Unite  
United Kingdom Home Care Association  
Unquoted Companies Group

Welsh Assembly Government

White Horse Child Care Ltd

YWCA England and Wales

## Visits and Meetings

Agricultural Wages Board for England and Wales

Asda

Association of Convenience Stores

Association of Learning Providers

Association of Licensed Multiple Retailers

B&Q

Bank of England

Barry and Bobby Hair Design

Bear Care Ltd

Brambles Day Nursery

British Apparel & Textile Confederation

British Beer & Pub Association

British Beer & Pub Association Midland Counties

British Chambers of Commerce

British Hospitality Association

British Retail Consortium

British Youth Council

Business In Sport and Leisure

Central Council of Physical Recreation

Citizens Advice Northern Ireland

Cleaning and Support Services Association

Clive Hurst

Confederation of British Industry

Coray and Co Ltd

Croppers

Department for Employment and Learning Northern Ireland

Dundee & Angus Chamber of Commerce

Dundee City Council

Employers Forum on Age

English Community Care Association

Equality and Human Rights Commission

Federation of Small Businesses

Gangmasters Licensing Authority



Gateshead College  
Gems Northern Ireland Ltd  
GMB Northern Ireland  
GMB Yorkshire and North Derbyshire  
Gravesend Connexions Access Point  
Guild of Fine Foods  
Habia  
Her Majesty's Government  
Independent Retailers Confederation  
Irish Congress of Trade Unions  
J Barbour & Sons Ltd  
John Gerard Hair Design Ltd  
Kent Staff Services 2000 Ltd  
Learning and Skills Council  
Little Oaks Nursery  
Mack Multiples  
Madison Hosiery Ltd  
Mivan Limited  
National Care Forum  
National Day Nurseries Association  
National Farmers' Union (England and Wales)  
National Farmers' Union Scotland  
National Group on Homeworking  
National Hairdressers' Federation  
National Union of Journalists  
National Union of Rail, Maritime and Transport Workers  
Nottinghamshire Training Network  
Prince's Trust Cymru  
Prince's Trust East Midlands Region  
Prince's Trust London  
Prince's Trust North West  
Radcliff-on-Trent Day Nursery  
Registered Nursing Home Association  
Resource Group  
Rocking Horse Day Nursery  
Ruddington Day Nursery  
Rural Shops Alliance  
Scottish Agricultural Wages Board  
Scottish Government

Short Richardson & Forth LLP  
Sitel  
Soul Hair Salon  
St Elli Shopping Centre  
The Co-operative Group  
The Learning Tree Nursery & Kids Club  
Trades Union Congress  
UK Commission for Employment and Skills  
Ulster Farmers' Union  
Union of Shop, Distributive and Allied Workers  
Union of Shop, Distributive and Allied Workers North West Division  
Union of Shop, Distributive and Allied Workers Scottish Division  
Union of Shop, Distributive and Allied Workers South Wales and Western Division  
UNISON  
UNISON Cymru Wales  
UNISON Northern Ireland  
Unite  
Unite Northern Ireland  
United Kingdom Home Care Association  
Wales TUC Cymru  
Welsh Assembly Government  
YWCA England and Wales

# Low Pay Commission Research Reports

- 1** Since the introduction of the National Minimum Wage, much research effort has focused on establishing the possible effects on the hours and employment prospects of those workers affected by its introduction. A former Commissioner, Metcalf (2006 and 2007a), concluded in recent overviews of the research conducted to date, that the general consensus was that the overall effect on the level of employment in Britain was broadly neutral. Research on other aspects of the impact of the minimum wage on prices, profits and productivity has also generally concluded that the minimum wage has been benign. But most of the research findings so far have concentrated on the introduction of the minimum wage and its initial upratings.
- 2** As data have become available, we have taken the opportunity in the research programme for this Report to revisit the econometric research on the impact of the minimum wage in light of the recent large upratings (especially those from October 2003 to October 2006). We therefore commissioned three projects that looked at the impact of these upratings on employment, hours, earnings inequality, productivity, profits, and business start-ups and failures.
- 3** We also commissioned two other studies. One investigates whether the minimum wage has had an impact on staff turnover, retention and recruitment. An increase in wages might be expected to have a beneficial impact on these outcomes. The other research study continues the series of monitoring projects that we have commissioned since the outset of the Commission.
- 4** In addition to these five projects, we conducted our biennial Survey of Employers and followed this up by commissioning a small scale study of employers' attitudes to apprenticeships and how their decisions might change if the current apprentice exemptions were amended. The findings from the Survey of Employers are detailed in Appendix 3.

- 5** Forth, Harris, Rincon-Aznar and Robinson (2009) looked at the impact of the minimum wage on productivity, profits, and business start-ups and failures. Their research built on our previous commissioned research by Forth and O'Mahony (2003) and Galindo-Rueda and Pereira (2004) that looked at the impact on productivity at plant and sector level. They noted the work on profits by Draca, Machin and Van Reenen (2005), but adopted a different approach to identifying effects at the plant and sector levels. They also attempted to identify any impact of the minimum wage on firm entry and exit.
- 6** Their analysis showed that the bite of the minimum wage was relatively small, except in the most exposed sectors, where average hourly costs were clearly affected by the minimum wage. They found little evidence that the minimum wage and its upratings had affected productivity at the industry level, but there was some evidence that the minimum wage and its upratings led to an increase in unit labour costs.
- 7** There were some indications that the minimum wage may have reduced profits. They found a negative impact of the minimum wage on the rate of return on capital employed, but their findings on the price-cost margin, although negative, were not as robust and were not statistically significant. They also found some weak evidence that increases in the minimum wage had increased firm exit rates. They concluded that the industry-level analysis indicated a muted impact of the National Minimum Wage on business performance over the period 1999–2006, consistent with its rather modest impact on industry-level wage bills.
- 8** The plant-level analysis found that plants that were more likely to employ minimum wage workers experienced lower productivity and higher profitability. There is, however, a problem with the identification of minimum wage-affected plants, as information about the distribution of wages within a plant was not known, so estimates based on industry, size of firm and geography were used. These plant-level findings were less robust than the industry estimates, as the latter probably average out the volatility at the plant level.
- 9** Dickens, Riley and Wilkinson (2009) examined the employment effects of the 2003–2006 upratings to the minimum wage. The researchers built on previous work by Stewart (2002, 2003, 2004a and 2004b) and Dickens and Draca (2005) to investigate the impact on individual

employment transitions of the recent large upratings. They also developed the work by Connolly and Gregory (2002) and Stewart and Swaffield (2004) that investigated the impact on hours.

- 10** They found that the National Minimum Wage had led to strongest wage growth in the lower percentiles of the earnings distribution. Their analysis of job retention found mixed evidence for both men and women that the minimum wage had affected the probability of remaining employed. In some specifications for particular years, there was a negative relationship and in others a positive one. They did, however, find a generally negative impact of the minimum wage on job entry for women, but it was not robust and was not statistically significant. The evidence from the local area analysis also failed to find strong evidence of an adverse employment effect. They did find some weak evidence that increases in the minimum wage may have led to increases in unemployment.
- 11** They also found some tentative evidence that hours may have reduced in some years and in some specifications but, in general, these findings were not robust. For adult men, however, the 2001 and 2003 upratings were associated with a negative impact on basic hours, and this finding was reasonably consistent across model specifications. In conclusion, they could find no compelling evidence that the recent large minimum wage upratings had led to an adverse impact on employment, but some effects were detected on hours.
- 12** Dolton, Rosazza-Bondibene and Wadsworth (2009) built on earlier work by Stewart (2002), which pointed out how the minimum wage reaches further up the wage distribution in certain parts of the country than in others, and they used these variations to investigate the impact of the minimum wage on employment growth. They investigated how changes in the local area minimum wage incidence over the nine years of the minimum wage's existence were correlated with changes in local area performance. They mapped the extent to which the minimum wage affects local areas and investigated the correlation between the local incidence of the minimum wage and measures of local area economic performance other than employment, such as the extent of income inequality in the locality.

- 13** They found that areas where the minimum wage had greater effect were associated with a significant fall in wage inequality in the bottom half of the wage distribution. Although they found little impact of the minimum wage on employment over its entire operation, examination of yearly effects found a small but significant positive effect of the minimum wage since 2003. Like Dickens, Riley and Wilkinson (2009), however, they also found that areas where the minimum wage bite is greatest experienced higher unemployment, but noted that unemployment rates fell more in these areas in the latter part of the period under study.
- 14** Experian (2009) examined the impact of both the introduction of the minimum wage and subsequent increases in its level on staff turnover, retention and recruitment. The research focused in particular on the low-paying sectors identified in our 2007 Report, and built on previous studies that investigated the dynamics of individual responses to the minimum wage. It also analysed the impact of the minimum wage on vacancies.
- 15** The research found some evidence that the introduction of the minimum wage and the early upratings may have been associated with reduced search activity, both general and pay-related, among minimum wage workers. It found no evidence of any effects from the subsequent large upratings. The econometric analysis of hard-to-fill vacancy data suggested a number of statistically significant changes in reported recruitment problems coinciding with minimum wage upratings, but no clear pattern was established. Experian concluded that there was no evidence that the minimum wage has had any significant effect on job-to-job moves among low-paid workers, or on recruitment difficulties among their employers.
- 16** Allison, Bowring, Chubb, Hatchett, Mulkearn, Warberg, Wiggins and Withers (IDS, 2009) continued the monitoring work of the type we had commissioned for earlier reports. This IDS research was concerned with investigating recent developments in the low-paying sectors, paying particular attention to the impact of the 2007 upratings and the potential impact of the then future increase in October 2008.
- 17** They found that the minimum wage determined the lowest rate of pay in many low-paying sector organisations, particularly hotels and fast food outlets. The difference between the minimum wage and the established

rate had fallen sharply between 1999 and 2006 among their sampled firms; however, the smaller minimum wage increase in 2007 had led to a slight restoration in 2008, especially among retail firms. Similar findings arose for differentials within firms with the pay gap between established rates and supervisors widening in the last year or so.

- 18** They also continued to find that the use of age-related pay differed markedly between low-paying sectors. Most noticeably, firms in the retail sector generally paid the adult rate from 18 years of age (with some even paying it from age 16), whereas firms in the fast food and pubs sectors were making greater use of the minimum wage age-related pay bands. And many of them did not pay the adult rate until 22 years of age.
- 19** Cox, Denvir and Pearmain (IES, 2009) carried out a qualitative study of a small sample of employers to explore in detail their perspectives on apprenticeships. The investigation explored why employers take on apprentices; what determines current pay practices; how the current exemptions influence the employment of apprentices; and likely impacts of various changes to the exemptions.
- 20** They found that most apprentices do a mix of on-the-job and off-the-job training, with the latter typically limited to one day a week or less. On Commission visits around the UK, we regularly met employers, particularly hairdressers, who were not enamoured by the quality of college-based provision. The survey also found some employers supporting this view.
- 21** Apprentice pay rates varied across sectors but reflected typical economic influences such as the need to recruit and retain good quality trainees, pay in the local labour market, the pay of other staff, and inflation. But the use of the minimum wage apprentice exemption was widespread. Among those who currently employed apprentices, there was little appetite for the exemptions to be abolished or amended. There was a general view that pay should not be based on age and that a minimum apprentice rate, in line with current contractual arrangements in England (£80 a week rising to £95 in August 2009), was reasonable.

Table A2.1 Low Pay Commission Research Projects for the 2009 Report

Project Title and Researchers	Aims and Methodology	Key Findings and Results
<p><b>The Impact of Recent Upratings of the National Minimum Wage on Competitiveness, Business Performance and Sector Dynamics</b></p> <p>John Forth, Ana Rincon-Aznar, Catherine Robinson (National Institute of Economic and Social Research, NIESR) and Richard Harris (University of Glasgow)</p>	<p>This research considered the variety of impacts that recent upratings to the minimum wage have had on plant and sector competitiveness, dynamics and performance. It built on our previous commissioned research by Forth and O'Mahony (2003) and Galindo-Rueda and Pereira (2004) by first incorporating measures of profitability and entry and exit, then extending the analysis to plant level.</p> <p>The authors compiled a sectoral panel of 157 industries with measures of labour productivity, unit labour costs, profitability, and entry and exit for the period from 1999 to 2006. They used workers affected and the impact on wage bills to assess the impact of the minimum wage. Using difference-in-difference regression analysis, they investigated the impact of the minimum wage on wage costs, profits and productivity.</p> <p>Using information from the Annual Respondents Database, they also compiled a panel of plants for the period from 1999 to 2005. They proxied minimum wage exposure using industry, region, age, size and average wage of each plant. They then investigated using Ordinary Least Squares and difference-in-difference methods whether this measure had an impact on plant level productivity, profitability and closure.</p> <p>They concluded by attempting to bring together the results from the plant and sector data.</p>	<p>The researchers found that, in terms of the wage bill and the fraction of workers covered, the introduction of the minimum wage was considerable only in the most exposed sectors such as hairdressing and cleaning. In these sectors, they identified an impact of the minimum wage on average hourly wage costs. They also found that the impact of the most recent upratings (2004–2007) was greater than after introduction (2000–2003).</p> <p>Their industry-level models indicated that the minimum wage and its upratings led to an increase in unit labour costs, but found little evidence of an impact on productivity, profitability or sectoral dynamics. There were some indications of an effect of the minimum wage, most notably on profit (negative) and firm exit rates (positive). But the body of evidence was weak as a whole, even on those measures, as the results were not robust across different specifications and samples.</p> <p>At the plant level, their findings suggested that the prevalence of the minimum wage was associated with negative productivity in some industries, positive profitability in selected industries and a mixture of probability of closure, depending on the size of the plant.</p> <p>They noted that the diversity within and between industries, in terms of their experience in relation to the minimum wage, made it difficult to tell a cohesive story and that their results may also have reflected the difficulty in fully identifying the impact of the minimum wage in these data.</p> <p>In conclusion, their findings provide no strong evidence that the minimum wage upratings have adversely affected business performance.</p>
<p><b>The Employment and Hours of Work Effects of the Changing National Minimum Wage</b></p> <p>Richard Dickens (Centre for Economic Performance, London School of Economics and University of Sussex), Rebecca Riley and David Wilkinson (National Institute of Economic and Social Research, NIESR)</p>	<p>Much research has examined the employment impacts of the introduction of the National Minimum Wage in 1999 and its initial upratings. The general conclusion that has emerged is that there was limited, if any, adverse impact of the minimum wage on employment in the first few years following its introduction. Since then, in 2001 and over the period 2003–2006, the minimum wage has risen substantially in excess of the growth in average earnings.</p> <p>This study investigated the impacts of minimum wage rises on employment and hours of work, in the period 2001–2007.</p> <p>The analysis used individual Labour Force Survey (LFS) and Annual Survey of Hours and Earnings (ASHE) data together with information on local areas. They used a combination of difference-in-difference methodology and single difference models.</p> <p>The focus of their analysis was threefold:</p> <ul style="list-style-type: none"> <li>• they investigated changes in wages as a response to increases in the minimum wage;</li> <li>• they analysed employment to determine whether changes in the rates influenced individual job retention and job entry, local area employment and unemployment rates; and</li> <li>• they explored hours worked to see if employers changed hours worked as a response to changes in the minimum wage.</li> </ul>	<p>They found that, in most years, the strongest wage growth was at the bottom of the wage distribution for those directly affected by increases in the minimum wage. In 2002, the only year when the uprating was below the increase in average earnings, wage growth at the bottom of the distribution was lower than higher up.</p> <p>They found that the evidence on employment was mixed. Their estimates of the impact on job retention varied. They differed by gender, year, choice of comparison group and data source. The LFS analysis produced some evidence that the minimum wage upratings had a negative impact on job retention for adult women, but there was no systematic pattern. For adult men some evidence of a negative effect was found, but again most results were not statistically significant. The significant results tended to coincide with the larger upratings in 2001 and 2003. There was no strong consistent evidence of a negative impact on job entry.</p> <p>Their local area analysis also failed to find strong evidence of effects on employment from the increases in the minimum wage. The analysis using ASHE data produced inconclusive results that the researchers found difficult to interpret.</p> <p>Their analysis of the LFS data produced little evidence of a consistent impact on either basic or total hours of work from the minimum wage upratings. For men, however, there was robust evidence that the large upratings in 2001 and 2003 had led to a reduction in basic hours. This finding was less robust for women. Local area analysis found no evidence of adverse hours effects.</p> <p>They concluded that overall there is no compelling evidence to indicate that the large minimum wage upratings had an adverse effect on employment, but some hours effects were detected.</p>



Project Title and Researchers	Aims and Methodology	Key Findings and Results
<p><b>The Geography of the National Minimum Wage Pay</b></p> <p>Peter Dolton, Chiara Rosazza-Bondibene and Jonathan Wadsworth (Royal Holloway, University of London)</p>	<p>This research builds on earlier work by Stewart (2002) that looked at the impact of the minimum wage using geographic wage variation.</p> <p>They used the Annual Population Survey (APS), the LFS and ASHE to identify the impact of the minimum wage on local area economic performance, including employment and the extent of wage inequality.</p> <p>They mapped local area performance and the incidence of minimum wage employment. They used difference-in-difference techniques to investigate this issue thoroughly.</p> <p>In the context of the regional wage debate, they also investigated the extent of within and between-region variation.</p>	<p>The minimum wage appeared to be associated with a significant fall in wage inequality in the bottom half of the distribution. Areas where the minimum wage ‘bites’ more (those areas where pay was lowest) have experienced larger declines in the 50<sup>th</sup>–5<sup>th</sup> and 50<sup>th</sup>–10<sup>th</sup> percentile wage ratios than elsewhere.</p> <p>They found that the overall effects of the introduction of the minimum wage on employment rates over its nine-year existence were neutral. But, examining each year separately, they found a small but significant positive effect on employment in the period beginning in 2003.</p> <p>Unlike employment, there was some evidence of a significant association between unemployment and the minimum wage. They found that areas where the minimum wage had more bite appeared to have experienced higher unemployment, averaged over the entire period.</p> <p>This overall average positive effect, however, disguised significant negative effects in later years. Any upward association between the minimum wage and the unemployment rate was confined to the earliest years of the National Minimum Wage. Thereafter, unemployment rates appeared to fall further in areas more affected by the minimum wage.</p>
<p><b>Impact of the National Minimum Wage on Staff Turnover, Retention and Recruitment</b></p> <p>Tim Lyne and Eric McVittie (Experian)</p>	<p>Experian attempted to assess the impact of the National Minimum Wage on labour retention and turnover, and firms’ ability to recruit into lower paid occupations. It investigated how the National Minimum Wage affected labour market dynamics among low-paid workers and within low-paying sectors.</p> <p>It explored the impact on retention and turnover from the employee’s perspective using the LFS and on recruitment from the employer’s perspective using the LSC National Employers Skills Survey (NESS).</p> <p>Using the LFS, it analysed changes in job search activity and job quit rates among low-paid workers.</p> <p>Using the NESS, it examined recruitment issues by looking at vacancies and hard-to-fill vacancies among employers of low-paid workers.</p> <p>Experian compared behaviour before and after the introduction of the National Minimum Wage and the subsequent upratings using measures of the bite in difference-in-difference regressions.</p> <p>It estimated separate regressions to informally check that any significant effects were related to changes in the National Minimum Wage rather than to other factors.</p>	<p>It found some evidence that the introduction of the National Minimum Wage and early upratings may have been associated with reduced search activity (particularly pay-related search activity) among minimum wage workers. There is, however, no evidence of effects from subsequent upratings. The research tentatively suggested that this may be due to the earlier National Minimum Wage upratings, over the 1998–2004 period, having had a more profound effect than in later years, compressing the bottom tail of the wage distribution in a way that might be expected to result in reduced search and turnover.</p> <p>The data used to investigate recruitment difficulties did not provide a reliable way to identify employers of low-paid workers and thus to allocate individual employers to treatment and control groups. Results from this analysis were therefore very tentative. It found that the econometric analysis suggested a number of statistically significant changes in reported recruitment problems coinciding with minimum wage upratings, but the research was unable to detect a clear pattern of these effects in terms of either timing or the occupations involved that could sensibly link them to changes in the National Minimum Wage.</p> <p>The research concluded that there was no evidence that the minimum wage has had any significant effect on job-to-job moves among low-paid workers, or on recruitment difficulties among employers.</p>

Project Title and Researchers	Aims and Methodology	Key Findings and Results
<p><b>Monitoring the Impact of the National Minimum Wage</b></p> <p>Nicola Allison, Angela Bowring, Catherine Chubb, Alastair Hatchett, Ken Mulkearn, Anna Warberg, Lois Wiggins, and Louisa Withers (Incomes Data Services)</p>	<p>Incomes Data Services (IDS) monitored the impact of the National Minimum Wage, focusing on employers' responses to the October 2007 increases. It also looked at employers' likely responses to the then forthcoming October 2008 increases. The research was carried out in the 12 months prior to August 2008 and builds on similar work conducted by IDS for previous Low Pay Commission reports.</p> <p>The research encompassed:</p> <ul style="list-style-type: none"> <li>• surveys of low-paying sectors – postal surveys of social care, childcare, hotels and leisure; and telephone surveys of retail and fast food firms, pubs and restaurants;</li> <li>• discussions with HR managers in these sectors;</li> <li>• analysis of previous IDS Pay Reports to construct a panel of lowest rates of pay across all sectors and pay rates for apprentices; and</li> <li>• identifying which organisations were affected by the increase in statutory leave in October 2007 as part of the study on hours and holidays that IDS had undertaken independently.</li> </ul> <p>IDS aimed to have broad coverage of the low-paying sectors. It achieved a reasonably good coverage of large firms, while its coverage of small firms was relatively weaker.</p>	<p>Across 202 organisations within the low-paying sectors covered by this report, around half had to raise rates in order to comply with the National Minimum Wage upratings in October 2007.</p> <p>Among organisations in the childcare, social care, leisure, fast food and hotels sectors, nearly 40 per cent had to raise pay rates further up the pay scale to restore pay differentials.</p> <p>Almost a third of respondents used age-related pay (the use of the three minimum wage rates or a variant thereof). The structures of age-related pay and their use varied across sectors. In retail the trend away from age-related pay continued, while in fast food age-related pay had become more widespread, typically with adult rates for employees aged 22 and over.</p> <p>In many sectors there was less of an impact from the minimum wage upratings in October 2007 than in 2006 (due to the lower increase in the minimum wage of 3.2 per cent in 2007, compared with 5.9 per cent in 2006).</p> <p>The average pay differential between the established adult rate and the minimum wage for a panel of major companies had fallen from 14.6 per cent to 4.8 per cent between 1999 and 2007, although there was a small reversal in the latest year.</p> <p>In the fast food sector there was some evidence that the upratings of the minimum wage had led to a reduction in hours worked. However, in childcare, a smaller proportion of respondents reported a knock-on effect on staffing or hours than in the previous year's survey.</p>
<p><b>LPC 2008 Survey of Employers: Apprentice Exemptions</b></p> <p>Annette Cox, Ann Denvir and Daniel Pearmain (Institute for Employment Studies)</p>	<p>The Institute for Employment Studies (IES) carried out a qualitative study of a small sample of employers to explore in detail their perspectives on apprenticeships. The aim was to gather views on issues such as: reasons for participation; current pay practices; the impact of the exemptions on employing apprentices; and likely impacts of various changes to the exemptions.</p> <p>IES carried out 40 telephone interviews with 28 employers of apprentices and 12 employers that did not employ apprentices, across a range of firm sizes, regions and low-paying sectors. The sample was drawn from employers who had taken part in the 2008 Survey of Employers (see Appendix 3) who actively consented to be contacted for further research on the issue of apprentices.</p> <p>The self-selected nature of this sample of employers, the self-reported data captured during interview and the limitations of both should be borne in mind when assessing their conclusions.</p>	<p>They found that good apprentices were perceived as valuable assets and that there was broad satisfaction with their performance, especially in their third or final years when their contribution to organisational performance and profitability increased.</p> <p>They found that a mixed model of training provision was prevalent – typically on-the-job, which was perceived to be of great importance, with limited release for off-the-job training with external providers. A small number of employers were critical of those with college-only training.</p> <p>There was diversity in apprentice pay and the influences on pay levels included: current rates for other employees; rates in the local labour market for apprentice and non-apprentice positions; the need to attract and retain good quality apprentices; the importance of rewarding performance; and the cost of living.</p> <p>They found that the use of apprentice exemptions was widespread but that there were mixed views on proposed changes to these exemptions. In general, they found:</p> <ul style="list-style-type: none"> <li>• widespread support for the introduction of a statutory basis for existing contractual arrangements in England, subject to certain flexibilities and limitations;</li> <li>• little support for exemptions to be abolished and age-related minimum wage rates to be applied;</li> <li>• greater acceptance of qualification level or performance than age as useful criteria for setting apprentice pay levels; and</li> <li>• employers without apprentices generally favoured either a separate rate or a statutory basis for the existing contractual arrangements to provide fairness while still promoting apprenticeships.</li> </ul>

## Future Research

22 We have commissioned the following projects to inform the recommendations in our next report.

- **Investigating the Impact of the Minimum Wage Regime on the Labour Market Behaviour of Young People.** Augustin De Coulon, Harry Eckman, Megan Farquharson Roberts, Elena Meschi (Institute of Education), Anna Vignoles (London School of Economics) and Jonathan Wadsworth (Royal Holloway).
- **Investigating the Impact of the Minimum Wage Regime on the Labour Market Behaviour of Young Workers: Moving Towards a Structural Dynamic Approach.** Haroon Chowdry, Alissa Goodman, Costas Meghir and Jonathan Shaw (Institute of Fiscal Studies).
- **The Impact on Employment of the Age-Related Increases in the National Minimum Wage.** Richard Dickens (University of Sussex), Rebecca Riley and David Wilkinson (National Institute of Economic and Social Research).
- **Connecting and Informing Through Qualitative Research: Examining Apprentice Pay Rates Across the UK.** Dalia Ben-Galim, Tony Dolphin, Lucia Durante, Kayte Lawton and Naomi Pollard (Institute for Public Policy Research).
- **Monitoring the Impact of the 2008 National Minimum Wage Upratings (and the Anticipated Impact of Any 2009 Upratings).** Nicola Allison, Angela Bowring, Alastair Hatchett, Simone Melis, Ken Mulkearn, Anna Warberg, Lois Wiggins and Louisa Withers (Incomes Data Services).
- **Taxes, Benefits and the National Minimum Wage.** Mike Brewer and David Phillips (Institute of Fiscal Studies).
- **Spill-over Effects of the National Minimum Wage.** Mark Stewart (University of Warwick).



## Appendix 3

# Low Pay Commission Survey of Employers

- 1** For this report we conducted a survey of employers in low-paying sectors to examine the impact of the October 2007 upratings of the National Minimum Wage and how businesses had responded and coped with the minimum wage in general. We conducted similar employer surveys for previous reports. The results complement the information we obtained from our research programme, written and oral evidence, and our analysis of official and other statistics. We consider here the key findings of the survey, including the impact of the upratings on wage bills and differentials, staffing, productivity, prices and profits. We also look at other issues, such as the pay of young people and apprentices and annual leave entitlement. The survey questionnaire can be found at the end of this Appendix.
- 2** As with earlier surveys, we targeted the main low-paying sectors as identified by our analysis of the Annual Survey of Hours and Earnings (ASHE). As set out in Chapter 3, they are the sectors most likely to be affected by the minimum wage. Table A3.1 sets out the relevant eleven sectors, along with their Standard Industrial Classification (SIC) codes.
- 3** Following a competitive bidding process, we commissioned GfK NOP to undertake the administration of the survey on our behalf. This research company also carried out the survey in 2006 for our 2007 Report. A random sample of firms in the low-paying sectors was selected from the Dun and Bradstreet business database, stratified (i.e. proportionally split) by firm size, sector and region. Smaller strata (large firms, Scotland, Wales, Northern Ireland, and smaller sectors) were over-sampled to allow separate analysis. Over 35,700 postal questionnaires were distributed to employers at the end of June 2008. We received 2,787 responses, although a number were unusable as they lacked information or had no current employees. There were 2,403 valid replies, which gave a response rate of 7 per cent. This was 6 percentage points lower than

the response rate achieved in our 2006 survey and 3 percentage points lower than in 2004. As a consequence, the survey is less robust than in previous years and is likely to be less representative of the firms we are interested in. We are very grateful to those businesses that took the time to complete and return the questionnaire.

- 4 Table A3.1 contains the response rates by sector, showing that the highest rate of response was in the childcare sector, as in previous years, followed by security, social care and food processing. The lowest response rate was from hairdressing firms (3 per cent), indicating that conclusions about this sector should be drawn with particular caution. The response rates were similar across all countries and rough indications suggest there was limited variation by firm size.<sup>1</sup>

**Table A3.1 Responses to the Survey, 2008**

Sector	SIC Code(s)	Number of responses	Response rate (per cent)
Agriculture	01, 02, 05	173	6
Childcare	85.31, 85.11/3 (childcare only)	135	11
Cleaning	74.7, 93.01	131	6
Food processing	15.1-15.8	164	9
Hairdressing	93.02, 93.04	90	3
Hospitality	55	284	6
Leisure	92.13, 92.3, 92.6, 92.7	247	6
Retail	50, 52	621	7
Security	74.6	94	10
Social care	85.31, 85.11/3 (exc. childcare)	291	9
Textiles	17, 18	173	7
<b>All sectors</b>		<b>2,403</b>	<b>7</b>

Note: Childcare is not specifically identified within UK SIC 2003. The childcare sector firms were identified by examining the business description of social care firms in the Dun and Bradstreet database.

- 5 It seems likely that those affected by the minimum wage were more likely to respond to the survey than those not affected. The survey results are, therefore, not representative of low-paying sectors as a whole (nor because of the targeted sectors approach are they representative of the economy as a whole). This hypothesis was tested for our Fourth Report (LPC, 2003) using a follow-up telephone survey, which found a significant reduction in the proportion of affected firms compared with the main postal survey. Quantifying this bias is far from

<sup>1</sup> Note that precise response rates by employer size are not available as the number of employees was unknown for some cases before the questionnaires were returned.

straightforward and we have therefore not attempted to correct for it, but we have drawn conclusions from the survey with caution. As in previous years, results are not weighted to represent all employers in the economy. Nevertheless, they do still provide valuable information on how those most affected responded to the National Minimum Wage over the years and enable comparisons to be drawn across sectors and employer size.

- 6** Table A3.2 illustrates the distribution of responding firms in each sector by size, which was similar to our 2006 survey. Of all respondents, 71 per cent were small firms (1 to 49 employees) and 22 per cent were medium-sized firms (50 to 249 employees). These proportions were in line with the distribution of the original sample and compare reasonably well with the overall distribution of all UK enterprises, albeit with higher proportions of medium-sized and large firms (250 or more employees) to allow for analysis by employer size. There was a noticeably higher proportion of responses from small firms in the hairdressing and childcare sectors (98 and 90 per cent respectively). The cleaning and food processing sector responses contained the largest proportions (13 and 14 per cent respectively) of large firms.

**Table A3.2** Size Distribution of Responding Firms, by Sector, 2008

Per cent	Small	Medium	Large
Agriculture	81	16	3
Childcare	90	7	3
Cleaning	59	28	13
Food processing	55	31	14
Hairdressing	98	1	1
Hospitality	61	31	8
Leisure	74	20	7
Retail	69	22	9
Security	69	27	4
Social care	67	26	6
Textiles	79	18	4
<b>All sectors</b>	<b>71</b>	<b>22</b>	<b>7</b>

Note: The base is all firms that provided employee numbers (all except 11 firms). Row sums may not sum to 100 per cent because of rounding.

- 7 Despite the much lower response rate, Table A3.3 shows that the respondents employed nearly 280,000 members of staff in total, which was only around 5,000 fewer than the number of employees covered in our 2006 survey. This reflects the fact that the median number of employees in firms across all sectors was slightly higher than in previous years at 21. Although firms were slightly larger in general, they were still relatively small. The sectoral distribution was similar to the distribution of employee jobs in the low-paying sectors as a whole (based on Office for National Statistics employee jobs series, September 2008). There were smaller proportions of employees covered in the retail and hospitality sectors and greater proportions in food processing and cleaning because of the over-sampling of small sectors mentioned above. In line with the distribution in Table A3.2, the food processing sector had the highest median number of employees per firm with 45 and hairdressing had the lowest with just 5 employees.

**Table A3.3** Number of Employees in the Responding Firms, 2008

Sector	Total number of employees	Median number of employees per firm
Agriculture	6,375	12
Childcare	5,171	16
Cleaning	27,017	28
Food processing	27,005	45
Hairdressing	1,205	5
Hospitality	44,734	33
Leisure	23,571	14
Retail	85,736	24
Security	8,155	28
Social care	40,546	27
Textiles	7,342	17
<b>All sectors</b>	<b>276,857</b>	<b>21</b>

Note: The base is all firms that provided employee numbers (all except 11 firms).

- 8 Overall, 54 per cent of employees working for the respondents were female. As expected, however, the proportion varied considerably across the sectors. Childcare and hairdressing contained the highest proportions of female workers at around 80 per cent, with security containing the lowest at 9 per cent. The firms in our survey also employed disproportionate numbers of young people. The total proportions of 16–17 and 18–21 year olds employed by the respondents were 4 per cent and 13 per cent respectively. The proportion of 16–17

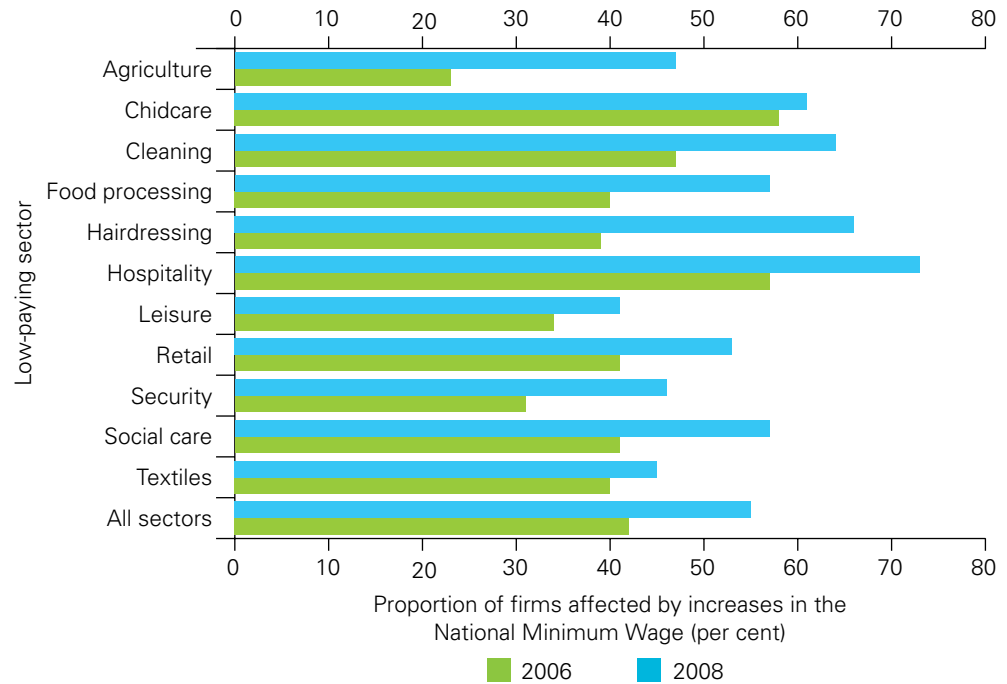


year olds in the hairdressing sector was 16 per cent, which was at least 10 percentage points higher than in any other sector.

## Impact

- 9 Overall, 55 per cent of responding firms stated that the October 2007 National Minimum Wage upratings had affected their business in some way. This result was 13 percentage points higher than in 2006, which was surprising given that the increase in the adult National Minimum Wage was lower at 3.2 per cent compared with the 4.1 per cent rise in October 2005. The proportion of affected firms was also higher than reported in our 2002 and 2004 surveys, both of which investigated the impacts from even larger upratings.
- 10 Figure A3.1 illustrates that the proportions affected by the increases were higher than in 2006 for every sector. Hospitality, cleaning and childcare remain in the top four affected sectors; however, the proportion of hairdressing firms affected increased significantly from 39 per cent in 2006 to 66 per cent in 2008, the second highest rate. The sector with the lowest proportion of affected firms in 2008 was leisure. As in previous years, the proportion of firms affected increased with employer size, from 50 per cent of small firms to 72 per cent of large firms. This was in contrast to official statistics, which likely results from the self-selective nature of our survey and the types of firms we expected to respond.
- 11 It may be that the current economic climate led more employers to perceive an effect from the National Minimum Wage even though their business may have been affected by other factors. As already stated the results from our survey are highly likely to overstate the effect on business from the rise in the minimum wage.

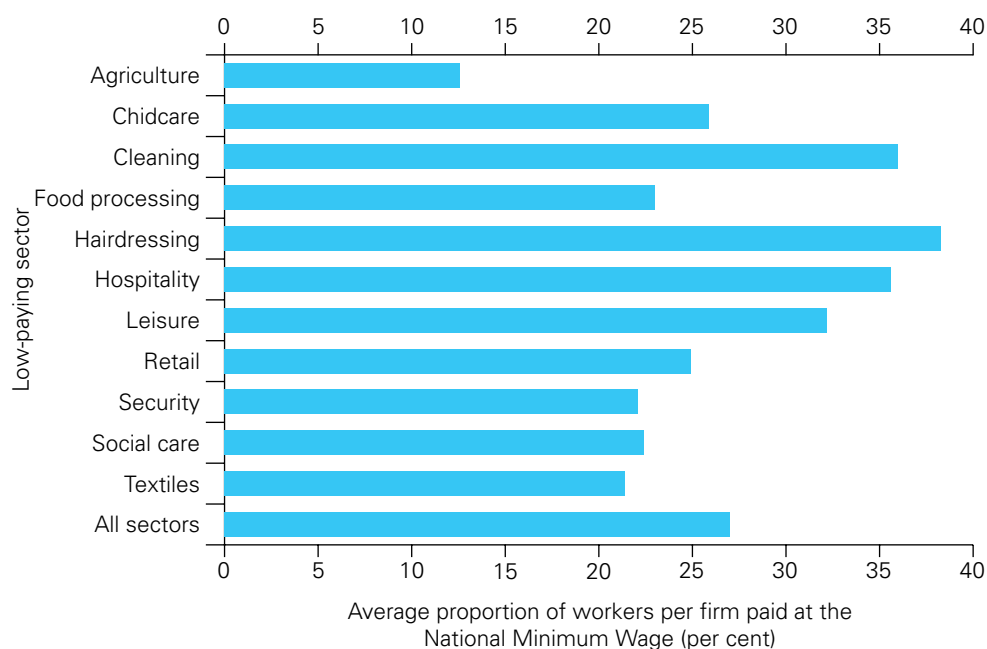
**Figure A3.1** Proportion of Firms Affected by Increases in the National Minimum Wage, 2006 and 2008



Note: The base is all firms that responded to the question (all except 5 firms).

**12** Across all sectors, the average proportion of firms’ workers paid at the National Minimum Wage was 27 per cent. Figure A3.2 shows that hairdressing had the highest average proportion at 38 per cent, with cleaning, hospitality and leisure all recording greater than 30 per cent. These four sectors were also among those identified by the 2008 ASHE data with the largest proportion of workers paid at or below the National Minimum Wage. Although the leisure sector had one of the highest proportions of workers paid at the National Minimum Wage, it had the lowest proportion of firms affected by the October 2007 increases in the minimum wage in our survey. Medium-sized firms responding to our survey had the smallest proportion of workers paid at the National Minimum Wage: 22 per cent compared with 28 and 31 per cent of workers in small and large firms respectively. Again, this was in contrast to official statistics, which showed that large firms employ fewer minimum wage workers.

**Figure A3.2** Average Proportion of Workers per Firm Paid At the National Minimum Wage, 2008



Note: The base is all firms that responded to the question (55 per cent).

## Total Wage Bill

- 13** The majority of respondents (55 per cent) reported that the October 2007 minimum wage upratings led to an increase in their total pay bill of less than 4 per cent. This result was less pronounced than the 2006 survey, when 56 per cent reported an increase of more than 5 per cent. This change was likely to reflect the smaller percentage upratings in October 2007 compared with October 2005.
- 14** The effects on the pay bill varied by sector. Within the childcare sector, which was the most affected sector, around 40 per cent of firms reported an increase of at least 4 per cent. Agricultural sector firms were most likely to report no change, mirroring their position as those employing the smallest proportion of staff paid at the National Minimum Wage. Wages for skilled and unskilled labour in agriculture are regulated by the Agricultural Wages Board (AWB), which uses the National Minimum Wage as the base for the least-skilled workers, giving a plausible reason why employers in this sector attributed less of an effect to the minimum wage.

- 15** There was a small variation in the effects on firms' total pay bills across size of firm. Large employers had the highest proportion of firms reporting an increase (88 per cent); however, the majority of these reported an increase of less than 4 per cent.
- 16** The overall impact on a firm's wage bill as a result of the rate increases could be caused by a number of different interacting factors. To investigate this, our survey examined: why pay rates increased; whether differentials were affected; and whether staffing practices changed (i.e. changes in the number of employees, number of hours worked or additional payments).

## Reasons for Pay Increases

- 17** Of all the respondents that increased the pay rates of staff as a result of the October 2007 increases in the National Minimum Wage, 47 per cent did so to comply with the new rates (see Table A3.4). Over half of respondents in the childcare, cleaning, hairdressing, hospitality and leisure sectors reported that they increased rates to comply. These sectors were those with the highest proportion of workers paid at the National Minimum Wage and were roughly in line with those with the highest incidence of firms affected by the increase. Overall, the proportion was lower than in 2006, when around three-quarters of firms in these sectors reported compliance as the reason for increasing pay rates.
- 18** The second most likely reason for increasing rates was to maintain pay differentials for higher grade staff (20 per cent of all respondents). This was followed by maintaining the lowest pay rate and maintaining pay differentials within the same grade (18 and 15 per cent respectively). In 2006 the proportions were all higher at 30 per cent, 42 per cent and 40 per cent respectively. Childcare had the highest proportional response for these three questions in both surveys. Agriculture reported low responses for all reasons, again likely to be due to the AWB, which was listed as an 'other reason' on some returned questionnaires.

**Table A3.4** Reasons for Increasing Pay Rates as a Result of the October 2007 Increases in the National Minimum Wage, 2008

Per cent	To comply with the new NMW rates	To maintain pay differentials for higher-grade staff	To maintain the lowest pay rate above the NMW	To maintain pay differentials within the same grade	Other reasons
Agriculture	28	6	9	10	6
Childcare	52	37	27	24	2
Cleaning	54	19	20	17	2
Food processing	40	22	21	12	5
Hairdressing	56	10	7	8	3
Hospitality	61	24	16	16	2
Leisure	52	18	15	9	3
Retail	45	18	19	15	4
Security	40	9	21	19	0
Social care	37	27	20	23	5
Textiles	40	21	17	14	8
<b>All sectors</b>	<b>47</b>	<b>20</b>	<b>18</b>	<b>15</b>	<b>4</b>

Note: The base is all firms that were affected by the National Minimum Wage increases in any way. Respondents were able to give any number of answers, therefore rows do not necessarily sum to 100 per cent.

**19** Large employers in our survey were noticeably the most likely to increase rates to comply with the upratings (two-thirds of respondents affected in any way by the October 2007 increases). Large firms also had the highest proportion of workers paid at the minimum wage. Small employers affected by the October 2007 increases were least likely to report any of the reasons offered in the questionnaire as the cause of increased rates.

## Differentials

**20** There was a very low response (only 28 firms) to the question requesting the lowest and highest hourly pay rates that firms increased to maintain pay differentials as a result of the October 2007 increases. The average rates that were increased ranged from around £5.50 for the lowest to nearly £7.00 for the highest. This result tentatively showed that the impact of the upratings did not extend too far up the pay scale. Official data support this conclusion, given that the difference between the increase in hourly earnings and the increase in median earnings was positive up to around the 25<sup>th</sup> to 30<sup>th</sup> percentile (see Chapter 2). As we would expect, the most common lowest rate that was increased was the adult minimum wage at £5.52 and all lowest rates reported were above the 16–17 Year Old Rate.

## Staffing Practices

- 21** As a result of the October 2007 increases in the National Minimum Wage, Table A3.5 shows that the most common change made by affected firms was to reduce overall staffing levels. This was reported by 29 per cent of firms, which compared with 34 per cent in 2006. Equal proportions of firms reported reductions in basic and overtime hours (23 per cent), again both slightly lower than in 2006. A reduction in 'other payments' such as overtime rates, incentives, bonuses, commission and tips was the least likely change, involving only 12 per cent of affected firms. Few firms reported increasing numbers of staff, hours or payments, but around 3 per cent of firms increased 'other payments'.
- 22** Hospitality was the sector most likely to reduce levels of all aspects covered by our survey, the most common being a reduction in overall staffing levels, as reported by 40 per cent of hospitality firms. This sector was followed by hairdressing and retail, which were more likely than the other sectors to reduce both staff levels and basic hours. Firms in the leisure sector stood out as by far the least likely to decrease 'other payments'. There was little variation by size of firm, although large firms were least likely to decrease any of the listed staffing practices.

**Table A3.5** Changes Made as a Result of the October 2007 Increases in the National Minimum Wage, 2008

Per cent	Overall staffing levels	Basic hours	Overtime hours	Other payments	Non-wage benefits
<b>Decrease</b>					
Agriculture	15	9	18	9	
Childcare	28	21	24	11	
Cleaning	25	23	21	10	
Food processing	28	17	28	10	
Hairdressing	39	27	12	16	
Hospitality	40	38	36	17	
Leisure	20	21	17	4	
Retail	35	27	25	14	
Security	18	9	6	12	
Social care	15	14	13	8	
Textiles	30	18	32	9	
<b>All sectors</b>	<b>29</b>	<b>23</b>	<b>23</b>	<b>12</b>	<b>6</b>
<b>Increase</b>					
<b>All sectors</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>3</b>	<b>1</b>

Note: The base is all firms affected by the October 2007 increases in the National Minimum Wage and that responded to each question (around 47 per cent). Other payments described as 'overtime rates/ incentive payments/ bonuses/ commission/ tips etc.'; non-wage benefits examples given were meal vouchers and paid breaks.

## Benefits

**23** Overall, 85 per cent of respondents reported that the October 2007 increases in the National Minimum Wage did not lead to any benefits for their business. The most common benefit, reported by 11 per cent of affected firms, was higher staff motivation, followed by lower staff turnover (9 per cent) and faster filling of vacancies (6 per cent). This pattern was also seen in 2006, albeit with a slightly higher incidence of perceived benefits. Only 3 per cent of firms reported that a lower level of sick leave had been a benefit to any degree. Wherever a benefit was recorded, the vast majority were described as 'slight' as opposed to 'significant'. The distribution of benefits did not vary greatly by size of firm.

- 24** The proportion of firms reporting benefits varied by sector. As in our 2006 survey, cleaning and security contained the highest proportions of firms benefiting from lower staff turnover (18 and 15 per cent respectively). Again, mirroring 2006, hairdressing firms were most likely to acknowledge higher staff motivation. This was presumably a result of the high proportion of workers paid at the minimum wage and hence receiving the largest pay rise from the upratings. The social care sector was noticeably more likely to see vacancies being filled faster; 12 per cent of social care firms reported this benefit.

## Productivity, Prices and Profits

- 25** Table A3.6 contains the most significant impacts on business as a result of the October 2007 increases in the National Minimum Wage. It identifies that the greatest change was reduced profits, as experienced by 65 per cent of firms. This was down from 78 per cent in 2006. An increase in prices was the second most likely impact (47 per cent of all firms). To a lesser extent, firms reported increases in measures to control labour and non-labour costs and increases in the use of new technology or processes, products or services, and unskilled or unqualified labour.
- 26** The most significant results across sectors were the following.
- Three-quarters of hairdressing businesses saw a decrease in profits.
  - Of the firms providing childcare, similarly high proportions experienced decreased profits and increased prices (around 70 per cent).
  - Firms in the hospitality sector were most likely to take additional measures to control increased labour and non-labour costs.
  - Food processing had the highest incidence of increased use of new technology or processes.
  - Hairdressing and hospitality had the largest proportions of firms enhancing their use of new products or services.
  - Hairdressing was by far the least likely to increase the use of unskilled or unqualified labour.
  - The agricultural sector stood out as least likely to see a fall in profits, an increase in prices, or increased measures to control non-labour costs – most likely as a result of the AWB.



**27** There was less variation by firm size than recorded in the 2006 survey; however within the 2008 results:

- a significantly smaller proportion of large firms saw a decrease in profits;
- a less significant proportion of small firms reported increasing measures to control labour costs; and
- a noticeably higher proportion of large firms reported increasing the use of new technology or processes.

**Table A3.6** Changes to Business as a Result of the October 2007 Increases in the National Minimum Wage, 2008

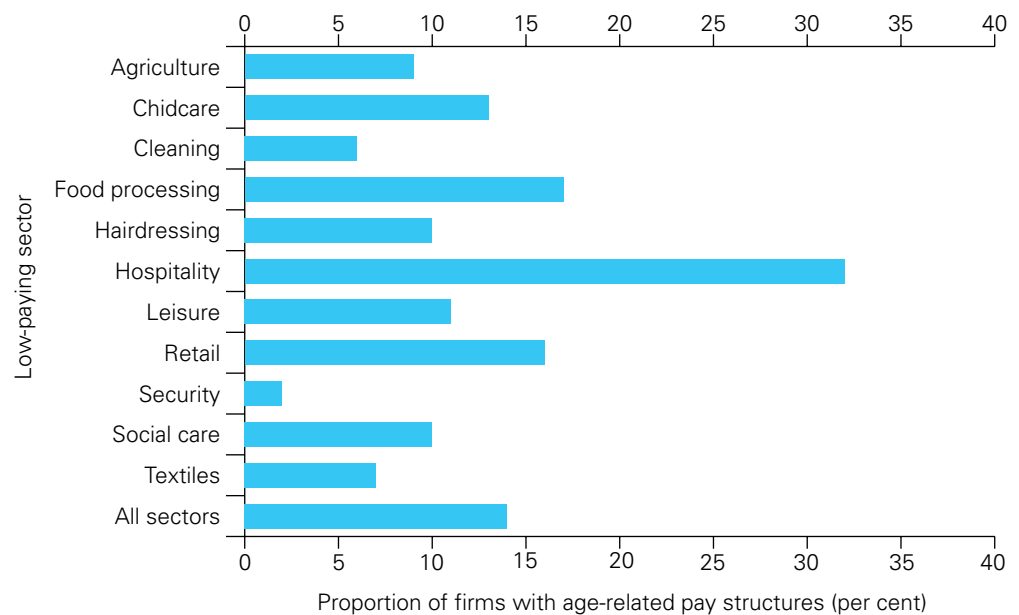
Per cent	Decrease in profits	Increase in prices	Increase in measures to control non-labour costs	Increase in measures to control labour costs	Increase in use of new technology/processes	Increase in use of new products or services	Increase in use of unskilled/unqualified labour
Agriculture	45	31	22	25	14	8	13
Childcare	69	70	41	26	13	5	14
Cleaning	68	62	32	22	13	7	14
Food processing	65	43	37	30	22	9	13
Hairdressing	75	65	29	14	10	15	4
Hospitality	72	56	46	38	17	17	14
Leisure	58	40	31	28	17	6	10
Retail	62	32	30	23	14	12	8
Security	53	59	27	11	18	9	9
Social care	66	51	27	18	10	4	8
Textiles	64	48	27	18	13	11	9
<b>All sectors</b>	<b>65</b>	<b>47</b>	<b>33</b>	<b>25</b>	<b>14</b>	<b>10</b>	<b>10</b>

Note: The base is all firms that responded to the question (around 47 per cent).

## Young People

**28** Our 2008 survey found that 14 per cent of all responding firms had age-related pay structures (see Figure A3.3), a result that had not changed since 2006. Once again, hospitality had a significantly higher proportion of firms with age-related pay structures: 32 per cent in 2008 compared with 30 per cent in 2006. The sector with the lowest proportion was security, with just 2 per cent in both surveys. Small firms were half as likely to have age-related pay structures as medium-sized or large firms.

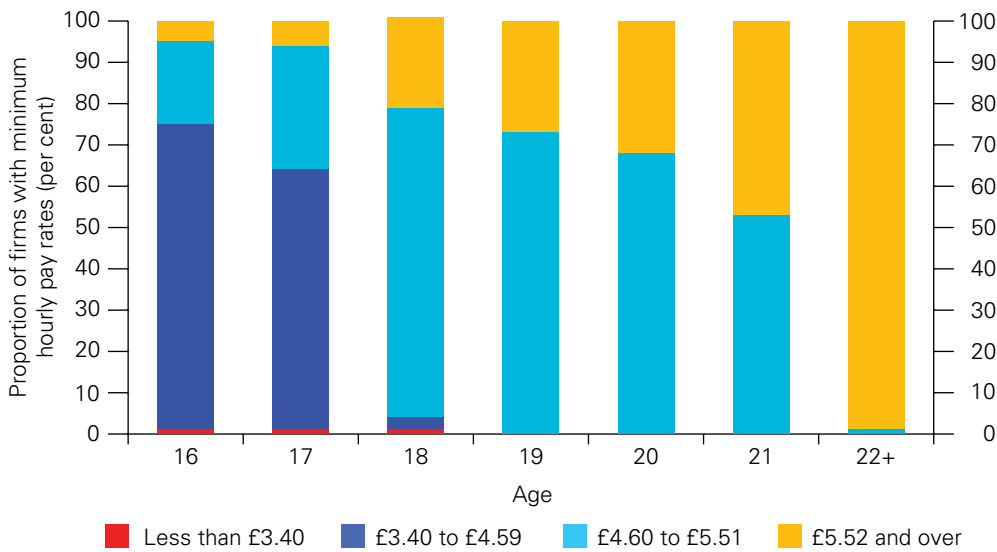
**Figure A3.3** Proportion of Firms with Age-related Pay Structures, 2008



Note: The base is all firms that responded to the question (98 per cent).

**29** As demonstrated in Figure A3.4, within each age group the largest proportion of respondents reported the relevant National Minimum Wage as their minimum rate for each age group. At least 22 per cent of respondents reported a minimum pay rate at or above the National Minimum Wage applicable for the next age group. This was a slightly lower proportion than in 2006, although use of the adult rate continued to increase with age. Most noticeably for 21 year olds, 47 per cent of respondent firms paid at least the adult minimum wage.

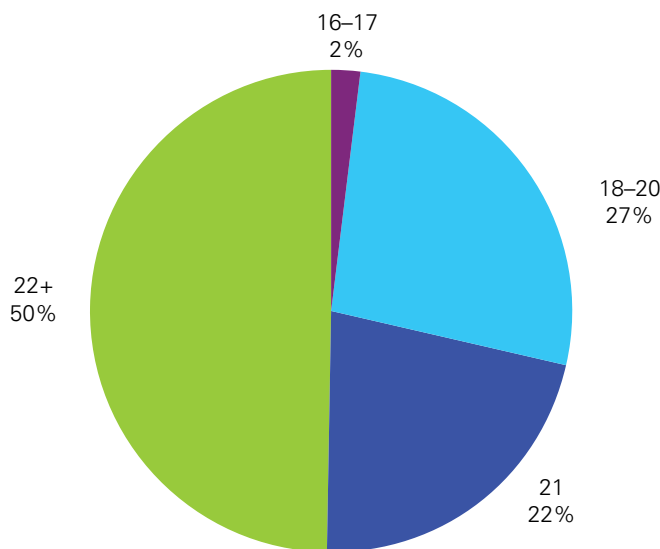
**Figure A3.4** Distribution of Minimum Hourly Pay Rates, by Age, 2008



Note: The base is all firms with age-related pay structures that responded to the question (around 10 per cent).

**30** Figure A3.5 shows that half of respondents with age-related pay structures reported that workers were only entitled to the full adult rate from age 22. In comparison with the results from our previous surveys, respondents were making more use of the 16–17 Year Old Rate and Youth Development Rate. For example, workers in only 27 per cent of surveyed firms were entitled to the adult rate between the ages of 18 and 20. The equivalent proportion was 32 per cent in 2006. In 2004 workers in 46 per cent of firms were entitled to the adult rate at age 18. There were too few responses to provide reliable results by sector.

**Figure A3.5** Age From Which Workers Earn the Full Adult Wage Rate, 2008

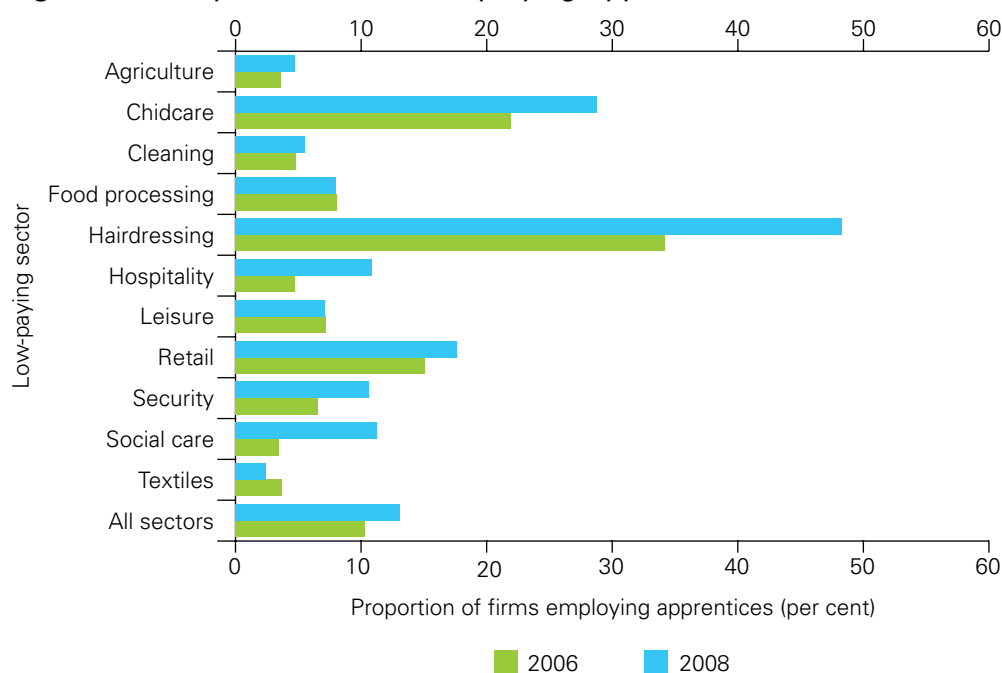


Note: The base is all firms that responded to the question (13 per cent).

- 31** The majority of firms stated that the October 2007 increases in the National Minimum Wage did not lead to either an increase or decrease in differentials in pay rates between age groups, although the results did vary by size of firm. Medium-sized employers were most likely to increase differentials in pay rates (17 per cent), with large employers least likely. Conversely, large employers were most likely to decrease differentials in pay rates (15 per cent), with medium-sized employers least likely. Again the number of respondents was too few for a reliable sectoral breakdown.
- 32** Overall, the 2007 increases in the National Minimum Wage rates did not make firms either more or less likely to employ workers in different age groups. Over 90 per cent of respondents reported that the increases had no impact on the likelihood of employing workers in the 16–17, 18–21, or 22 and over age groups. This compares with a maximum of 83 per cent in 2006, which was likely to reflect the smaller proportional increases in the rates in 2007 and the fact that the upratings were similar for all three rates in 2007 but different in 2005. In 2006 around 8 and 13 per cent of respondents reported that following the increases they were more likely to employ 16–17 and 18–21 years olds respectively. The equivalent figures in 2008 were only 4 and 5 per cent respectively. Similarly, the proportion of respondents in 2006 reporting that following the increases they were less likely to employ workers aged 22 and above decreased from 14 per cent to 6 per cent.

## Apprentices

- 33** Overall, 13 per cent of responding firms employed apprentices. This was 3 percentage points higher than in 2006. There remained a large amount of variation across the sectors, which is shown in Figure A3.6, ranging from 48 per cent of hairdressers to only 2 per cent of textile firms. Generally, the proportions employing apprentices were higher than in 2006. The key sectors that offered apprenticeships were hairdressing, childcare and retail. The following analysis focuses on these sectors.

**Figure A3.6** Proportion of Firms Employing Apprentices, 2006 and 2008

Note: The base is all firms that responded to the question (98 per cent).

- 34** With the exception of hairdressing, there were similar proportions of apprentices aged 16–17, 18, and 19 (ranging from 20 to 27 per cent) within each sector. Overall, only 10 per cent of apprentices were aged 22 and above. Apprentices employed by respondents in the hairdressing industry had a significantly different age distribution to all other sectors. The proportion of 16–17 year olds was 46 per cent, over twice as high as elsewhere, albeit lower than the 53 per cent recorded in 2006. In general, there was a shift to employing slightly older apprentices since our 2006 survey.
- 35** The average lowest basic hourly pay rate for employed apprentices in different years of study varied by sector (see Figure A3.7). Respondents in the hairdressing sector paid on average the lowest starting rates for apprentices in all years. The retail sector was most generous in years two and three, but in year one, on average, the most generous was childcare.

**Figure A3.7** Average Lowest Basic Hourly Pay Rate for Employed Apprentices, by Year of Study, 2008



Note: The base is all firms employing apprentices that responded to the question (around 7 per cent).

- 36** Within the responding firms, tips were common only for hairdressers, whereas overtime and bonuses were most likely to be offered within the retail sector. Few respondents reported providing any other types of additional payment.
- 37** On the whole, as shown in Figure 6.6 in Chapter 6, three-quarters of respondents stated that the current exemption regime for apprentices did not affect their decision to employ apprentices. Following earlier trends, hairdressing recorded the largest proportion of firms (53 per cent) that were more likely to employ apprentices as a result of the exemptions. This was followed by the childcare sector with 34 per cent.

## Annual Leave, and Public and Bank Holidays

- 38** In October 2007, statutory annual leave entitlement increased from 4.0 to 4.8 weeks, including public and bank holidays. This meant it was legitimate to give just 16 days' annual leave (if 8 public and bank holidays were provided in addition). In April 2009, the legislation changed again and entitlement was raised to 5.6 weeks. Our latest survey was carried out in the summer of 2008.

- 39** The majority of surveyed firms (59 per cent) paid between 20 and 23 days' leave excluding public and bank holidays (see Table A3.7). Around 10 per cent of firms paid fewer than 20 days but staff in 9 per cent of firms were entitled to at least 28 days. Large employers were far less likely to pay fewer than 20 days' paid leave, with only 3 per cent of firms doing so. Nevertheless, in our sample it was the smaller firms that were generally the most generous, with the highest proportions paying 24 to 27 days and 28 days or more. There were too few responses to reliably break them down by sector.

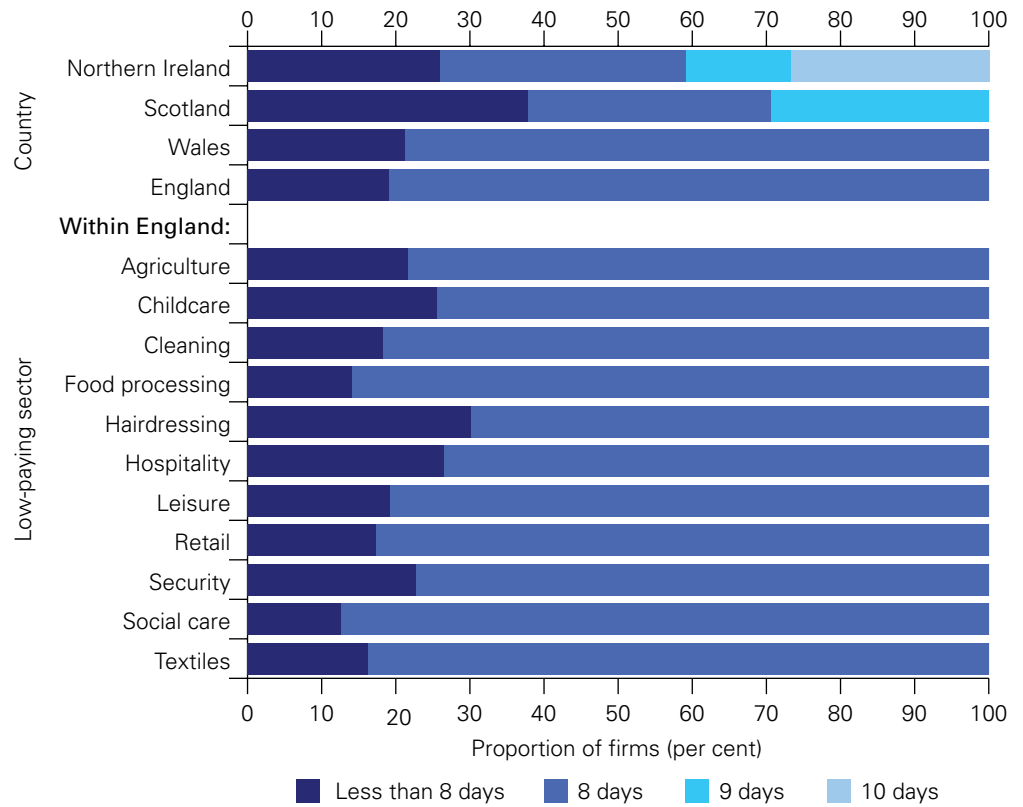
**Table A3.7** Paid Leave Entitlement, by Size of Firm, 2008

Per cent	Fewer than 20 days	20 to 23 days	24 to 27 days	At least 28 days
Small	11	54	23	11
Medium	11	69	18	3
Large	3	68	21	8
<b>All sizes</b>	<b>10</b>	<b>59</b>	<b>22</b>	<b>9</b>

Note: The base is all firms that responded to the question (13 per cent).

- 40** Firms in general (79 per cent) did tend to provide paid leave for public and bank holidays (or alternative days off in lieu) in addition to their statutory annual leave entitlement. This result tallied with our 2006 survey. Hospitality and security were the two sectors least likely to provide paid public and bank holiday leave in our 2006 and 2008 surveys, although provision in both sectors was higher in 2008. Food processing, retail, and textiles were the three sectors most likely to provide paid leave on public and bank holidays – the sectors most notable for some union coverage. Again this was the same result in our latest two surveys.
- 41** There are eight public and bank holidays in England and Wales, nine in Scotland and ten in Northern Ireland. Around 80 per cent of responding firms in England and Wales that provided paid leave on public and bank holidays paid the full eight days (see Figure A3.8). The remaining firms paid fewer. Around 29 per cent of equivalent Scottish firms paid their full nine days as paid leave, and 27 per cent provided the full ten days in Northern Ireland. Of all English firms providing paid leave on public and bank holidays, hairdressing and hospitality contained the highest proportions of firms paying less than the full eight days (see Figure A3.8).

**Figure A3.8 Public and Bank Holiday Paid Leave Entitlement, by Country and Sector (England Only), 2008**



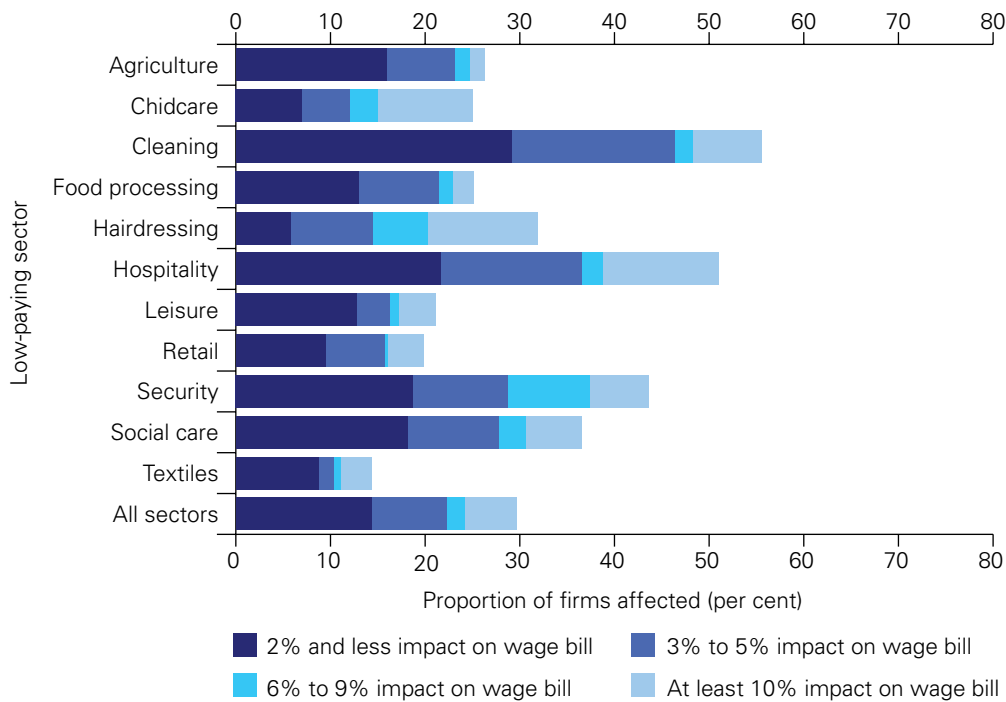
Note: The base is all firms providing paid leave on public and bank holidays that responded to the question (71 per cent; 49 per cent England).

- 42** The overall proportion of firms affected by the increase in statutory leave entitlement in October 2007 was 30 per cent, with 48 per cent of those seeing an effect of only 2 per cent or less on the wage bill and 19 per cent seeing an effect of 10 per cent or more (see Figure A3.9). For those firms in which all employees were entitled to the full four-day increase, we estimated that the direct cost was likely to be equivalent to no more than 1.6 per cent of the wage bill (LPC, 2008).
- 43** Figure A3.9 shows that the textiles sector reported the lowest proportion (14 per cent) of firms affected by the October 2007 increase in statutory leave entitlement and the highest proportion (61 per cent) of those with the smallest increase (2 per cent or less) to their wage bill. Textiles was among the sectors most likely to provide paid leave on public and bank holidays and to pay the full set of days in both our 2008 and 2006 surveys. Although cleaning reported the highest proportion of affected firms (56 per cent), the sector did not stand out as one of the least likely to provide paid leave on public and bank holidays in the last survey. Nor was it highlighted as a sector offering the fewest number of



paid days. Hospitality, on the other hand, reported the second highest proportion of affected firms (51 per cent) and did stand out in 2006 and 2008 as one of the sectors least likely to provide paid leave on public and bank holidays. It was also highlighted as the least generous sector in the 2006 survey in terms of the number of days' paid.

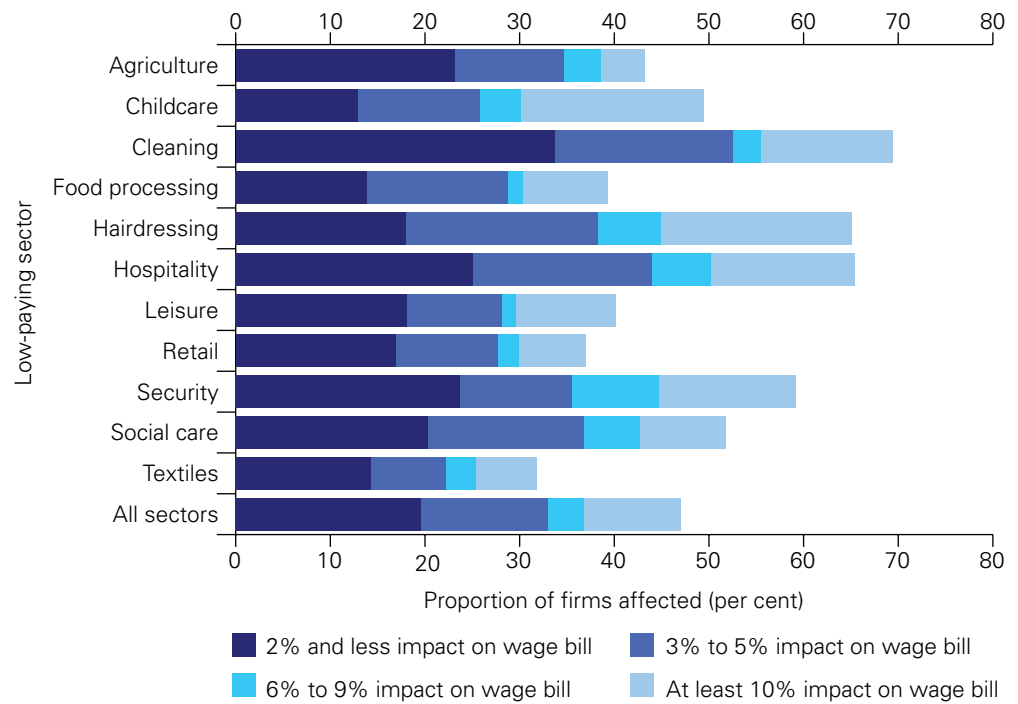
**Figure A3.9** Proportion of Firms Affected by the October 2007 Increase in Statutory Leave Entitlement and Impact on Wage Bill, by Sector, 2008



Note: The base is all firms that responded to the question (98 per cent; 23 per cent provided effect on wage bill).

**44** Figure A3.10 illustrates that, across all sectors, higher proportions of firms expected to be affected by the increase in statutory leave entitlement in April 2009 compared with the proportions affected by the October 2007 change. The proportion of all firms expecting an effect increased by 17 percentage points to 47 per cent. Within these firms, a smaller proportion expected an increase in their wage bill of 2 per cent or less and a larger proportion expected an increase of 10 per cent or more. Although a larger proportion of firms affected would be expected following the April 2009 change, the impact on the wage bill would not be expected to be higher than the 1.6 per cent estimated for our 2008 Report.

**Figure A3.10** Proportion of Firms Expecting to be Affected by the April 2009 Increase in Statutory Leave Entitlement and Estimated Impact on Wage Bill, by Sector, 2008



Note: The base is all firms that responded to the question (97 per cent; 34 per cent provided effect on wage bill).

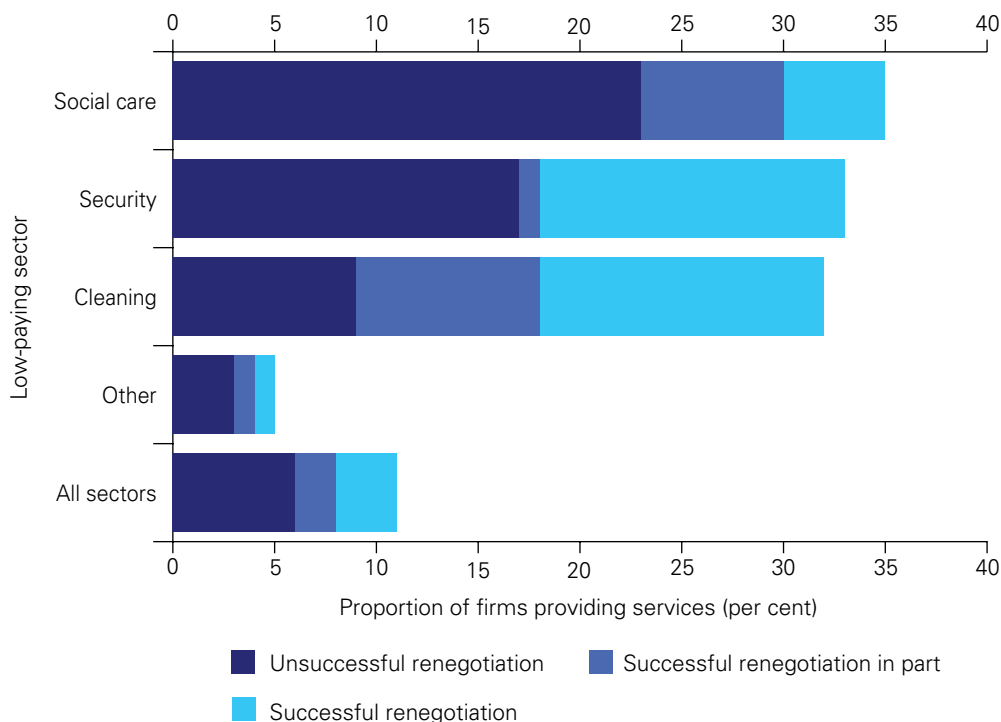
**45** The prominent sectors were similar to those in Figure A3.9, with textiles firms least likely to be affected by the change and cleaning firms most likely. The largest increase in the proportion of firms expected to be affected by the change appeared in the hairdressing sector, an increase of 33 percentage points to 65 per cent. In our 2006 survey, hairdressing firms were equally likely to provide paid leave on public and bank holidays as firms in general. In 2008 they were most likely to pay less than eight days.

## Public Sector Services

**46** In our previous surveys the social care sector was asked additional questions on the provision of public sector services. For our 2008 survey we decided to open the questions to all respondents, giving examples such as cleaning for schools or hospitals and care homes for local authorities or health trusts. Around a third of responding firms in the cleaning, security and social care sectors provided services to the public sector (see Figure A3.11). This compared with 5 per cent on average for other sectors. Because of this large difference, the analysis here will focus on those three sectors.

- 47** Over half of firms that provided public sector services in the cleaning and security sectors sought to renegotiate contracts as a result of the October 2007 increases in the National Minimum Wage. Within social care, around 4 in 10 firms sought to renegotiate.
- 48** Cleaning firms that provided public services were arguably the most successful in renegotiating their contracts in total, with around three-quarters at least part successful (see Figure A3.11). Security firms reported the highest proportion of fully successful firms. Although a slightly higher proportion of the social care sector provided public services, their negotiations were the least successful, with two-thirds reporting an unsuccessful result. Information from social care associations confirmed this result, as they claimed that funds provided by Local Authorities did not always increase in line with upratings in the minimum wage, as set out in Chapter 3.

**Figure A3.11** Proportion of Firms Providing Services to the Public Sector; Result of Renegotiated Contracts as a Result of the October 2007 Increases in the National Minimum Wage, 2008



Note: The base is all firms that responded to the question (99 per cent; 6 per cent provided result of negotiation).

- 49** Reflecting the previous results, the social care sector contained the largest proportion of firms that, through renegotiation, did not recoup any part of the increased pay bill due to the October 2007 increases in the National Minimum Wage. Cleaning contained the largest proportion of firms that recouped at least 25 per cent of the pay bill increase.

## Conclusion

- 50** We must exercise caution in the use of the results of our survey because of the low response rate, its targeted approach and the caveats discussed above. It provides valuable information, though, on how the firms most affected by the October 2007 National Minimum Wage upratings were affected and how they responded to those effects. It also allows comparisons to be drawn over time across sectors and employer size. The survey covered nearly 280,000 members of staff from 2,403 firms. There were only slightly fewer employees covered than in the 2006 survey.
- 51** Of all the responding firms, 55 per cent said that the October 2007 National Minimum Wage upratings had affected their business in some way. This result was higher than in 2006, which was surprising given that the percentage increases in the adult National Minimum Wage were lower than in October 2005. On the other hand, over half of affected firms reported an increase in their wage bill of less than 4 per cent, which was less pronounced than in 2006. Hairdressing, cleaning, hospitality and leisure had the highest average proportions of workers at the minimum wage, which was in line with official statistics.
- 52** The most common reason for increasing pay rates was to comply with the minimum wage, followed by maintaining pay differentials for higher grade staff. To account for the increased wage bills, a reduction in overall staffing levels was the most likely way for firms to respond, with the hospitality sector having the highest proportion of firms changing a range of staffing practices. The majority of respondents reported no specific benefits from the National Minimum Wage upratings and around two-thirds had experienced reduced profits.

- 53** In our 2008 survey the proportion of firms with age-related pay structures remained the same and the hospitality sector was still the most likely to use them. The use of the adult rate continued to increase with age, although firms were making more use of the 16–17 Year Old Rate and Youth Development Rate.
- 54** The proportion of firms that employed apprentices has increased slightly since 2006. The hairdressing, childcare and retail sectors were the main employers of apprentices. Hairdressing employed the highest proportion of 16–17 years olds and paid the lowest rates, although their apprentices did tend to get paid tips in addition. Our survey identified an unexpected shift towards employing older apprentices.
- 55** Overall, firms tended to provide paid leave on public and bank holidays. Hospitality firms were least likely to provide them and, within England, were least likely to pay the full eight days. They were also among the firms most affected by the October 2007 increase in statutory leave entitlement and expected to be among the most affected in April 2009 when it increased once more.
- 56** The cleaning, security and social care sectors were by far the most likely to provide services to the public sector. Social care was the least successful sector at renegotiating contracts, owing to issues concerning funding from Local Authorities.

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## NATIONAL MINIMUM WAGE SURVEY

+

1. How many workers in total does your business currently employ? How many are men? How many women? (Please include all workers - full-time, part-time, temporary and casual staff) (Please insert numbers)

Total  Men  Women

2. How many workers in your business are aged...? (Please insert numbers)

16 to 17  18 to 21  22 or over

3. Has the October 2007 increase in the National Minimum Wage (NMW) affected your business in any way? (please cross one box)

Yes  (go to Q4) No  (go to Q11)

4. What proportion of your staff is on the NMW?

% (Please enter %)

5. If you have increased the pay rates of staff as a result of the October 2007 increase in the National Minimum Wage, (1) was the increase due to any of the following reasons and (2) how many staff were affected?

Cross all boxes which are applicable Enter number of staff affected

a) To comply with the new NMW rates (i.e. £5.52 for 22+, £4.60 for 18-21s and £3.40 for 16-17 year olds) (go to Q7)

b) To maintain the lowest pay rate above the NMW (go to Q5)

c) To maintain pay differentials within the same grade (go to Q5)

d) To maintain pay differentials for higher-grade staff (e.g. supervisors) (go to Q5)

e) Other reasons, please specify (go to Q7)

6. Please specify the lowest and highest hourly pay rates you increased to maintain pay differentials as a result of the October 2007 increase in the National Minimum Wage and how many staff were affected. (Please enter amount or number)

Lowest £  Highest £  Number of staff affected

7. Has the October 2007 increase in the National Minimum Wage led to any of the following benefits for your business? (Please cross whether significant, slight or none)

	Significant	Slight	None
a) Lower staff turnover	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b) Higher staff motivation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c) Faster filling of vacancies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d) Lower level of sick leave	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

+

+

8. As a result of the October 2007 increase in the National Minimum Wage, have you changed any of the following in your business? (Please cross one box for each potential change) +

	Significant Increase	Slight Increase	Slight Decrease	Significant Decrease	No Change
a) Overall staffing levels	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b) Basic hours	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c) Overtime hours	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d) Overtime rates/incentive payments/bonus/commission/tips etc	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e) Non-wage benefits (e.g. meal vouchers, paid breaks etc)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

9. What has happened to your TOTAL pay bill as a result of the October 2007 increase in the National Minimum Wage? (Please cross one box)

- a) No change       b) Increased by up to 2%   
 c) Increased by more than 2% but less than 4%       d) Increased by 4% or more

10. Has the October 2007 increase in the National Minimum Wage led to changes in any of the following in your business? (Please cross one box for each potential change)

	Significant Increase	Slight Increase	Slight Decrease	Significant Decrease	No Change
a) Profits	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b) Prices	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c) Measures taken to control labour costs (e.g. treatment of absence, paid breaks, staff meals, overtime rates)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d) Measures taken to control non-labour costs (e.g. costs of supplies, distribution and marketing costs, improved stock control)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e) Use of new technology/processes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
f) Quality of goods and services you provide	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
g) Introduction of new products or services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
h) Use of unskilled/unqualified labour	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
i) Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

11. Do you have age-related pay structures? (please cross one box)

- Yes  (go to Q12)      No  (go to Q15)

12. Please enter the current minimum hourly rates for workers in each of the following age groups in your business. If you have no workers in any age band please leave blank. (Please write in pounds and pence)

Age 16	£	<input type="text"/>	Age 17	£	<input type="text"/>	Age 18	£	<input type="text"/>
Age 19	£	<input type="text"/>	Age 20	£	<input type="text"/>	Age 21	£	<input type="text"/>
Age 22+	£	<input type="text"/>						

13. At what age is a worker entitled to your full adult rate? (Please enter age)

+

14. Have you recently made or do you anticipate making any of the following changes to your use of age-related structures as a result of the October 2007 increase in the National Minimum Wage? (Please cross one box for each potential change) +

- |   | Yes                      | No                       |
|---|--------------------------|--------------------------|
| a) Increase differentials in pay rates between age groups | <input type="checkbox"/> | <input type="checkbox"/> |
| b) Reduce differentials in pay rates between age groups   | <input type="checkbox"/> | <input type="checkbox"/> |

15. Has the 2007 increase in the NMW (to £3.40 for 16–17 year olds, £4.60 for 18–21 year olds and £5.52 for those aged 22 and over) rates made you more or less likely to employ workers in different age groups? (Please cross one box for each age group)

- |                         | More likely              | Less likely              | No change                |
|-------------------------|--------------------------|--------------------------|--------------------------|
| Workers aged 16–17      | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Workers aged 18–21      | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Workers aged 22 or over | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

16. Do you employ apprentices (on a recognised apprenticeship programme)? (Please cross all boxes which are applicable)

- a) Yes (go to Q17)
- b) No, it is not relevant to my business. (go to Q21)
- c) No, too much bureaucracy. (go to Q21)
- d) No, too time-consuming. (go to Q21)
- e) No, it is too costly. (go to Q21)
- f) No, we have concerns about the quality of potential candidates. (go to Q21)
- g) No, we use our own training schemes. (go to Q21)
- h) No, existing programmes do not meet my skill needs. (go to Q21)
- i) No, we do not have an in-house capacity to provide the necessary training. (go to Q21)
- j) No, other reasons. (go to Q21)

17. How many of your apprentices are aged...? (Please insert number in each age group)

16 to 17	18	19
<input style="width: 60px; height: 20px;" type="text"/>	<input style="width: 60px; height: 20px;" type="text"/>	<input style="width: 60px; height: 20px;" type="text"/>
20	21	22+
<input style="width: 60px; height: 20px;" type="text"/>	<input style="width: 60px; height: 20px;" type="text"/>	<input style="width: 60px; height: 20px;" type="text"/>

18. What is your lowest basic hourly pay rate for employed apprentices? (Please write in pounds and pence)

1st year apprentices	2nd year apprentices	3rd year apprentices
£ <input style="width: 60px; height: 20px;" type="text"/>	£ <input style="width: 60px; height: 20px;" type="text"/>	£ <input style="width: 60px; height: 20px;" type="text"/>

19. Do your apprentices receive additional pay elements such as? (Please cross boxes as appropriate)

- Tips  Bonuses  Overtime  Other

20. Does the current exemption regime for apprentices make you more or less likely to employ apprentices? (Apprentices below 19 are exempt from the NMW and apprentices aged 19 and over are exempt in the first year) (Please cross one box)

- More likely  Less likely  No impact

21. How many days paid leave excluding Public or Bank holidays are your staff entitled to? (please enter number of days)

22. At present, are your employees entitled to paid leave on Public or Bank Holidays (or alternative days in lieu) in addition to their statutory annual leave entitlement? (Please cross one box) +

- Yes  (Go to Q23) No  (Go to Q24)



23. If so, how many Public or Bank Holidays (or alternative days in lieu) are they entitled to as paid leave? *(please enter number of days)*

+

24. Were you affected by the increase in statutory leave entitlement from 4 to 4.8 weeks in October 2007? *(Please cross one box)*

Yes  *(Go to Q25)* No  *(Go to Q26)*

25. If so, what was the impact of this increase on your wage bill costs?

% *(Write % increase on wage bill)*

26. Will you be affected by the increase in statutory leave entitlement from 4.8 to 5.6 weeks in April 2009? *(Please cross one box)*

Yes  *(Go to Q27)* No  *(Go to Q28)*

27. If so, by how much do you estimate this increase will affect your wage bill costs?

% *(Write % increase on wage bill)*

28. Does your business provide services to the public sector, such as cleaning for schools or hospitals, care homes for local authorities or health trusts etc? *(Please cross one box)*

Yes  *(Go to Q29)* No  *(Go to Q32)*

29. Did you seek to renegotiate the conditions of your public sector contract as a result of the October 2007 increase in the National Minimum Wage? *(Please cross one box)*

Yes  No

30. Were you successful in renegotiating the contract? *(Please cross one box)*

Yes  No  In part

31. What percentage of the increase in your pay bill due to the October 2007 increase in the National Minimum Wage were you able to recoup through re-negotiation? *(Please cross one box)*

None  1 to 24%  25 to 49%   
50 to 74%  75 to 99%  100%

32. We would find helpful any other comments that you might have about your experience of the National Minimum Wage. Please put these on a separate sheet if necessary. All your comments will be read.

+

We will be asking some people to take part in a follow up telephone survey with the Institute for Employment Studies to explore opinions further. Please cross the box below if you are happy to take part in this follow up survey. Please note that the Institute for Employment Studies will use the information that you provide in this survey to contact you for the follow-up research.

If yes, please complete the attached sheet entitled 'Name and Contact details for follow-up research'.

LPC 04

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# Changes to Main Data Sources

- 1** We made a recommendation in last year's report reflecting our concern that changes the Office for National Statistics (ONS) had made to its data could affect the quality of our analysis. We are pleased that ONS has responded positively. In this appendix we outline the main data sources used in our analyses of employment and earnings and review the principal changes made since our 2008 Report.
- 2** There are three main sources of data that we use in this report to measure earnings: the Annual Survey of Hours and Earnings (ASHE), the Labour Force Survey (LFS) and the Average Earnings Index (AEI). These are all published by ONS.
- 3** There are two main sources of employment information: the LFS and the ONS employee jobs series. The LFS captures the number of people in employment, whereas the employee jobs series measures the number of jobs in the economy. This is an important distinction as a person can have more than one job.<sup>1</sup>

## Annual Survey of Hours and Earnings

- 4** ASHE is the main source of structural earnings data in the UK and is regarded by ONS as the best source of earnings information. It provides information on the levels, distribution and make up of earnings, as well as on hours, gender, age, geography, occupation, and industry. It is a survey of employees completed by employers and conducted in April each year. Results are based on a sample of employees in Pay-As-You-Earn income tax schemes obtained from HM Revenue and Customs. The self-employed are excluded.

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<sup>1</sup> A comparison of the number of employee jobs from the LFS and employee jobs series is available in Annex 1 of the Labour Market Overview document at: [http://www.statistics.gov.uk/downloads/theme\\_labour/LMS\\_QandA.pdf](http://www.statistics.gov.uk/downloads/theme_labour/LMS_QandA.pdf)

- 5** Due to methodological and definitional changes mentioned in our 2008 Report, there are four annual earnings datasets:
- 1970–2003 New Earnings Survey;
  - 1997–2004 ASHE excluding supplementary information;
  - 2004–2006 ASHE including supplementary information; and
  - 2006–2008 ASHE using 2007 methodology.
- 6** In 2007 the ASHE sample was cut by 20 per cent, which has remained the same for the 2008 ASHE sample.<sup>2</sup> The cut has had a limited impact on the precision of estimates at an aggregate level but it has had an effect at more disaggregated levels, such as at the four-digit industry level. Following discussions with other government departments concerning funding, ONS recently announced that the pre-2007 sample size will be reinstated for ASHE in 2009 and guaranteed this funding to 2011.

## Low-pay Weights

- 7** In our Report, estimates of the number of jobs paid below certain thresholds using ASHE are based on low-pay weights that have been developed by ONS. These weights remove those employees whose pay in the reference period of the survey has been affected by absence and weight the remaining employees up to UK population estimates. Estimates of the level of earnings use the standard ASHE weights. These weight all employee responses up to the UK population and then remove (after weighting) those whose pay has been affected by absence. Our analyses of earnings differ from those available on the ONS website as ONS remove (after weighting) those employees not on what the employer considers to be an adult rate of pay. We include those on trainee rates in our analyses.

## Low-pay Statistics

- 8** According to the provisional 2007 ASHE data published in November 2007, there were 292,000 employee jobs paid below the minimum wage in April 2007. On 14 November 2008, the final 2007 ASHE data revised the estimate upwards to 296,000, which was equivalent to 1.1 per cent

<sup>2</sup> More information on the sample size cut can be found at [http://www.statistics.gov.uk/downloads/theme\\_labour/ASHE/ChangeInASHE07.pdf](http://www.statistics.gov.uk/downloads/theme_labour/ASHE/ChangeInASHE07.pdf)

of all jobs. The provisional 2008 estimates show there were 288,000 jobs paid below the minimum wage in April 2008, which was also equivalent to 1.1 per cent of all jobs. The provisional 2008 data are therefore broadly in line with the 2007 data.

## Average Earnings Index

- 9** The AEI is based on data from the Monthly Wages and Salary Survey (MWSS) and is regarded by ONS as the best short-term measure of growth in average earnings. It captures changes in the annual (as opposed to monthly) composition of employment between industries because of fixed industry weights. The AEI is available monthly, both including and excluding bonuses. We regard the AEI excluding bonuses series as a proxy to a basic pay series.

## Labour Force Survey

- 10** The LFS is the official data source used to measure employment and unemployment. It is a quarterly survey of around 52,000 UK households conducted on a rolling monthly basis and provides information on employment, earnings, and personal and socio-economic characteristics including gender, ethnicity and disability.
- 11** In our Report, analyses of aggregate employment, unemployment and hours worked use monthly and quarterly LFS data published on the ONS website. These are seasonally adjusted estimates and are re-weighted to the latest population estimates. For detailed analyses of the labour market by age, ethnic status and disability, we have used the LFS Microdata. These data are weighted to previous population estimates and are not seasonally adjusted. As the latest population estimates are higher than the previous estimates, the analyses based on LFS Microdata produce estimates of levels that are lower than the aggregates published by ONS. Estimates of proportions are not affected as much, as both the numerator and the denominator are lower.
- 12** ASHE contains no information on disability, ethnic background, country of birth, nationality or education level. The LFS is therefore the source of data on earnings for people with disabilities, ethnic minorities, migrants and people with no qualifications. Data on pay and hours in the LFS may be less reliable than in ASHE because the sample is smaller, people

often answer the earnings questions without reference to pay documentation (although they are prompted to consult available documents), and some information is provided by proxy respondents. ASHE collects information from employers about employees' paid hours, whereas the LFS collects information from individuals about their actual and usual hours of work, which might include unpaid hours. This generally leads the derived hourly earnings variable in LFS to be below the derived hourly pay rate recorded in ASHE. Where a stated hourly rate of pay is unavailable from the LFS, ONS has developed an imputation method using a nearest neighbour regression model, which also takes account of information on second jobs. This new methodology reduces the differences between hourly earnings estimates from the LFS and ASHE.

- 13** In January 2006, in order to comply with EU requirements, ONS moved to produce LFS Microdata on a calendar quarter rather than seasonal quarter basis. ONS had released only a limited back-series on a calendar quarter basis before publication of our 2008 Report, resulting in a break in the series. ONS has since released an entire back-series of LFS data and there is no longer a break.

## Employee Jobs

- 14** The employee jobs series provides a timely industrial breakdown of jobs in the UK. A number of Short Term Employer Surveys are used to collect data to compile the employee jobs series. The surveys collect information from businesses across the economy. Figures at a more detailed level, however, are available only for Great Britain and are not seasonally adjusted. This makes quarter-to-quarter comparisons problematic, particularly as much of the employment in the low-paying sectors is of a seasonal nature, for example Christmas trading in the retail sector. But comparisons between one quarter and the same quarter a year ago overcome this particular problem.
- 15** The employee jobs series is published quarterly and is benchmarked annually to the latest results from the Annual Business Inquiry Part One (ABI/1). The annual benchmark moved from December to September in 2006. ONS also introduced some methodological changes designed to improve the estimates of both the levels and changes. This has resulted,

however, in a break in the employee jobs series between December 2005 and September 2006.<sup>3</sup>

- 16** The changes have resulted in a discontinuity in our time series analysis of annual changes in employee jobs between December 2005 (which can be compared with December 2004 on the old basis) and September 2007 (which can be compared with September 2006). This has seriously affected our ability to track the impact of the National Minimum Wage on jobs in the low-paying sectors over time. The ONS is currently undertaking work to provide a back series to fill this gap and we look forward to analysing the data to remove the discontinuity.<sup>4</sup>

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<sup>3</sup> More information on the revisions can be found here  
<http://www.statistics.gov.uk/cci/article.asp?id=1802>

<sup>4</sup> Further information on the discontinuities can be found here:  
[https://www.nomisweb.co.uk/articles/news/files/ABI 2006 discontinuities.doc](https://www.nomisweb.co.uk/articles/news/files/ABI%202006%20discontinuities.doc)





# Minimum Wage Systems in Other Countries

- 1** This appendix updates the information on overseas minimum wage systems in the 12 OECD countries that we have looked at in previous reports. The information has been derived from contributions provided by British Embassies, High Commissions and the Organisation for Economic Co-operation and Development (OECD). We are grateful for their continued assistance.
- 2** In Table A5.1 we provide a comparison of minimum hourly wage rates across the 12 countries, together with the UK, as at the end of 2008. The UK minimum wage is sixth highest of the 13 countries we examined in terms of exchange rates and fourth highest in terms of purchasing power when OECD Comparative Price Levels for November 2008 are used (latest data available). This has changed since our 2008 Report. In 2008 the UK minimum wage was fourth highest in terms of exchange rates and third in terms of purchasing power when OECD Comparative Levels for September 2007 were used.
- 3** Table A5.2 measures minimum wage rates relative to full-time median earnings in each country (the bite). This information has been supplied by the OECD and is for the latest available period (mid-2007). The UK minimum wage as a proportion of median earnings is ranked in the middle of the 13 countries shown, a position unchanged from our 2008 Report. We have regarded median, rather than mean earnings, as the most appropriate comparator because of the disproportionate influence a relatively few high earners have on mean earnings.
- 4** As part of the Government's evidence to us on the economic effects of the minimum wage (BERR, 2008f), they provided international comparisons of the minimum wage as a percentage of median earnings (the bite). Figure A5.1 shows that the bite of the UK minimum wage is above the G7 average and fourth highest in its list of 13 countries. The comparisons, however, are limited by differences in data methodologies.

- 5** As in previous reports, we also describe the approaches adopted across countries for uprating their minimum wages (Table A5.3), enforcing the provisions (Table A5.4), and applying age variations under minimum wage systems (Table A5.5). We compare youth minimum wage rates as a percentage of adult minimum wage rates in Table A5.6. In most cases, there has been little to update since we reported on these in 2007.
- 6** This year, taking into account our remit to review current apprentice exemptions, we requested information from British Embassies and High Commissions on details of exemptions from the minimum wage for apprentices in the 12 OECD countries we report on. We received responses for 9 countries, which are detailed in Table A5.7 along with arrangements for the UK.
- 7** In the following section we report on developments among the countries with an established minimum wage, including Australia and New Zealand and provide information where there is the possibility of a minimum wage being introduced. In Germany and Sweden there is a debate about the possibility of implementing a statutory national minimum wage. In Guernsey it was announced in March 2009 that legislation to introduce a statutory minimum wage will be sent for approval by the UK Privy Council. Since our 2008 Report, we have been consulted by representatives from a number of countries about the operation of our minimum wage arrangements, including South Korea, Germany and Hong Kong.
- 8** Caution should be applied to drawing comparisons between countries, as definitions of what counts towards the minimum wage differ. There are also differences with regard to the age at which the minimum wage rate(s) apply, whether there are any exemptions, and in the overall coverage of the respective mechanisms. In addition, anniversary dates vary, with some countries expected to increase their wage rates again in 2009.

## Country Updates

### Australia

- 9** In April 2008 the Australian Government announced that the Australian Fair Pay and Conditions Standard, which sets out the base minimum conditions of employment, such as working hours, minimum wage, annual leave, sick leave and parental leave, would be replaced by the National Employment Standards. It is expected that the NES will come into being in January 2010.
- 10** The Australian Government announced in May 2008 that it would increase the minimum wage for workers in Australia on temporary skilled worker visas, to help ensure they are not exploited. Under the changes, workers on the visa's minimum wage will receive a 3.8 per cent pay increase, taking the standard minimum annual salary to about \$43,440 for a standard 38 hour week for most occupations.
- 11** The Australian Fair Pay Commission, established in 2005, has embarked on a review of the minimum wage for 2009 ahead of its next wage-setting decision in July 2009. The review will consider information gathered from research, consultations and submissions, and will assess the impact of the uprating of the minimum wage to \$14.31 per hour in October 2008. The closing date for submissions was 20 March 2009, with consultations and focus groups taking place around the country up until the end of April 2009.

### Austria

- 12** On 2 July 2007 the Austrian social partners of employers and trade unions agreed on the introduction of a monthly minimum wage of €1,000, payable fourteen times a year, by 2009. Minimum pay regulations are not set by statutory law (except for the public sector) but are laid down in sectoral and branch level collective agreements. About 98 per cent of employees are covered by sectorally agreed minimum wage rates, due to the country's high level of collective bargaining coverage. Wage levels vary across sectors and are dependent on the bargaining power of trade unions.

## Germany

- 13** In our 2007 Report we noted that a public debate, which had commenced in 2005, continued to take place in Germany over the possibility of introducing a national minimum wage. In Germany there is no statutory minimum wage, although new legislation has led to the extension of sectoral minimum wages. In sectors where more than 50 per cent of employees are covered by collective wage agreements, these agreements can now be made binding for all companies in the sector. In sectors where less than 50 per cent of employees are covered by sectoral agreements, the Government can now decide on the introduction of a minimum wage based on the analysis of a council of experts. On 22 January 2009 the Grand Coalition voted to extend the rules to six sectors, including security guards, carers and waste collectors. A separate Cabinet agreement is expected to set a wage floor for temporary agency workers, which would mean 3.7 million of Germany's 40 million workers will be covered by minimum wage legislation.

## Guernsey

- 14** Following a consultation process in 2007, the Commerce and Employment Department proposed that minimum wage legislation should be implemented in Guernsey. In March 2009, it was announced that the Guernsey States had voted to introduce a minimum wage. The legislation is in the drafting process and a consultation will take place with representatives of employers and employees, before being sent for approval by the UK Privy Council. At the time of writing, details about who the minimum wage will apply to and how the rate will be calculated have yet to be decided. When the minimum wage legislation is introduced, employers will be required to keep records which demonstrate that the hourly rate of pay complies with the minimum wage.

## Hong Kong

- 15** Chief Executive Donald Tsang announced on 15 October 2008 that Hong Kong is to introduce legislation on a statutory minimum wage. This will be the first time Hong Kong has imposed a legally enforceable minimum wage. The Government of the Hong Kong Special Administrative Region (HKSAR) plans to introduce an across-the-board statutory minimum wage and aims to take a bill to the Council in the 2008–09 legislative session. HKSAR will establish an advisory Minimum Wage Commission to study and advise on the level of minimum wage.

## Ireland

- 16** The minimum wage was last updated in July 2007 to €8.65. At the request of the Irish Congress of Trade Unions, the Labour Court is currently examining the national minimum hourly rate of pay and has been asked to make a recommendation to the Minister for Enterprise, Trade and Employment on a new minimum wage rate.

## Netherlands

- 17** The Ministry of Social Affairs normally updates the minimum wage twice a year on 1 January and 1 July. In January 2009 the minimum wage was updated to €7.97 per hour or €318.75 per week, with a new rate expected on 1 July 2009.

## Sweden

- 18** In Sweden, minimum wages are traditionally fixed by sectoral collective bargaining. In the past, public debate on minimum wage issues has been limited. This changed on 18 December 2007 however, when the European Court of Justice (ECJ) announced its judgement on the Laval case, which concerned construction workers posted by a Latvian company in Sweden. Under the Posted Workers Directive, which came into force in 1996 and applies to all EU countries and EEA countries, firms from member countries temporarily operating in another member country should not pay wages below the legal minimum wage in the host country.

- 19** The ECJ ruled that the minimum wages in construction were not clearly defined and some modification of the Swedish model would be necessary. The Swedish Government reacted to the court's ruling by initiating the preparation of an official report presented in December 2008, with suggestions on how to preserve the structure of the current model without it coming into conflict with EU law. Views on implementing a national minimum wage are mixed. The Association of Swedish Engineering Industries has called for national minimum wage legislation, whereas other organisations, including the Swedish Trade Federation, oppose minimum wage legislation.

### United States

- 20** President Barack Obama had indicated his support for a higher federal minimum wage, seeking to increase it to \$9.50 an hour within 3 years, and tying it to inflation. The federal minimum wage is currently \$6.55 an hour and is set to increase to \$7.25 an hour in July 2009. At present, 23 states have a higher minimum wage than the rate set by the federal Government.

### New Zealand

- 21** On 1 April 2008 the youth minimum wage, which had previously applied to employees aged 16–18, was replaced with a new entrants' minimum wage. The new entrants' minimum wage is equivalent to 80 per cent of the minimum wage. A new entrant is a worker who is 16 or 17 years old, unless they have completed three months or 200 hours of employment, whichever is shorter; they have supervised or trained other workers; or they have been subject to the minimum training wage.

## Comparison of Minimum Wage Systems

**Table A5.1** Comparison of Level of Minimum Wages<sup>a</sup> Across Countries, 2008

Country	In national currency expressed as hourly rate <sup>b</sup>	In UK £, using:		Date of last uprating	Age full minimum wage usually applies <sup>e</sup>
		Exchange rates <sup>c</sup>	PPPs <sup>d</sup>		
Australia <sup>f</sup>	Aus \$14.31	6.14	6.20	October 2008	21
Belgium	€7.55	6.27	5.41	October 2008	21
Canada <sup>g</sup>	Can \$8.42	4.51	4.46	<sup>h</sup>	16
France	€8.71(€1321.02/month)	7.23	6.24	July 2008	18
Greece <sup>i</sup>	€3.92 (€31.32/day)	3.26	3.29	September 2008	15
Ireland	€8.65	7.18	5.09	July 2007	20
Japan <sup>j</sup>	JPY 703	4.73	3.45	October 2008	15/18 <sup>k</sup>
Netherlands	€ 7.83 <sup>l</sup> (€313.05/week)	6.50	5.81	January 2008	23
New Zealand	NZ \$12.00	4.41	4.74	April 2008	16
Portugal <sup>m</sup>	€2.45 (€426/month)	2.03	2.19	January 2008	16
Spain <sup>m</sup>	€4.70	3.90	3.83	January 2008	16
United Kingdom	£5.73	5.73	5.73	October 2008	22
United States	US\$6.55 <sup>n</sup>	4.27	4.31	July 2008	20

Source: British Embassies, High Commissions and OECD Minimum Wage Database. LPC calculation of exchange rates and PPPs. PPPs derived from CPLs, OECD Main Economic Indicators, November 2008. For exchange rates, Bank of England monthly average spot exchange rate, November 2008.

Notes:

- In all cases, the minimum wage refers to the basic rate for adults.
- For countries where the minimum wage is not expressed as an hourly rate, the rate has been converted to an hourly basis assuming a working time of 8 hours per day, 40 hours per week and 173.3 hours per month.
- November 2008.
- Purchasing Power Parities (PPPs) derived by applying OECD Comparative Price Levels (CPLs) – ratio of PPPs for private consumption to exchange rates – for November 2008.
- Exemptions and special rules apply in many cases. For example, in France and the United States the full adult rate applies to young workers with a tenure of more than 6 and more than 3 months respectively.
- Federal minimum wage – hourly rate under Fair Pay Commission arrangements.
- Weighted average of provincial/territorial rates.
- Date of last uprating varies between provinces.
- For blue collar workers.
- Weighted average of prefectural rates.
- Age 15 to receive the regional minimum wage. Age 18 to receive the sectoral minimum wage.
- Excludes 8 per cent supplement for holiday pay.
- Not including annual supplementary pay of two additional months of salary for full-time workers.
- Federal minimum wage. Tipped employees receive a lower minimum wage of \$2.13 per hour in direct wages.

**Table A5.2** Adult Minimum Wages Relative to Full-time Median Earnings, by Country, 2007<sup>a</sup>

Country	Percentage
France	61.6
Australia <sup>b</sup>	
– LFS	54.5
– ES	51.4
New Zealand	58.7
Greece <sup>c</sup>	47.8
Belgium	53.1
Ireland	49.9
UK <sup>d</sup>	46.7
Netherlands <sup>e</sup>	42.9 (50.0)
Canada	40.7
Portugal <sup>f</sup>	41.2 (48.0)
Spain <sup>f</sup>	33.8 (39.4)
Japan	33.9
US	29.6

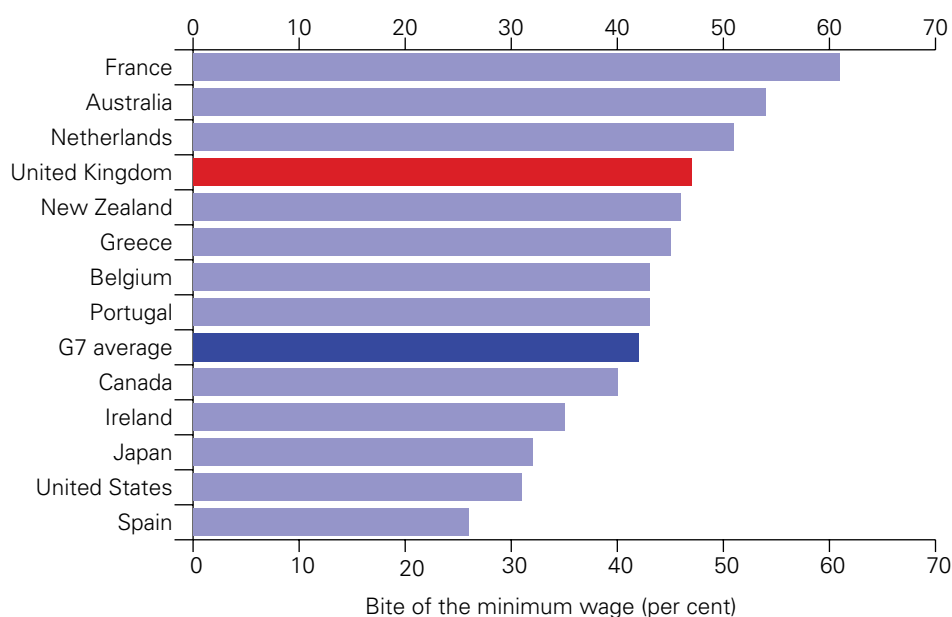
Source: OECD estimates based on OECD Earnings Structure Database, minimum wages and median earnings for full-time workers, July 2007.

Notes:

- a. In all cases, the minimum wage refers to the basic rate for adults. In some cases, the median earnings data for full-time workers for mid-2007 are estimates based on extrapolating data for earlier years in line with other indicators of average earnings growth. All earnings data are gross of employee social security contributions.
- b. Two estimates of median earnings are available based on the Labour Force Survey (LFS) and an Enterprise Survey (ES). In each case, the data refer to weekly earnings. The minimum wage refers to the Federal Minimum Wage.
- c. Minimum wage for blue collar workers.
- d. Differs from the LPC estimate in Chapter 2, as the OECD estimate is for the minimum wage relative to the median earnings of full-time, rather than all, employees.
- e. The ratio including 8 per cent supplement for holiday pay is given in parentheses.
- f. The ratio including annual supplementary pay of two additional months of salary is given in parentheses.



**Figure A5.1** Adult Minimum Wages Relative to Median Earnings, by Country<sup>ab</sup>, 2008



Source: Government evidence to the LPC on the economic effects of the National Minimum Wage, December 2008. (BERR, 2009f)

Notes:

- National minimum wage rates used may vary from those used in both Table A5.1 and Table A5.2.
- Earnings periods used vary between countries, and in most cases differ from that used in Table A5.2. In addition Table A5.2 uses median earnings of full-time, rather than all, employees.

**Table A5.3** Uprating of Minimum Wages, by Country, 2008

Country	Method of Uprating
Australia	In April 2008 the Australian Government announced that the Australian Fair Pay and Conditions Standard (AFPCS), which sets out the base minimum conditions of employment, such as working hours, minimum wage, annual leave, sick leave and parental leave, will be replaced by its National Employment Standards. It is expected that the National Employment Standards will come into being in January 2010.
Belgium	The minimum monthly average guaranteed income is set for the private sector by a collective employment agreement reached at the National Labour Council (social partners). All workers benefit from salary indexation which is currently set at 5.1 per cent until 2010 (this varies according to inflation).
Canada	In most provinces, minimum wages are fixed (and increased) by regulation. A provincial Governor-in-Council has the authority to change regulations which are frequently based on recommendations of a Minimum Wage Board, Review Committee, Labour Standards Board or the Minister of Labour.  In Quebec, minimum wage increases are based on eleven indicators, including the ratio between the minimum wage and the average hourly wage. However, increases are still made by regulation.  In the Yukon, the Employment Standards Board now provides regular annual minimum wage rate increases for the following year based on the consumer price index for the territory's capital.  In the Northwest Territories and Nunavut, minimum wage rates are set by statute, therefore any rate increases require a legislative amendment to be passed by the legislature.  The rate for the federal jurisdiction is the general adult minimum wage rate of the province or territory where the work is performed.
France	The minimum wage is reassessed each year on 1 July. The uprating must be at least half that of the increase in purchasing power of the average hourly wage. During the course of the year if the price index increases by over 2 per cent, the minimum wage is increased automatically by the same amount. The Government can also increase the minimum wage at any time.

Country	Method of Uprating
Greece	The statutory minimum wage is laid down in the National General Collective Labour Agreement (NGCLA) and applies to all workers in the private sector (civil servant pay levels are set separately by the Government). The NGCLA is the result of negotiations between the social partners. Since the mid-1990s it has covered a two-year period and upratings take account of past and anticipated levels of inflation and other factors, including the national level of productivity. Increases in the minimum wage take place once or twice yearly.
Ireland	The national minimum wage can only be increased following a recommendation in a national agreement. Where there is no national agreement, any organisation which the Labour Court is satisfied is substantially representative of employees or employers can ask the Labour Court to examine the national minimum hourly rate of pay, not earlier than 12 months after the Minister last declared a national minimum hourly rate of pay. The Labour Court can then make a recommendation to the Minister.
Japan	<p>The system operates regionally. The minimum wage is reviewed and amended each autumn. The Central Minimum Wage Council makes recommendations to the 47 Regional Minimum Wage Councils, comprising representatives of labour unions, employees and public agencies. It makes a proposal based on their consideration of the cost of living, salary of workers in similar industries, and the financial capability of employers. The final decision is made by the Director of the Regional Labour Standard Agency.</p> <p>In addition, if specific industries believe it is necessary to set a higher rate than the regional minimum wage, they can set their own rate by industry within the prefecture. The labour and management representatives of the industry must submit the rate to the Regional Minimum Wage Council. It is not uprated every year; it is reviewed on request by the industry.</p>
Netherlands	The Ministry of Social Affairs normally uprates twice yearly (on 1 January and 1 July). Wage inflation is used to determine by how much the minimum wage is increased. An average figure is derived from all the sectoral Collective Agreements. There are circumstances, however, when the Government can decide not to increase the minimum wage. The Government, in consultation with the social partners, may decide not to link the minimum wage to average contractual wage rises if it considers that the ratio between the number of people claiming social benefits and the number of people working is rising too fast. This happened between 1993 and 1996 and in 2004/05. A major evaluation of the minimum wage system is carried out every four years, mainly to consider whether the level is too high or too low compared with average wages and the overall condition of the labour market.
New Zealand	The Minister of Labour conducts annual reviews in accordance with the Minimum Wage Act 1983 by 31 December of each year. The reviews consider the effectiveness of the minimum wage in meeting its objectives and there are set criteria for reviewing changes to the minimum wage. The Minister invites submissions from the New Zealand Council of Trade Unions and Business New Zealand, as well as other organisations. The Minister makes recommendations to Cabinet on the basis of these submissions and analysis undertaken by government departments. Amendments to the minimum wage usually come into force on 1 April of the following year.
Portugal	Up until 2006, an Inter-Ministerial annual review considered the social and economic effects of the minimum wage. This included the expected inflation rate and productivity levels. Following consultation with the social partners, the wage was usually uprated annually and implemented from January of each year. However, from 2007 a tripartite committee (with representatives from Government, unions and employers) has monitored economic conditions (including inflation, GDP and productivity), to consider the social and economic impacts of the minimum wage and issue a recommended annual upgrade. Following consultation with the social partners, and taking the medium-term objectives (minimum wage to rise to €500 by 2011) into consideration, the Government sets the annual increase, to be implemented from January of the following year.
Spain	The Government uprates annually following consultation with the social partners. The Government is obliged to take account of inflation, average national productivity, participation levels and general economic conditions. Spain's Prime Minister, José Luis Rodríguez Zapatero, has pledged to increase the minimum monthly wage to 800 euros by 2012.
UK	The Government considers recommendations from an independent Commission, which reports following wide-ranging consultation and consideration of the effects on the economy, as well as on specific sectors and groups of workers. Since the minimum wage was introduced in 1999 there have been annual upratings.
US	Changes to the federal minimum wage are voted on by Congress intermittently. Most states have their own minimum wage rates. Where federal and state laws stipulate different rates, the higher rate applies.

Source: British Embassies, High Commissions and LPC.

**Table A5.4** Enforcement of Minimum Wages, by Country, 2008

Country	Method of Enforcement
Australia	Under the Federal jurisdiction, complaints are lodged with the Office of the Workplace Ombudsman and are investigated by inspectors. Employees can also refer claims to a Small Claims Court (in which case the Workplace Ombudsman suspends any investigation pending the court decision). Similar processes apply in State jurisdictions.
Belgium	The Federal Labour Inspectorate is responsible for all matters of Labour Law enforcement. A special division is dedicated to the control of Social Laws, which also gives legal advice to individuals and Labour Unions.
Canada	In each jurisdiction, the employment or labour standards legislation contains provisions for the enforcement of minimum wage requirements and the payment of wages. While the system of enforcement varies across the country, generally complaints regarding unpaid wages or a violation of minimum wage requirements may be made to the labour standards branch. Labour standards inspectors also have the legal authority to perform random inspections to ensure compliance.
France	Labour inspectorate (which is also responsible for general conditions of work, and health and safety). Inspectors carry out random checks and investigate complaints from trade unions and individual employees.
Greece	Labour inspectorate. Employers can be sued by employees, who have to pay their own costs, or by inspectors.
Ireland	The national minimum wage is enforced by Labour Inspectors in the National Employment Rights Authority, who conduct both routine inspections and investigate complaints. Disputes can be referred to the Rights Commissioner Service of the Labour Relations Commission.
Japan	Labour inspectorate. It can fine employers up to ¥500,000 if they pay less than the regional minimum and up to ¥300,000 if they pay less than the sectoral minimum wage. Employees can report any breach of such laws to the Regional Labour Standard Agency, the Labour Standards Supervision Office or the Labour Standards Inspector. If an employer dismisses or treats the employee(s) unfavourably for such reporting, the employer will be punished with a fine of up to ¥300,000 or sentenced to up to six months in prison.
Netherlands	Labour inspectorate periodically reports on the application of the minimum wage in practice. Employers are informed of pay below the minimum wage but the Labour inspectorate is not able to take employers to court; the employee must do this.
New Zealand	Labour inspectorate may take action in the Employment Relations Authority or the Employment Court to recover wages owing, plus penalties. Alternatively Labour Inspectors may issue a demand notice requiring that the employer pay monies to an employee, as assessed by the Labour Inspector. Complaints received from a person other than the employee are investigated.
Portugal	The labour inspectorate is responsible for enforcing labour legislation and regulations governing general working conditions, including the minimum wage. Inspectors carry out random checks and investigate complaints from trade unions and individual employees.
Spain	Labour inspectorate (which also has the power to enforce a wide range of labour issues, including collectively-bargained rates). It can fine employers, or the employee can take the case to tribunal to obtain back pay. The system is both reactive and proactive. There are around 600 inspectors and 800 assistants, stationed on a provincial basis.
UK	HM Revenue and Customs is the enforcement agency. It conducts both proactive, targeted enforcement and investigation of complaints. Employees also have the right to take their case to an Employment Tribunal. There is a free telephone helpline, with all calls followed up, including anonymous complaints.
US	Wage and Hour Division in the Department of Labor is responsible for enforcing the federal minimum wage. It both pursues complaints and is proactive, targeting specific low wage industries. There is a team of approximately 750 inspectors nationwide.

Source: British Embassies, High Commissions and LPC.

**Table A5.5 Age Variations Under Minimum Wage Systems, by Country, 2008**

Country	Treatment by Age
Australia	Junior rates contained in Australian Pay and Classification Scales (Pay Scales) vary across industries and occupations. Typically a sliding scale applies from age 16 (40–50 per cent of the adult minimum wage) through age 18 (65–80 per cent) to age 20 (85–100 per cent). Adult wages apply at age 21.
Belgium	Full minimum wage applies at age 21. An additional premium is payable to workers aged 21½ who have been employed for at least 6 months and to workers aged 22 who have been employed for at least 12 months. There is a 6 per cent deduction from the minimum wage for each year below age 21, with those aged 16 or under receiving 70 per cent of the full rate.
Canada	Full minimum wage at all ages except in Ontario, which has retained youth rates. Both British Columbia and Nova Scotia have introduced a first job/entry-level wage rate for workers new to the paid labour market.
France	Full minimum wage at age 18. Certain categories of young people receive a reduced rate, provided they have worked less than six months in a sector (80 per cent for those aged 16 and 90 per cent for those aged 17).
Greece	Full minimum wage at age 15 (but variation depending on length of employment and marital status).
Ireland	Full minimum wage applies to an experienced adult employee (which is an employee who is not (i) under age 18 or (ii) in the first two years after the date of first employment over age 18 or (iii) undergoing structured training or study). Employees in the first year after the date of first employment over age 18 are entitled to 80 per cent of the full minimum rate and 90 per cent in the second year. Employees under age 18 are entitled to 70 per cent of the full adult rate.
Japan	The regional minimum wage applies to employees over 15 years old. The sectoral minimum wage applies to employees aged between 18 and 64.
Netherlands	Full minimum wage at age 23. Youth rates are 30.0 per cent at age 15, 34.5 per cent at age 16, 39.5 per cent at age 17, 45.5 per cent at age 18, 52.5 per cent at age 19, 61.5 per cent at age 20, 72.5 per cent at age 21 and 85.0 per cent at age 22.
New Zealand	From 1 April 2008 all employees aged 16 years and over are entitled to the adult minimum wage, except for new entrants and employees to whom the training minimum wage applies. The new entrants' minimum wage and the training wage are equivalent to 80 per cent of the minimum wage.
Portugal	Full minimum wage at age 16. Exceptions are apprentices and trainees in qualified or highly qualified jobs, who can receive 80 per cent for up to a year, or 6 months if the course is technical/professional.
Spain	Full minimum wage at age 16. Young people who were unemployed but join various training schemes to help them to enter the labour market receive 75 per cent of the minimum wage.
UK	Full minimum wage at age 22. Separate rates exist for 16–17 and 18–21 year olds (currently 62 and 83 per cent respectively of the adult rate).
US	Full minimum wage at all ages, except below age 20 where lower rate of \$4.25 can apply (approximately 82.5 per cent of full minimum wage) for the first 90 days in any job. Also full-time students can be paid 85.0 per cent of the minimum wage. Additionally, student-learners (those aged 16 and over who are enrolled in vocational education) can be paid 75.0 per cent of the minimum wage while on the vocational education programme.

Source: British Embassies, High Commissions and LPC.

**Table A5.6** Youth Minimum Wages as a Percentage of Adult Minimum Wage Rates, by Country, 2008

Country	Percentage at age 16	Percentage at age 17	Average percentage at ages 18/19
Australia <sup>a</sup>	50	60	75
Belgium	70	76	85
Canada	100 <sup>b</sup>	100 <sup>b</sup>	100
France <sup>c</sup>	80	90	100
Greece	100	100	100
Ireland	70	70	85
Japan	100 (regional) 0 (sectoral)	100 (regional) 0 (sectoral)	100 (regional) 100 (sectoral)
Netherlands	34.5	39.5	49
New Zealand	80	80	100
Portugal	100	100	100
Spain	100	100	100
UK	62	62	83
US <sup>c</sup>	82.5	82.5	82.5

Source: OECD Minimum Wage Database, British Embassies, High Commissions and LPC.

Notes:

- As prescribed in the Pay Scales derived from New South Wales Shop Employees Award. These rates are broadly representative of the rates for younger workers prescribed in other Pay Scales.
- All provinces except Ontario.
- For France and the United States, the reduced rates apply to young workers with a tenure of fewer than six months and three months, respectively.

**Table A5.7 National Minimum Wages and Apprenticeships, by Country, 2008**

Country	Apprenticeship Exemptions
Belgium	Apprentices and trainees are exempt from the minimum wage. Apprentices aged 16–17 are paid 25 per cent of minimum salary for the first year of the contract, 37 per cent of minimum salary for the second year and 53 per cent of minimum salary for the third year. Apprentices aged 18–20 are paid 41 per cent of minimum salary for the first year of the contract, 49 per cent of minimum salary for the second year and 65 per cent of minimum salary for the third year. Apprentices aged 21 and over are paid 53 per cent of minimum salary for the first year, 61 per cent of minimum salary for the second year and 78 per cent of minimum salary for the third year.
Canada	Apprenticeship training and pay is set at provincial level and is dependent on the regions and zones in each of the 13 territories where the apprentice is in training. The hourly salary wages for apprentices range between 50 per cent and 90 per cent of a journeyperson's wage. The exact percentage depends on the year of the apprenticeship, the occupation and the jurisdiction. The wages and percentages are regulated by the Ministry of Labour (or equivalent) in each jurisdiction.
Greece	There are no exemptions from the national minimum wage for apprentices. Apprentices have a statutory entitlement to a wage which is laid down in the National General Collective Labour Agreement. This is voted through Parliament and becomes law.
Ireland	National Minimum Wage legislation does not apply to Ireland's National Training and Employment Authority (FÁS). However, registered employment agreements set out the minimum rates for apprentices working in the Construction and the Electrical Contractor sectors.  Minimum wage rates apply for employees aged over 18, in a course of training or study undertaken in normal working hours. The following employee trainee rates apply: 75 per cent of the minimum wage rate must be paid for the first third period; 80 per cent of the minimum wage rate must be paid for the second third period and 90 per cent of the minimum wage rate must be paid for the third period. The training or study must satisfy prescribed criteria including the requirement that the course must be for the duration of a minimum of three months.
Japan	Employees are exempt from the minimum wage only if the employer gets approval from the Head of the Regional Labour Standard Agency. Employees under certified vocational training, which is training approved by the Governor, are exempt from the minimum wage. However, as each exemption is discussed individually, there is little data available.
Netherlands	Students studying under the Educational Learning Path Arrangement do not have to be paid the minimum wage and are not subject to the sectoral collective labour agreement. Students are in school five days a week but gain experience during a number of internships with employers.  Students enrolled in higher education and doing an internship with an employer do not have to be paid the minimum wage and do not fall under the sectoral collective labour agreement. An internship contract covers details on pay and allowances. Students studying under the Learning by Doing Learning Path Arrangement are with an employer for four days a week and spend one day a week at school. These apprentices are required to have signed a labour contract and have to be paid at least the minimum wage. They are also subject to the sectoral labour agreement.
Spain	Apprentices combine work with training. The training cannot be less than 15 per cent of an apprentice's day and their wage cannot be less than the minimum wage, proportionate to their working hours. For example, an apprentice who receives theoretical training for 15 per cent of their day can receive 15 per cent less than the minimum wage.  Individuals on training programmes (for people who have a degree but no professional experience) are a special case. Their remuneration is fixed by a collective agreement but cannot be less than 60 per cent in the first year and 75 per cent in the second year of the agreed salary of an experienced worker doing the same or an equivalent job.
UK	Apprentices below the age of 19 and older workers in the first year of an apprenticeship are currently exempt from the minimum wage. Apprentices are paid a contractual rate of £80 per week in England (this is due to rise to £95 in August 2009). No contractual rate in other countries of the UK, although the Scottish Government encourages payment of the minimum wage and the administration in Northern Ireland encourages payment of the appropriate industry rate for the job.
US	The United States has a formal apprenticeship program that the Government runs. Anyone aged 16 or older can apply to enter an apprenticeship program. A term of apprenticeship must not be less than 2,000 hours of work experience and must be consistent with training requirements as established by industry practice. A minimum of 144 hours training for each year of apprenticeship is recommended. Apprentices must be paid the minimum wage at the start of the apprenticeship program and their salary must increase during the duration of the program, to be consistent with the skills acquired.

Source: British Embassies, High Commissions and LPC.

# Abbreviations and Glossary

<b>A8</b>	The eight Central and Eastern European accession countries that joined the EU in May 2004: the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia.
<b>ABI</b>	Annual Business Inquiry An annual ONS survey of businesses covering employment and financial information.
<b>ACS</b>	Association of Convenience Stores
<b>Adult rate</b>	The National Minimum Wage rate applicable to those aged 22 and over.
<b>AEI</b>	Average Earnings Index A measure of the money people receive in return for work done, gross of tax. It includes salaries and bonuses, unless otherwise stated, but not unearned income, benefits-in-kind or arrears of pay.
<b>ALI</b>	Adult Learning Inspectorate
<b>ALMR</b>	Association of Licensed Multiple Retailers
<b>ALP</b>	Association of Labour Providers
<b>Annualised</b>	Where an adjustment is made to data so that they represent twelve months, to enable comparisons between different time periods.
<b>Apprenticeship</b>	A form of vocational training. Provides a learning framework involving a mixture of work-based and theoretical learning.
<b>APS</b>	Annual Population Survey
<b>ARD</b>	Annual Respondents Database
<b>ASHE</b>	Annual Survey of Hours and Earnings
<b>AWB</b>	Agricultural Wages Board
<b>AWD</b>	Agency Workers Directive
<b>AWE</b>	Average Weekly Earnings
<b>BATC</b>	British Apparel & Textile Confederation

<b>BBPA</b>	British Beer & Pub Association
<b>BCC</b>	British Chambers of Commerce
<b>BERR</b>	Department for Business, Enterprise and Regulatory Reform
<b>BHA</b>	British Hospitality Association
<b>Bimodal</b>	A distribution in which two numbers or values appear most frequently.
<b>BISL</b>	Business In Sport and Leisure
<b>Bite</b>	The value of the minimum wage, in percentage terms, relative to a specific point on the earnings distribution, usually the median, mean or lowest decile.
<b>BRC</b>	British Retail Consortium
<b>BSSA</b>	British Shops and Stores Association
<b>BYC</b>	British Youth Council
<b>CBI</b>	Confederation of British Industry
<b>Claimant count</b>	The number of people claiming Jobseeker's Allowance in the UK. See also unemployment.
<b>CoVE</b>	Commission on Vulnerable Employment
<b>CPI</b>	Consumer Price Index  The headline measure of consumer price inflation in the UK and the index used for the Government's inflation target. It is a measure of the change in the average price of consumer goods and services purchased by households. Unlike the RPI, the CPI excludes housing costs. There are also methodological differences between the two measures. It is used for international comparisons. See also inflation.
<b>CPL</b>	Comparative Price Level  An indicator of price level differences across countries and defined as the ratio of purchasing power parities (PPPs) to exchange rates. See also PPP.
<b>Credit crunch</b>	A sudden reduction in the availability of loans and other types of credit from banks and capital markets independent of a rise in interest rates.
<b>CSSA</b>	Cleaning and Support Services Association
<b>DCSF</b>	Department for Children, Schools and Families
<b>Deciles (earnings)</b>	Employees ranked by their earnings from lowest to highest then divided into ten equally sized groups. The lowest decile contains those in the bottom 10 per cent of the earnings distribution.



<b>DEFRA</b>	Department for Environment, Food and Rural Affairs
<b>DEL</b>	Department for Employment and Learning
<b>DfES</b>	Department for Education and Skills
<b>DIUS</b>	Department for Innovation, Universities and Skills
<b>DTI</b>	Department of Trade and Industry
<b>DWP</b>	Department for Work and Pensions
<b>EAS</b>	Employment Agency Standards
<b>ECCA</b>	English Community Care Association
<b>Economically active</b>	People who are either in employment or unemployment.
<b>EEA</b>	European Economic Area  An agreement that allows Iceland, Liechtenstein and Norway to participate in the European Union single market without joining the European Union
<b>EEF</b>	The manufacturers' organisation
<b>EHRC</b>	Equality and Human Rights Commission
<b>EIS</b>	Employment Information Services
<b>EMA</b>	Education Maintenance Allowance  A means tested payment of up to £30 per week, available to young people aged 16–18 who remain in education and training after the age of compulsory education.
<b>Employee jobs</b>	The total number of jobs held by employees. Some people may have more than one job so the figure is higher than the number of employees.
<b>Employees</b>	Those who work for an employer under the terms of a contract of employment, whether it is written down, agreed orally or implied by the nature of the relationship.
<b>Employment</b>	Total number of employees, self-employed, participants in government training schemes, and people doing unpaid family work.
<b>Employment rate</b>	The total number of people in employment as a percentage of a defined group. The working age employment rate is typically used as the headline figure. The age group is stated otherwise. See also working age.
<b>Enterprise</b>	A firm or a business.
<b>EOC</b>	Equal Opportunities Commission

<b>Established rate of pay</b>	The rate of pay employees can be expected to progress to, usually within a year, having completed any initial training and probationary period.
<b>ET</b>	Employment Tribunal
<b>Ethnicity</b>	A character trait or affiliation resulting from national, racial or cultural ties.
<b>EU</b>	European Union
<b>Eurozone</b>	The currency union of 16 European Union (EU) states which have adopted the euro as their sole legal tender.
<b>FAME</b>	Financial Analysis Made Easy
<b>Four-quarter moving average</b>	A form of seasonal adjustment that takes the average of four calendar quarters (in this report the latest quarter plus the three preceding quarters).
<b>FRS</b>	Family Resources Survey
<b>FSB</b>	Federation of Small Businesses
<b>FTE</b>	Full-time education
<b>Full day care</b>	Facilities that provide day care for children under the age of eight for a continuous period of four hours or more on any day in premises which are not domestic premises.
<b>Full-time</b>	In employer and household surveys, jobs are generally classified as being full-time if the contracted hours of work are 30 hours or more per week.
<b>GB</b>	Great Britain Constituted by England, Scotland and Wales.
<b>GCSE</b>	General Certificate of Secondary Education
<b>GDP</b>	Gross Domestic Product A measure of the value of goods and services produced in an economy in a particular period.
<b>GfK NOP</b>	Growth from Knowledge National Opinion Polls
<b>GLA</b>	Gangmasters Licensing Authority
<b>GMB</b>	A trade union
<b>GMPERAS</b>	Greater Manchester Pay and Employment Rights Advice Service
<b>GVA</b>	Gross Value Added A measure of the additional contribution to the economy of each individual producer, industry or sector.
<b>HMRC</b>	HM Revenue & Customs
<b>HO</b>	Home Office

<b>Housing equity withdrawal</b>	New borrowing secured on dwellings that is not invested in the housing market (e.g. not used for house purchase or home improvements), so it represents additional funds available for reinvestment or to finance other purchasing.
<b>HR</b>	Human Resources
<b>IDS</b>	Incomes Data Services
<b>IES</b>	Institute for Employment Studies
<b>ILO</b>	International Labour Organisation
<b>ILO Unemployment</b>	The measure based on the International Labour Organisation (ILO) guidelines which counts as unemployed those who are without a job, are available to start work in the next two weeks, who want a job and have been seeking a job in the last four weeks, or are waiting to start a job already obtained.
<b>IMF</b>	International Monetary Fund
<b>Inactive (economically)</b>	People who are neither in employment nor unemployment, including those with caring responsibilities, students, retired or permanently unable to work. This also includes those who want a job but have not been seeking work in the last four weeks, those who want a job and are seeking work but are not available to start work, and those who do not want a job.
<b>Inactivity rate</b>	The total number of people who are economically inactive as a percentage of a defined group. The working age inactivity rate is typically used as the headline figure. The age group is stated otherwise. See also working age.
<b>Independent/voluntary sector</b>	Non-profit, non-governmental, non-statutory organisations.
<b>Inflation</b>	A general and progressive increase in prices. See also CPI, RPI and RPIX.
<b>Informal economy</b>	Economic activity that is neither taxed nor monitored by a government. It is not included in official estimates of output, employment or earnings.
<b>Insolvency</b>	A firm that has been registered as unable to meet its debts or discharge its liabilities.
<b>IRS</b>	Industrial Relations Services
<b>JWEP</b>	Joint Workplace Enforcement Pilot
<b>Labour force</b>	Those in work or available for work.

<b>Labour market</b>	The interaction between workers and employers that determines employment and earnings.
<b>Large firm</b>	A firm employing 250 or more employees.
<b>LFS</b>	Labour Force Survey
<b>Low-paying industry</b>	Those industries that employ a large number of minimum wage workers or those in which a high proportion of jobs are paid at the minimum wage. The low-paying industries are: retail; hospitality; leisure, travel and sport; social care; food processing; agriculture; hairdressing; cleaning; security; and textiles and clothing.
<b>Low-paying occupation</b>	Those occupations where a large number of workers or a high proportion of jobs are paid at the minimum wage. We have grouped them into low-paying occupational sectors that are akin to the industry groupings that we use. The low-paying occupational sectors are: retail; hospitality; leisure, travel and sport; social care; food processing; agriculture; hairdressing; cleaning; security; textiles and clothing; childcare; and office work. For example, retail consists of shelf stackers, trolley collectors, till assistants and other lower-skilled retail jobs.
<b>Low-paying sector</b>	Those industries or occupational sectors that employ a large number of minimum wage workers or those in which a high proportion of jobs are paid at the minimum wage.
<b>LPC</b>	Low Pay Commission
<b>LRD</b>	Labour Research Department
<b>LSC</b>	Learning and Skills Council
<b>MA</b>	Modern Apprenticeship
<b>Macroeconomics</b>	The study of the economy as a whole.
<b>Mean</b>	An average of a series of values, derived by dividing the sum of all the values by the number of values.
<b>Median</b>	An average of a series of values, derived by ranking all the values in ascending order and taking the middle value.
<b>Medium-sized firm</b>	A firm employing between 50 and 249 employees, inclusive.
<b>Micro firm</b>	A firm employing between 1 and 9 employees, inclusive. Micro firms are a subset of small firms. See also small firm.
<b>Microeconomics</b>	The study of individuals' and firms' economic decisions.

<b>Migration</b>	Movement from one area to another. The terms in-migration and out-migration refer to migration into and out of an area respectively, and are therefore interchangeable with immigration and emigration. An international migrant is someone who changes their country of usual residence for a year or more. Internal migration relates to movement within the UK.
<b>Minimum wage employer</b>	An employer making use of the National Minimum Wage rates.
<b>MPC</b>	Monetary Policy Committee
<b>MWSS</b>	Monthly Wages and Salary Survey
<b>NCWE</b>	National Council for Work Experience
<b>NDNA</b>	National Day Nurseries Association
<b>NEET</b>	Not in Education, Employment or Training
<b>NES</b>	New Earnings Survey
<b>NESS</b>	National Employers Skills Survey
<b>NFU</b>	National Farmers' Union (England and Wales)
<b>NGH</b>	National Group on Homeworking
<b>NHF</b>	National Hairdressers' Federation
<b>NHS</b>	National Health Service
<b>NICs</b>	National Insurance Contributions
<b>NIESR</b>	National Institute of Economic and Social Research
<b>NINo</b>	National Insurance Number
<b>NMW</b>	National Minimum Wage
<b>Non-UK-born</b>	All people born outside the United Kingdom.
<b>Normalised</b>	A procedure to adjust the data to a different scale. In this case, the median is set to zero (by subtracting the annualised growth in earnings) and the rest of the data is adjusted accordingly for the other percentiles (by subtracting the same annualised growth as that for the median).
<b>NUJ</b>	National Union of Journalists
<b>NUS</b>	National Union of Students
<b>NVQ</b>	National Vocational Qualification  A work-related, competence-based qualification. It reflects the skills and knowledge needed to do a job effectively, and shows competency in the area of work the NVQ framework represents.

<b>Occupational sector</b>	See low-paying occupation.
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>OFSTED</b>	Office for Standards in Education
<b>ONS</b>	Office for National Statistics
<b>Output</b>	The total value of all of the goods and services produced.
<b>Part-time</b>	In employer and household surveys, jobs are generally classified as being part-time if the contracted hours of work are less than 30 hours per week.
<b>PAYE</b>	Pay-As-You-Earn
<b>Pay gap</b>	The proportional difference between the earnings of two groups of workers.
<b>Pay settlement</b>	The percentage increase in basic pay when agreements become effective. Bonuses, lump sums and progression are not included. Where the percentage increase varies for different employees, the figure recorded is usually the average increase, the increase received by most workers, or the paybill rise.
<b>PBS</b>	Points Based System
<b>PCS</b>	Public and Commercial Services Union
<b>PCT</b>	Primary Care Trust
<b>Percentiles (earnings)</b>	Employees ranked by their earnings from lowest to highest then divided into 100 equally sized groups. The lowest percentile contains those in the bottom one per cent of the earnings distribution.
<b>Plant</b>	A single-site business or an individual site of a multi-site business.
<b>Population</b>	The estimated or projected number of people in an area. This includes all those usually resident in the area, whatever their nationality. Members of HM forces stationed outside the UK are excluded from the UK population estimate, but members of the US forces stationed in the UK are included. Students are taken to be resident at their term-time address.
<b>PPP</b>	Purchasing Power Parity  Currency conversion rates that both convert to a common currency and equalise the purchasing power of different currencies. In other words, they eliminate the differences in price levels between countries in the process of conversion.

<b>Price maker</b>	An individual or company that is influential enough to affect the price of an item. The term is most often applied to companies, specifically those which have a monopoly in their market, and are therefore able to choose and demand a specific price for their goods.
<b>Price taker</b>	An individual or company that is not influential enough to affect the price of an item. See price maker.
<b>Private sector</b>	Organisations that are run for profit and that are non-governmental. In some instances official data for the private sector includes the independent/voluntary sector.
<b>Productivity</b>	Output per worker.
<b>Profit share</b>	Corporate profits as a percentage of GDP.
<b>Public sector</b>	Covers government (central and local), public corporations and the Bank of England.
<b>Q</b>	Quarter  Three months. Typically referring to calendar quarters i.e. January to March etc. unless otherwise stated.
<b>Quartile (earnings)</b>	Employees ranked by their earnings from lowest to highest then divided into four equally sized groups. The lowest quartile contains those in the bottom 25 per cent of the earnings distribution.
<b>Rate of return</b>	A measure of corporate profitability. It compares the profits made by companies with the value of the buildings, plant, machinery and vehicles held as capital assets by those companies.
<b>Real value</b>	A price or value that has been adjusted for the effect of inflation. Used to demonstrate the cost of goods in the past in today's money.
<b>REC</b>	Recruitment and Employment Confederation
<b>Recession</b>	A period in which there are at least two consecutive quarters of negative growth in output.
<b>Redundancy</b>	Dismissal from a job because an employer needs to reduce the size or cost of the workforce; sometimes voluntary.
<b>Residence-based</b>	Defined by where one lives. See also work-based.
<b>Retail sales value</b>	The total takings adjusted for inflation. See also retail sales volume.
<b>Retail sales volume</b>	The total actual takings, not adjusted for inflation. See also retail sales value.
<b>RMT</b>	The National Union of Rail, Maritime and Transport Workers

<b>RPI</b>	Retail Price Index  The most familiar and the longest standing general purpose measure of inflation in the UK. Also known as the RPI all items index. It monitors the change in the general level of prices for goods and services used by most households in the UK. See also inflation.
<b>RPIX</b>	Retail Price Index excluding mortgage interest payments
<b>RSA</b>	Rural Shops Alliance
<b>School leaving age</b>	The age at which a child is no longer legally required to remain in education. Currently in England children must remain in education until the last Friday in June in the school year that they reach the age of 16.
<b>Seasonal adjustment</b>	A process of estimating regularly occurring seasonal effects and removing them from the raw data.
<b>Self-employed</b>	People not working for an employer but finding work for themselves or having their own business.
<b>Sessional care</b>	Facilities where children under eight years old attend day care for no more than five sessions a week, each session being less than a continuous period of four hours in any day. Where two sessions are offered in any one day, there is a break between sessions with no children in the care of the provider.
<b>SIC</b>	Standard Industrial Classification  The UK system of classifying businesses and other standard units by the type of industrial activity in which they are engaged.
<b>SLTA</b>	Scottish Licensed Trade Association
<b>Small firm</b>	A firm employing between 1 and 49 employees, inclusive. Sometimes the subset of firms employing between 1 and 9 employees, inclusive are defined as micro firms.
<b>SMEs</b>	Small and Medium-sized Enterprises  Firms employing between 1 and 249 employees, inclusive.
<b>SOC</b>	Standard Occupational Classification  A hierarchical system for classifying jobs, in terms of their skill level and skill content.
<b>SPPI</b>	Services Producer Price Index
<b>State Pension age</b>	The earliest age at which someone can claim their State Pension. It is currently 65 for men and 60 for women, but will increase gradually to 65 for both men and women between 2010 and 2020.



<b>Statistically significant</b>	A result that is unlikely to have occurred by chance – determined using statistical tests on data.
<b>Statutory leave entitlement</b>	From 1 April 2009 all workers have a statutory right to at least 5.6 weeks’ paid annual leave, including public and bank holidays (that is at least 28 days’ paid holiday if working five days a week).
<b>Strike rate</b>	In relation to enforcement of the minimum wage, this is the percentage of cases investigated where non-compliance is found.
<b>TUC</b>	Trades Union Congress
<b>UCG</b>	Unquoted Companies Group
<b>UK</b>	United Kingdom Constituted by Great Britain and Northern Ireland.
<b>UKBA</b>	United Kingdom Border Agency
<b>UKHCA</b>	United Kingdom Home Care Association
<b>UFU</b>	Ulster Farmers’ Union
<b>Unemployment</b>	Unemployment can be defined in two ways: those seeking work and available to work, the ILO unemployed; and those claiming unemployment benefit, the claimant count. See also claimant count and ILO Unemployment.
<b>Unemployment rate</b>	The total number of people in unemployment as a percentage of the total number of economically active people in a defined group. See also economically active.
<b>UNISON</b>	A trade union
<b>Unite</b>	A trade union
<b>US</b>	United States of America
<b>Usdaw</b>	Union of Shop, Distributive and Allied Workers
<b>Vacancy</b>	An employment position for which employers are actively seeking applicants from outside their business or organisation.
<b>VAT</b>	Value Added Tax
<b>VWEF</b>	Vulnerable Workers Employment Forum
<b>WAG</b>	Welsh Assembly Government
<b>Wage bill</b>	A firm’s total pay bill, including basic wages and additional payments such as bonuses, overtime and benefits-in-kind.
<b>Work-based</b>	Defined by where one works. See also residence-based.
<b>Workforce</b>	The total number of people currently in work.

<b>Workforce jobs</b>	The sum of employee jobs (as measured by surveys of employers), self-employment jobs from the LFS, those in HM Forces, and government-supported trainees. Vacant jobs are not included.
<b>Working age</b>	Those aged 16 to retirement age, i.e. 16–64 for men and 16–59 for women. See also State Pension age.
<b>WRS</b>	Worker Registration Scheme  Workers from the A8 countries are required to register under the scheme if they wish to work for an employer in the UK for more than one month. See also A8.
<b>YDR</b>	Youth Development Rate
<b>Youth rates</b>	The 16–17 Year Old Rate and the Youth Development Rate. In other words, the applicable National Minimum Wage rates for those aged under 22.

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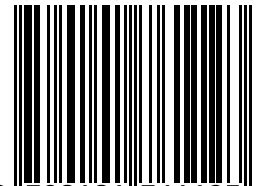
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