

## Background information

The National Hairdressers' Federation (NHF) is the UK's biggest trade association, representing over 5000 hairdressing, barbering and beauty salon owners. The hair and beauty industry generates turnover of more than £6bn per year and across 35,000+ salons the sector employs almost 250,000 people. NHF's members are mostly micro-businesses, often family-owned salons, with 93% employing fewer than 10 people.

Many salons also rent out styling chairs (chair renting) to self-employed hairdressers and there are also mobile and freelance hairdressers who work from their own homes or travel to a client's home.

Apprenticeships are by far the most usual entry into the hair and beauty industry and hairdressing is always in the top 10 most popular occupations for Apprenticeship applications.

The industry's workforce is predominantly female (90%).

The data informing our response to the Low Pay Commission's consultation is drawn from a survey of our members carried out during August 2014, with comparisons drawn to two similar member surveys, carried out over the summer of 2013.

## 1 Views on the economy

Turnover	2013	2014
Gone up	32%	27%
Stayed the same	43%	45%
Gone down	25%	27%

These findings suggest that for many hairdressing, barbering and beauty salons, the after-effects of the recession continue, with the majority reporting turnover remaining at the same levels in 2012, 2013 and 2014. There has been a decrease of 5% of salons reporting any increase in turnover and an increase of 2% in those reporting a decrease.

The following tables show the turnover and staff numbers in salons which are experiencing growth, compared to those which are not:

Turnover	Salons with increased turnover	Salons with decreased turnover
£50k to £100k	30%	38%
£100k to £250k	34%	20%
£250k to £500k	22%	17%

<b>Number of people working in the salon</b>	<b>Salons with increased turnover</b>	<b>Salons with decreased turnover</b>
Under 5	23%	42%
6-10	45%	33%
11-20	25%	13%

Salons reporting lower turnover in 2014 compared to 2013 were the smaller salons both in terms of turnover and numbers of staff.

There were also some regional differences, although it should be noted that there were more respondents in some regions than others, with 26% of all respondents coming from the South East alone.

Of the salons reporting increased turnover, they were based in the south east (34%), East Midlands (13%) and London (12%), whereas the salons whose turnover had decreased were based in the south east (27%), Scotland (18%), the south west (12%), the north west (10%), and London and West Midlands (8% respectively).

The NHF runs an employment law helpline. The top 5 reasons for calling have not varied significantly from one year to another, and it should be noted that redundancy is the 5<sup>th</sup> most common reason for contact, compared to the 4<sup>th</sup> most common reason for contact last year.

This suggests that recovery from the recession is still patchy, with some regions struggling more than others and smaller salons finding trading conditions tough with little sign that economic recovery is affecting their businesses.

## **2 Wage growth**

Regardless of their size or turnover, 50% of all salons had no plans to increase staff wages over the coming year. A further 21% intended to give an increase but at less than the rate of inflation (1.9% at the time of writing) while 18% planned a rise in line with inflation. Only 11% of all salons were considering an above-inflation rate increase.

Unsurprisingly, those considering wage increases were much more likely to be the salons whose turnover had increased compared to the previous year. The following table shows intentions for wage rises for salons which are experiencing growth, compared to those which are not:

<b>Wage increases</b>	<b>Salons with increased turnover</b>	<b>Salons with decreased turnover</b>
No increase	31%	71%
Less than inflation	27%	15%
In line with inflation (1.9%)	18%	8%
Above inflation	23%	5%

## **3 Impact of NMW**

As the hair and beauty industry is dominated by females (90%) and those under 24 (30) or 25 to 34 (30%), it is mostly young females who are disproportionately affected by the impact of the NMW.

In common with all service industries, the hair and beauty industry is very labour intensive with staff-related costs making up the majority of business expenditure for salon owners.

There are a number of other labour-related costs which will be impacting salon owner businesses in the coming year, including auto-enrolment for pensions and compulsory employer contributions to Apprenticeships.

Taken together, the impact on any increase in employment costs will be severe for those salons which are already struggling to remain in business, in particular the smaller salons and those in regions where the economy is still in recovery.

Unfortunately, the hair and beauty sector is characterised by low pay. The difference in pay between those on the NMW, especially Apprentices, and fully qualified and experienced junior stylists is low. Therefore, any increase in the NMW is likely to force increases in the wages of other salon staff in order to maintain those differentials, bringing further pressure on labour costs.

When asked what would be the impact of significant increases to the NMW, salon owners typically respond by reducing hours for staff working in the salon, or increasing their prices. However, competition in the industry is ever-increasing and there is reluctance to raise prices for fear of losing business.

Some salon owners are poised to give up their businesses, for example 16% stated that they 'strongly agreed' that selling or leaving their business would be a realistic option.

There were also comments about the constraints on employers and the increasing attraction of 'chair renting' or self-employment within the industry. The Low Pay Commission has previously noted that the number of businesses in the hairdressing sector has increased. The growth of self-employment is likely to be the cause.

This is detrimental to the industry as a whole as those who are self-employed are likely to be under the VAT threshold, which, in turn makes it harder for salon owners to compete as they do have to charge VAT. The NHF has previously campaigned on 'levelling the playing field' by lowering the VAT registration threshold from £70,000 to £40,000, thereby reducing the competitive difference between VAT-registered and non-VAT-registered businesses.

#### **4 Impact of NMW for 2014**

As above, for smaller salons which are already struggling, any increase in labour costs brings risks of reduced hours or other staff cutbacks.

In 2014, the majority of salons will not yet be affected by pensions auto-enrolment. As salons are micro-businesses, the majority will have later staging dates, but this will become a significant factor for 2015 and beyond. Likewise, at present the compulsory employer contributions for Apprenticeships have not yet come into effect but these will start in 2015.

It is our belief that the rises for 2014 will have less of an impact than rises from 2015 and beyond when there will be other increased employment-related costs for business owners to contend with.

#### **5 Faster increases to the NMW**

Until we see concrete evidence that the recession has ended and recovery is truly underway across the whole of the UK, it is difficult to see how the NMW can be increased more quickly or at a rate above inflation.

It may be possible to implement rises which vary between different sectors, so those sectors which are booming could move to a NMW more quickly than others which traditionally pay at lower rates and where employment-related costs are proportionally higher than others.

## **6 Impact of NMW on young people**

Apprenticeships is the most common route of entry into the profession and it is mostly taken up by 16 and 17 year olds because the age-related restrictions on the NMW for Apprentices make it unlikely that anyone over the age of 17 will be employed as an Apprentice.

This is because unless an Apprentice is 16 or 17 when they start their programme, they cannot complete it before they are 19. 19 year olds can only be on the Apprenticeship NMW rate for the first year of their programme but one year is not long enough for anyone to complete their training to a standard ready to work in a salon as a hairdresser or barber. The new Trailblazer Apprenticeship standards specify a minimum duration of 2 years as this is the time it takes to reach an employment-ready standard.

76% of salon owners think the Apprenticeship rate should be the same for all trainees, regardless of age. Of all the questions in the survey, this was the one that attracted the most comments:

*'They are in training whatever their age'*

*'It's discriminatory and hampers older students'*

*'If I have two Apprentices, the one under 18 earns £2.68 per hour in the second year, but the one over 19 earns £5.03 per hour for the very same training and job in their second year. That's not fair on the younger student.'*

*'Exempting this group of learners for longer would give more 19+ learners the opportunity to find an Apprenticeship'*

*'The NMW for Apprentices should be the same period of time as it takes to complete the Apprenticeship, usually 2 years.'*

*'It would enable our business to employ staff who are not school leavers and want a different career. No business is going to employ someone who is an Apprentice but earns at least double an Apprentice wage or the same as a qualified stylist. This causes problems with other staff at the same level.'*

*'We have many older people looking for an Apprenticeship. Nobody advises them correctly whilst in school, that if they stay on to do their A levels then they have potentially lost an opportunity to start an Apprenticeship as most businesses can't afford adult NMW for their second year of training. Also we find it unfair to our other Apprentices if they are not being paid the same. But they can do a 2 year training course in full time college, and not get paid at all!'*

Consequently, the Apprenticeship NMW works well for 16 and 17 year olds but is a major barrier for anyone over that age. Hairdressing and barbering could be attractive to those wanting a career change later in life because of the prevalence of part-time flexible working. Older people may well have the essential soft skills employers need for working with customers.

The raising of the school leaving age is causing knock-on implications because employers are reporting that more young people are staying on at school to complete their A levels –

but as the comments above show, by doing so it will be too late for them to start an Apprenticeship after they leave school.

While they can do a college course instead of staying on at school, the standard of training is lower than they would receive through an Apprenticeship, so employers are less likely to take them on as they will not have the skills needed to be salon-ready – and they will still have to be paid the NMW, not the Apprenticeship rate.

The NHF has repeatedly called for there to be one rate for Apprentices regardless of age. It seems not only unfair but discriminatory to pay one person at a higher rate compared to another for doing the same job just because they are different ages.

## **7 Impact on pay, provision, take up and completion**

At 16 or 17, young people do not always know what they want to do and they are often not well-prepared for the world of work. Employers report that the drop-out rate for this age group is high especially in the first few months of an Apprenticeship. Older Apprentices may be more committed and more willing to complete a programme than 16 and 17 year olds. See also the comments in response to Q6 above.

## **8 Structure of NMW**

The age-related structure makes compliance more complicated, especially for micro-businesses which do not have HR teams and the owner is likely to be in charge of the payroll unless they outsource it. 55% outsource their payroll, but the rest process payments themselves, in some cases using manual processes.

There is a case for re-visiting the rationale for age-related provision, especially where the Apprentice is doing the same job as another colleague, the only difference being age. This is a particular issue for Apprentices aged 19+ (see response to Q6 above).

The NHF sends a letter to its members each year in advance of rises to the NMW. This year, as well as stating what the rates are, we have produced a guide to implementation to help employers with compliance.

## **9 Apprenticeship rate**

While it is unpopular and, in some cases seen as unfair, the increased emphasis on compliance is making business owners more aware of the need to get their systems right so they pay their employees correctly.

Much clearer guidance is needed on what happens when an Apprentice has finished a level 2 programme and progresses onto a level 3 programme. The Pay and Work Rights Helpline, run by HMRC, advises that the apprenticeship minimum wage can be paid in the first 12 months of the new apprenticeship, even when the trainee is over 19, as long as the second apprenticeship was unforeseen at the time of entering into the original apprenticeship. Our legal helpline recommends getting written confirmation from HMRC as interpretations can change.

Scrapping the provision for Apprentices aged 19+, with the added age-related complications, would also be helpful (see response to Q6 above).

## **10 Other comments on Apprentice pay**

No.

## **11 Compliance**

93% of members said they fully understood the NMW and how it applies to their business. However, there were comments about Apprenticeship rates being confusing, especially where the rate is also age-related. It is also confusing when a person has completed level 2 and progresses onto level 3 and whether or not they still qualify for the Apprenticeship rate (see 9 above).

71% are aware of government policy on naming and shaming and increased fines. NHF has run a publicity campaign in the trade press as well as within its membership. It is therefore worrying that almost 30% still do not understand how correct payment of the NMW is enforced. We will continue to raise awareness.

Most employers understand that it is important to pay at the correct rate, but as more than 50% outsource their payroll there is a risk that age-related increases are not correctly applied, and the 19+ restrictions on Apprenticeships creates a further complication.

There is some resentment that naming and shaming applies in cases where the under-payments are small, sometimes less than £100, or were immediately corrected before it was reported to BIS, or were the result of a genuine error rather than a systematic attempt to underpay staff. There were calls for a warning to be given beforehand, and 'naming and shaming' only those who fail to respond.

Finally, within the hair and beauty sector there appears to be some confusion about what an Apprenticeship programme is. There have been some instances where an employer has mistakenly referred to in-house training programmes as Apprenticeships, and therefore pay the NMW at the Apprenticeship rate. NHF continues to inform its membership about Apprenticeships and has recently produced a guide for employers in hairdressing and barbering to set out what they are, the role of employers, funding and NMW rates.

## **12 Rates for 2015**

78% called for the NMW rate to be frozen for 2015 (compared to 77% in last year's survey), for all the reasons outlined above. There was some support for an increase in line with inflation, but only a tiny minority supported an above-inflation increase to £7.

The call for a freeze on Apprenticeship rates was similar (80% compared to 84% last year), no doubt influenced by the changes to Apprenticeship funding requiring compulsory employer contributions on top of Apprenticeship wages. From the employer's point of view, Apprentices do not earn money for the salon in the way that a qualified stylist does (although they do free up more of the stylist's time) so there is a real cost to employing them, as well as the time needed for supervision and training by the business owner.

## **13 Other comments**

While there has been an improvement since last year's survey, when 74% of members did not know that accommodation provided by an employer is taken into account when calculating the NMW, more than 69% of respondents are still unaware of this despite an information campaign from the NHF. This suggests that much more needs to be done to raise awareness before moving to enforcement measures.

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