

Low Pay Commission 2020 consultation

Additional information on the Apprentice Rate

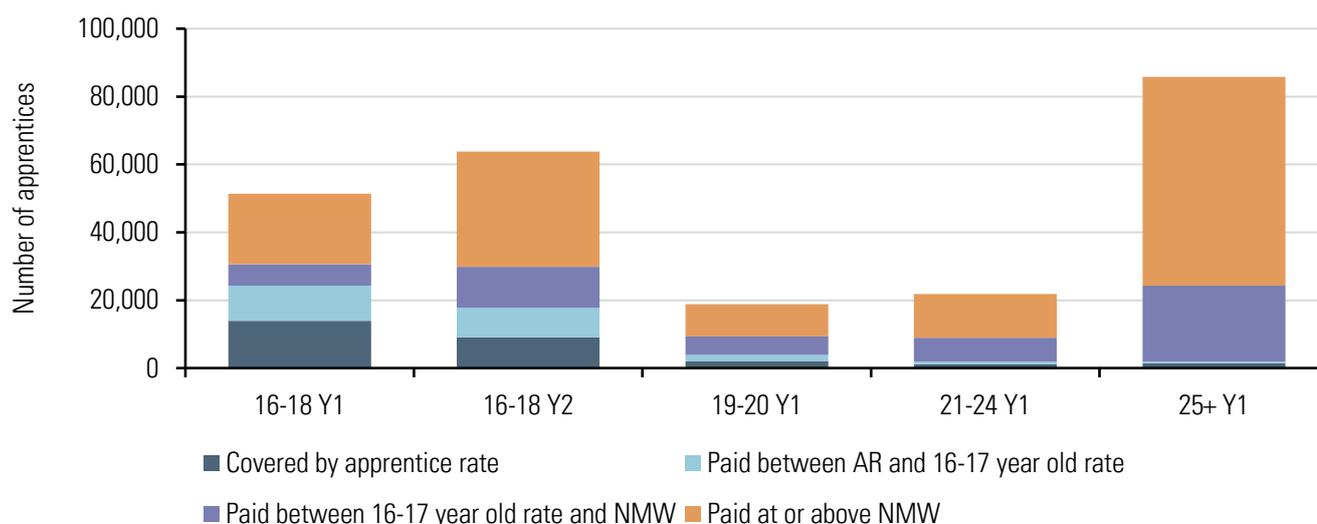
This note provides additional information to support the Low Pay Commission's 2020 consultation.

The Apprentice Rate applies to all apprentices aged under 19 and to those apprentices aged 19 and over in their first year. Apprentices aged 19 and over, from the second year of their course onwards, are entitled to the National Minimum Wage rate for their age. Regardless of their hourly rate, apprentices must be paid for all normal working hours as well as for any training, on or off the job, that is part of the apprenticeship (according to DfE guidance, off-the-job training should make up 20 per cent of an apprentice's normal working hours).

Coverage of the Apprentice Rate is highest for the youngest apprentices, with 36 per cent of 16-18 year olds covered by the rate in their first year and 18 per cent in their second year. These numbers fall steeply for older apprentices, such that only 2 per cent of those aged 25 or older are covered by the rate in their first year. This means that raising the Apprentice Rate mainly affects the youngest apprentices; for example, 85 per cent of the apprentices who are paid between the Apprentice Rate and the 16-17 year old rate are under 19 years old. [This is why we are most interested in the impact of the rate on these younger apprentices.](#)

However, as Figure 1 shows, older apprentices in their first year may still be paid less than the NMW rate for their age group. For example, over 20,000 apprentices aged 25 or older are paid between the apprentice rate and the National Living Wage. This is because employers 'use' the opportunity to pay apprentices at a discount; it may also reflect the effect of unpaid training hours, which we look at in more detail below.

Figure 1: Coverage and usage of the Apprentice Rate, Apprentice Pay Survey, GB, 2018



Source: LPC estimates using APS, GB, 2018.

Underpayment of apprentices

In our analysis of the 2018-19 Apprentice Pay Survey, we found a high level of apprentices paid less than the NMW rate to which they are entitled – nearly one in five apprentices in the survey report they are underpaid, and in some age cohorts the number is more like one in three. This is not new; previous surveys have found similar trends.

We believe the critical factor which explains the level and persistence of underpayment is that employers are failing to pay apprentices for some or all of their training hours. In cases where this happens, while employers may state that rates of pay are NMW-compliant, if they do not include all training hours in their calculation, the actual pay the apprentice receives may be lower than their legal entitlement. The examples below set out how this might work.

Examples of non-compliant apprentice pay

The following examples illustrate how non-payment of training hours can lead to non-compliance.

Example 1

An 18 year old enters a level 2 apprenticeship role which the employer advertises as paid at the Apprentice Rate of £3.90 per hour. She spends four days a week in the workplace, working eight hours each day, including both work tasks and on-the-job training. She spends a fifth day receiving off-the-job training at a training provider. At the training provider, she receives six hours of training.

In total, she should be paid for 38 hours each week (thirty-two hours in the workplace and an additional six hours at her training provider). Instead her employer pays only for time in the workplace and disregards the hours of off-the-job training. This means the apprentice receives a weekly wage of £124.80. This equates to an effective hourly wage of £3.28, which is non-compliant.

Example 2

A 30 year old works thirty-seven hours a week in a role where he is paid £9 per hour. He is offered the chance to undertake a two-year level 4 apprenticeship, which involves spending one seven-hour day a week at a local further education college, working a thirty-hour week in the remaining days.

His employer pays only for hours spent in the workplace and disregards the hours spent in college. In the first year of his apprenticeship, he receives £270 each week. This means his effective hourly rate is £7.30. His pay is compliant with minimum wage rules, as this is above the Apprentice Rate of £3.90.

In the second year of his apprenticeship, his hourly pay increases to £10 and he continues to work and study for the same number hours. His employer continues to pay for hours in the workplace only, and he receives £300 each week. This equates to an effective hourly rate of £8.11, less than the National Living Wage to which he is entitled. His pay is now non-compliant.

Our [2019 Report](#) sets out the evidence for this hypothesis in greater detail.