Department for Business, Energy & Industrial Strategy

NATIONAL MINIMUM WAGE

Government evidence for the Low Pay Commission's Autumn 2016 Report

OCTOBER 2016

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Ministerial foreword

The Government remains firmly committed to the National Living Wage and the National Minimum Wage. It is right that we ensure the lowest paid receive their fair share of the gains from economic growth. Over a million hard-working people across the UK have already directly benefitted from the initial introduction of the National Living Wage this April at £7.20. Increases to the National Minimum Wage for workers under the age of 25 continue to improve the pay of low wage workers, providing essential protection without damaging their employment prospects.

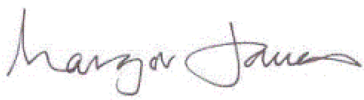
The expert and independent Low Pay Commission plays an important role in supporting the Government in achieving these aims. And the Commission's recommendations have proved that rising minimum wages can go hand in hand with rising employment.

This Government submission covers evidence on the macroeconomy, labour market, and NMW enforcement as well as new interim data on Apprenticeship pay from our forthcoming Apprenticeship Pay Survey 2016.

The UK's labour market has continued to perform robustly, with a record overall employment rate of 74.5% and the last couple of months have seen the lowest unemployment rate since 2005. In the three months to August2016 real wages grew by 1.8%, marking the twenty-third consecutive month of real wage growth. Our analysis published in this report shows that this strong labour market performance is shared across all of the age groups relevant to the National Minimum Wage and National Living Wage rates.

It is too early to tell what the full impact of leaving the EU will be on the UK. It is clear that since the referendum some economic data have been better than expected, although independent forecasts for next year have been marked down. The fundamentals of the UK economy are strong and we are well-placed to take advantage of the opportunities that leaving the EU creates to reshape the economy so that it works for everyone. There will be a period of negotiation and the UK will have to adjust to a new relationship with the EU. The Monetary Policy Committee of the Bank of England acted to support the economy at its meeting in August, and the government is prepared to do what is necessary to safeguard our economy and promote growth.

We look forward to the Commission's second report of 2016 later this year.



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Executive summary

The Government has asked the Low Pay Commission (LPC) to make recommendations on the National Minimum Wage and National Living Wage to be implemented from April 2017. The Government remit to the LPC was published earlier this year.

This evidence brings together the latest data and forecasts which we believe the LPC should have regard to in making its recommendations.

Macroeconomic context

The Government remit to the LPC asks it to take into account the state of the economy, employment and unemployment levels as well as any relevant policy changes in making its recommendations on the NLW and National Minimum Wage (NMW) rates.

The UK's economic performance has been strong in recent years. The UK economy is 7.7 per cent bigger than its pre-crisis peak, and since Q1 2010 has been the fastest growing major advanced economy, with 13.7 per cent growth. The economy is in a far stronger position than in 2010, with employment at a record high of 31.8 million and the unemployment rate at 4.9%, the lowest level since 2005. Real wages rose 1.8 per cent in the year to three months to August 2016, the twenty-third consecutive month of real wage growth.

The referendum result on 23 June and continued sluggish global growth creates a new set of circumstances. It is too early to tell what the full impact of leaving the EU will be on the UK. It is clear that since the referendum some economic data have been better than expected, although independent forecasts for next year have been marked down. The fundamentals of the UK economy are strong and we are well-placed to take advantage of the opportunities that leaving the EU creates to reshape the economy so that it works for everyone. There will be a period of negotiation and the UK will have to adjust to a new relationship with the EU. The Monetary Policy Committee of the Bank of England acted to support the economy at its meeting in August, and the government is prepared to do what is necessary to safeguard our economy and promote growth.

Trends in employment

Our analysis shows that employment conditions for those aged 25 and above has continued to perform strongly. Labour market conditions for the age groups covered by National Minimum Wage rates are also positive:

- Whilst younger workers were hit the hardest during the recession, the unemployment rates for 16-17, 18-20 and 21-24 years olds not in full-time education are now lower than pre-recession levels.
- The employment rate for young workers not in full time education has increased overall for the past two years.
- The number of workless under 25s who have never had a job has decreased since 2012.

There is further evidence of strength in the labour market from job flows. Job inflows continue to increase while job outflows continue to fall and job-to-job flows show strong recovery post-recession.

Employment in low pay sectors continues to perform well against the backdrop of significant increases in the NMW rates.

It is too soon to reach firm conclusions on the impacts of the introduction of the NLW. Tentative findings from small scale surveys of employers suggest that the most common response has been to accommodate the initial increase through higher prices and lower profit levels. However, some firms report adjusting employment levels and other firms note steps they have taken to boost productivity such as investing more in training.

Trends in pay

The recent period of low inflation, coupled with nominal growth in average weekly earnings have enabled real wages to make a recovery over the last two years, following a period of decline during and immediately after the recession. New ASHE data available later in the year will allow an updated assessment of the distribution of hourly pay.

The introduction of the National Living Wage (NLW) marked a significant increase in the wage floor for those aged 25 and above. It has increased real hourly wages by 6.7 per cent since April for those aged 25 and above who were previously on the adult NMW.

Data suggests that on aggregate, overall hourly labour costs continue to increase for businesses. It is important to consider the different changes to labour costs across the earnings distribution. For example, increases to the threshold at which employers must pay National Insurance Contributions (NICs) will mean that fewer low paid workers will incur this additional non-wage labour cost. In addition, policies such as NICs relief for under 21s and increases to the employment allowance will impact on the distribution of non-wage labour costs.

Trends in apprenticeships

The Apprentice National Minimum Wage (ANMW) rate increased by 57 pence (21 per cent) from £2.73 to £3.30 in October 2015. This is the largest ever increase in the ANMW.

Since the last Apprenticeship Pay Survey in 2014, wage growth, as measured by median average hourly pay, has increased by 7.4 per cent at the overall level and by 10.1 per cent for apprentices aged 19-20 and in the second year of study. The 'bite' (the NMW rate as a percentage of median earnings) for apprentices entitled to the Apprentice rate has increased by 7.9 percentage points on 2014 because the ANMW increased faster than average earnings over this period.

Basic hourly pay for those due the Apprentice Rate increased the most since 2014 for those at the bottom of the distribution, probably in part due to the increase in the ANMW to £3.30.

Across the UK, apprenticeships starts have performed well over recent years, with a shift towards higher level apprenticeships (Level 4+). Apprenticeship starts in England and Scotland have increased for older age groups. Those aged 25 and above in England increased by over 30 per cent in 2014/15.

Apprenticeship durations as measured by planned end dates show a small number (33,600) of apprenticeships which started in 2014/15 were planned to last fewer than 12 months, a decrease of 5.4 per cent on the previous year.

Since the last Apprenticeship Pay Survey in 2014, interim data suggests that median average hourly pay has increased by 7.4 per cent at the overall level. Wage growth has been strongest (10.1 per cent) for apprentices aged 19-20 and in the second year of study. The median average hourly wage for those entitled to the Apprentice Rate (either 16-18 or those older but in the first year of study) increased by 4.0 per cent.

At the overall level, the estimated non-compliance rate among employers of apprentices increased to 18 per cent (up from 15 per cent in 2014). There was an increase of 5 percentage points in non-compliance for the 16-18 year old group, who since October 2015 have attracted the apprentice rate of £3.30.

Previous research has indicated that while the Apprenticeship Pay Survey is considered the most accurate source of apprenticeship pay it is likely to be an upper bound of non-compliance. More generally, previous analysis of ASHE has suggested that underpayment may be due to misunderstanding NMW rates and the draw of focal points rather than deliberate non-compliance. The Government is clear that no level of non-compliance is acceptable and has taken action to raise awareness and improve enforcement of the NMW and NLW.

Enforcement

HMRC enforcement activity shows an increase in investigations from 2,204 investigations in 2014/15 to 2,667 in 2015/16. In 2015/16, almost £10.3 million in arrears were identified relating to over 58,000 workers. More than triple the amount of money and more than double the number of workers helped in 2014/15.

HMRC use a range of techniques to enforce the NMW, including **responding to every complaint** and undertaking **targeted enforcement** focusing on areas where there is a higher risk of workers not getting paid the legal minimum wage. More recently, a new **"Promote" team** has been has been established within HMRC. The team is dedicated to improving compliance with the minimum wage by changing the behaviour of employers and workers. This includes improving sector specific guidance and innovative techniques to "nudge" employers towards carrying out necessary checks and making a voluntary disclosure.

In advance of the introduction of the National Living Wage in April 2016, the Government ran a large scale communications campaign to raise awareness of the £7.20 rate. The campaign targeted both workers and employers and ran across TV, radio, billboards, digital and print media which launched in December and continued to through to mid-April 2016. The evaluation research showed the campaign performed strongly with over 80 per cent awareness of the NLW rate among workers and employers, and over one million people visiting the campaign website.

HMRC have closed over 800 cases in the 'Accommodation and Food Services' and over 400 cases in the 'Wholesale and Retail Trade' sectors. Regionally, the largest number of cases related to employers in London (329) and the North West (309). Investigations are partly driven by worker complaints and partly by targeted work.

To date (as of September 2016) 687 employers have been named for NMW underpayment since the scheme began.

Low Pay Commission Remit 2016

The Government is building on its strong economic performance that has seen 2 million more people in work in the last five years. A remaining, key economic challenge the Government wants to address is to move away from a low wage, high tax, high welfare society and encourage a model of higher pay and higher productivity – supporting people who work hard and want to get on in life to fulfil their aspirations.

On the 1 April 2016 the Government's new National Living Wage will come in to effect for workers aged 25 and over. The Government has set the initial rate at £7.20 – 50p higher than the current National Minimum Wage rate for those workers. The Government's objective is to have a National Living Wage of over £9 by 2020.

The Government asks the LPC to monitor and evaluate the NLW and recommend the level of the National Living Wage to apply from April 2017. We estimate that the level of the National Living Wage in April 2016 will be 55% of median earnings. The ambition is that it should continue to increase to reach 60% of median earnings by 2020, subject to sustained economic growth. In making recommendations in relation to the National Living Wage the LPC is asked to consider the pace of the increase, taking into account the state of the economy, employment and unemployment levels, and relevant policy changes. In addition to providing a recommendation for the NLW rate that will apply from April 2017, the Government also asks the LPC to provide an indicative rate for April 2018.

The Government will align the NMW and NLW cycles so that both rates are amended in April each year. This will take effect from April 2017. The Government would like the LPC to monitor, evaluate and review the levels of each of the different NMW rates (16-17, 18-20, 21-24 and apprentice rates) and make recommendations on the increase it believes should apply from April 2017. Our aim is to have NMW rates that help as many low-paid workers as possible without damaging their employment prospects. The LPC is therefore asked to consider the state of the economy and labour market as well as any relevant policy changes while making these recommendations.

Timing

The LPC is asked to provide a report to the Prime Minister and the Secretary of State for Business, Innovation and Skills (now Business, Energy and Industrial Strategy) on the NMW and NLW rates as early as possible in October 2016.

Macroeconomic context

Summary

This chapter considers key indicators and the future outlook for the economy to assist in determining an appropriate level of the National Living Wage and National Minimum Wage rates.

The UK's economic performance has been strong in recent years. The UK economy is 7.7% bigger than its pre-crisis peak, was the fastest growing major advanced economy in 2014, at 3.1%, and the second fastest in 2015, at 2.2%, behind only the US.

The economy is in a far stronger position than in 2010, with employment at a record high of 31.8 million and the unemployment rate at 4.9%, the lowest level since 2005. Real wages rose by 1.8% in the year to the three months to August 2016, the twenty-third consecutive month of real wage growth.

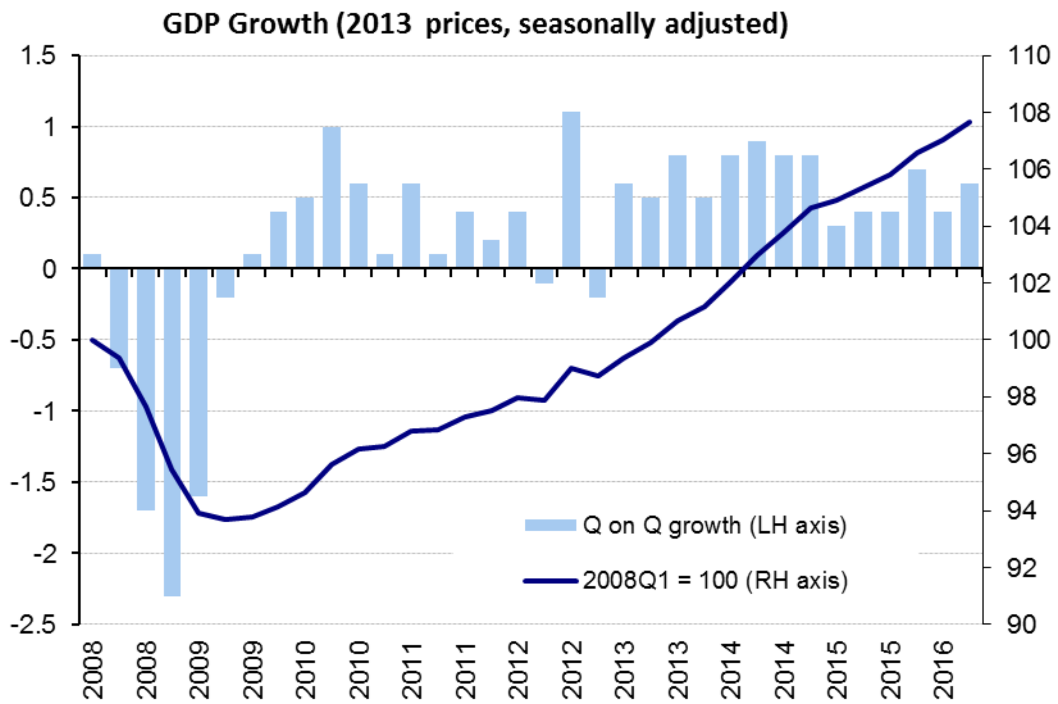
The referendum result on 23 June and continued sluggish global growth creates a new set of circumstances. It is too early to tell what the full impact of leaving the EU will be on the UK. It is clear that since the referendum some economic data have been better than expected, although independent forecasts for next year have been marked down. The fundamentals of the UK economy are strong and we are well-placed to take advantage of the opportunities that leaving the EU creates to reshape the economy so that it works for everyone. There will be a period of negotiation and the UK will have to adjust to a new relationship with the EU. The Monetary Policy Committee of the Bank of England acted to support the economy at its meeting in August, and the government is prepared to do what is necessary to safeguard our economy and promote growth.

Key indicators

Economic growth

After contracting by 6.3% from the peak in the 2008/09 recession, recovery in the UK was initially slower than other major G7 economies. From 2013 however, the UK recovery strengthened. Annual growth in 2015 was 2.2% and in 2016 Q2 the level of GDP was 7.7% above the pre-recession peak. The UK was the fastest growing economy in the G7 2014, and the second fastest in 2015, behind only the US. Growth in 2016 Q1 was 0.4% and strong growth in industrial production in April helped supported GDP growth of 0.7% in Q2.

Chart 1: Quarterly GDP growth and level, seasonally adjusted



Source: ONS.

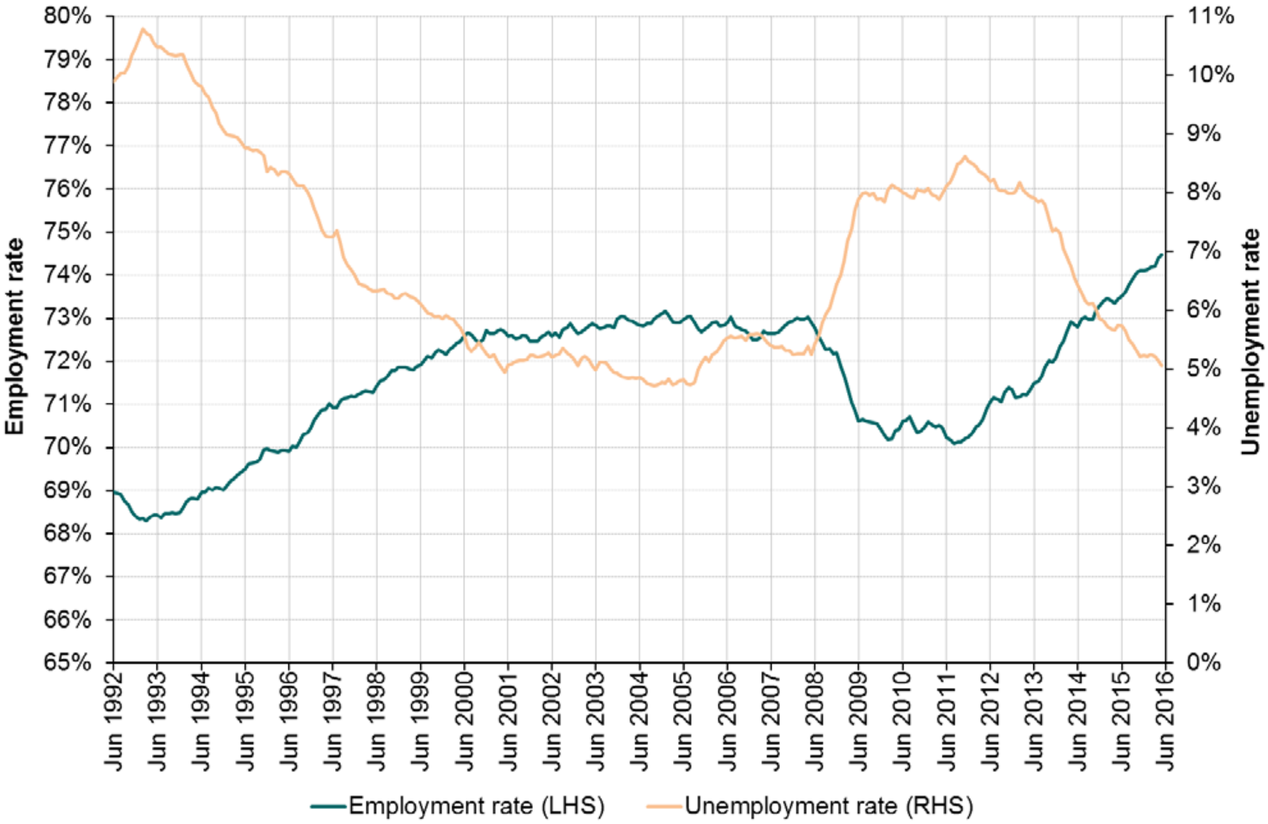
There has been limited official economic data published since the referendum. The ONS Index of Production showed that total production output rose 0.1% in July compared with the previous month, but fell 0.4% in August. Service sector output rose 0.4% in July. Retail sales rose by 1.6% in the three months to the end of August, suggesting that consumer spending has held up since the vote to leave the EU. In contrast, soft indicators and investment intentions have fallen, suggesting that business spending may be weak in the near term.

Employment

Employment growth in the UK continued to be strong over the past year. For the three months to August 2016, the employment rate remained at a record 74.5%. An estimated 31.8 million people were in work, an increase of 106,000 on the quarter and an increase of 560,000 on the year, of whom around one third are full-time employees. During the three months to August 2016, the number of self-employed people increased by 273,000 over the year to 4.79 million and employees increased by 356,000 to 26.83 million.

The unemployment rate continued to fall over the year. For June to August2016 the unemployment rate for those aged over 16 was 4.9%, down from 5.4% from a year earlier. This is its joint lowest since 2005. In September 2016 the number of people claiming unemployment related benefits was 776,400. This was 700 more than in August, and was 15,700 fewer than for a year earlier.

Chart 2: UK employment and unemployment rates



Source: ONS Labour Force Survey.

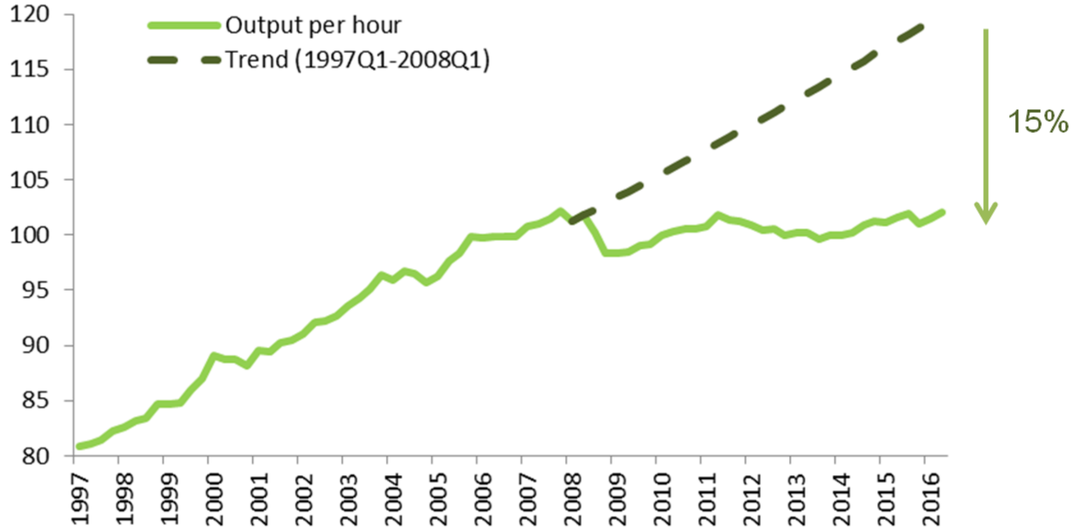
Productivity

UK labour productivity, as measured by output per hour, grew 0.6% in 2016 Q2 compared with the previous quarter. However, productivity growth has been subdued since the 2008/09 recession. UK productivity is currently around 15% lower than an extrapolation based on its pre-crisis trend[1]. This slowdown in productivity growth matters because over the long run it is the main driver of rising incomes. For example, productivity growth of 2% year doubles real incomes roughly every 35 years, while productivity growth of 0.5% a year takes nearly 140 years to deliver the same increase.

[1] Note: This is sometimes reported as 'productivity would be some 17% higher if it had returned to pre-crisis trends'. The difference is due to whether you are using current productivity levels or the extrapolated trend as the baseline for the calculation.

The latest international comparison data shows UK productivity growth lagging marginally behind France and Germany in 2015. The UK's longstanding productivity gap with its major competitors persists. Compared to the UK, output per hour was 18 percentage points higher in the rest of the G7; 27 percentage points higher in France; 35 percentage points higher in Germany; and 30 percentage points higher in the USA.

Chart 3: UK productivity since 1998



Source: ONS.

Forecasts made prior to the referendum generally assumed that productivity growth would approach its long run average of around 2% over the next few years. However, it should be noted that productivity growth has persistently underperformed expectations since the financial crisis.

Wages and inflation

Average weekly earnings growth recovered in early 2016 and 2015, increasing by 2.3% on the year, following slow growth between 2013 and 2014 of 1.3%. Total pay including bonuses increased 2.3% in the three months to August 2016 compared to a year earlier, taking average pay for employees in Great Britain to £504 per week before tax and other deductions. Real earnings were up by 1.8% over the same period.

Inflation was close to zero for most of 2015, predominantly as a result of falling fuel and food prices, and has increased in 2016 as past falls in fuel prices dropped out of the annual comparison, with the Consumer Prices Index (CPI) rising to 1.0% in the year to September 2016. Core inflation (CPI excluding volatile items such as energy and food) was 1.5% in the year to September 2016.

Trade

The UK's trade deficit widened to -£4.7bn in August 2016, due to a large increase in imports of goods. The deficit for the three months to August 2016 widened to -£12.6bn compared to -£9.0bn in the three months before. The goods deficit widened to -£12.1bn in August (-£9.5bn in July). The trade in services surplus increased slightly to £7.4bn in August.

The trade deficit as a whole in 2015 was -£38.7bn, or 2.1% of GDP.

Exports of goods and services to the EU accounted for 44.0% of total exports in 2015, having fallen by more than 10ppts over the last 15 years. The decline in the export share to the EU is greatest in goods, falling from 58.0% in 2005 to 46.9% in 2015. Over the same period, services exports to the EU declined from 42.2% to 39.4%.

The current account deficit widened to -5.9% of GDP in 2016 Q1, from 5.7%of GDP in 2016 Q1. This deficit continues to be wide by international and historical standards.

Forward look

UK economic outlook

Following the vote to leave the EU, the UK economy is entering a new phase and there will be necessarily be a period of adjustment as the UK forges new relationships with the EU and the rest of the world. The economy is fundamentally strong, and the UK is well-placed to handle any challenges and to take advantage of opportunities that arise as we leave the EU.

The government, the Bank of England and the Financial Conduct Authority worked together to maintain financial stability around the referendum. Since then, independent forecasts for UK growth have been marked down (Table 1). With the economy expected to slow, the independent Monetary Policy Committee (MPC) and Financial Policy Committee (FPC) have taken steps to support the economy through this period of adjustment, with the MPC announcing a package of measures designed to provide additional support to growth and to achieve a sustainable return of inflation to the 2% target. Along with the actions the Bank of England has taken, the government will take the necessary steps to support the economy through this period of adjustment.

The Office for Budget Responsibility will produce a new forecast at Autumn Statement in the normal way.

Table 1: Forecasts for the UK

Forecasts for the UK (Per cent unless noted otherwise)	2016	2017	2018	Date of forecast
OBR[2]				Mar 2016
GDP growth	2.0	2.2	2.1	
Employment (millions)	31.6	31.7	31.9	
Unemployment rate	5.0	5.0	5.2	
Labour income growth	2.7	3.1	2.9	
CPI inflation	0.7	1.6	2.0	
Average of independent forecasts made in the last 3 months[3]				Oct 2016
GDP growth	1.9	1.0		
Employment growth	1.2	0.1		
Unemployment rate (Q4)	5.1	5.4		
Average earnings growth	2.3	2.3		
CPI inflation (Q4)	1.1	2.5		
Bank of England Inflation Report[4]				Aug 2016
GDP growth	2.0	0.8	1.8	
Employment growth	½	0	¾	
Unemployment rate	5.0	5.4	5.6	
Average weekly earnings growth	2¾	3	3½	
CPI inflation	0.8	1.9	2.4	

Global outlook

Global growth in 2015 was 3.1%, the slowest pace since the global financial crisis. For 2016 the IMF currently expect growth to remain at 3.1%, significantly weaker than the 3.8% they forecast for 2016 in July 2015. There has also been a slowdown in global trade volumes in recent years – well below the pre-crisis trend.

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[2] http://cdn.budgetresponsibility.org.uk/March2016EFO.pdf
[3] www.gov.uk/government/uploads/system/uploads/attachment_data/file/554343/PU797forecast_for_the_uk_economy_sept.pdf
[4] www.bankofengland.co.uk/publications/Documents/inflationreport/2016/aug.pdf

Advanced economy growth is forecast by the IMF to slow from 2.1% in 2015 to 1.6% in 2016. US growth in the first half of the year has been weaker than expected, while the euro area continues to experience a modest recovery. Many advanced economies are characterised by low inflation, weak investment and weak productivity growth. This has led to more accommodative monetary and fiscal policy in many major advanced economies with interest rates remaining near record lows.

The IMF forecast that growth in emerging markets will rise to 4.2% this year following six years of slowing growth. Performance amongst emerging economies is more mixed than advanced economies. Growth has remained strong in India and China but other emerging economies have been undergoing painful adjustments to lower commodity prices, with contractions in Russia and Brazil expected to continue.

Table 2: IMF forecasts, October 2016

IMF Output Growth forecasts October 2016, per cent (Revisions from April 2016 in parentheses)	2015 (actual)	2016	2017
United Kingdom	2.2	1.8 (-0.1)	1.1 (-1.1)
World	3.2	3.1 (-0.1)	3.4 (-0.1)
Advanced Economies	2.1	1.6 (-0.3)	1.8 (-0.2)
United States	2.6	1.6 (-0.8)	2.2 (-0.3)
Euro Area	2.0	1.7 (0.2)	1.5 (-0.1)
Emerging Market and Developing Economies	4.0	4.2 (0.1)	4.6 (0.0)
China	6.9	6.6 (0.1)	6.2 (0.0)
India	7.6	7.6 (0.1)	7.6 (0.1)
Russia	-3.7	-0.8 (1.0)	1.1 (0.3)
Brazil	-3.8	-3.3 (0.5)	0.5 (0.5)
South Africa	1.3	0.1 (-0.5)	0.8 (-0.4)

Trends in employment

Summary

This chapter examines the trends in employment and considers low-pay sectors specifically.

- The headline employment conditions for those aged 25 and above have performed strongly post-recession.
- It is too soon to reach firm conclusions on the impacts of the introduction of the NLW. Tentative findings from small scale surveys of employers suggest that the most common response has been to accommodate the initial increase through higher prices and lower profit levels. However, some firms report adjusting employment levels and other firms note steps they have taken to boost productivity, such as investing more in training.
- The objective of the NMW is to increase wages of the lowest paid without damaging their employment prospects. NMW rates have been designed on the basis that younger workers tend to have less experience than older workers in the labour market and are typically more exposed to the employment risks of a higher pay floor.
- Furthermore, younger workers tend to be more vulnerable to fluctuations in the business cycle, and these were the most affected age groups during the recession. In particular, the distinction between NMW age bands is crucial in these times. However, there are continued signs of a strong recovery in the youth labour market:
    - For those not in full-time education (FTE), the unemployment rates are currently around 12% lower for workers aged 16-17 and 13% lower for workers aged 18-20 compared to their respective 2011 peaks, while the unemployment rate for those aged 21-24 is approximately 7% lower than its 2013 peak.
    - The employment rate for young workers not in FTE has increased for the past two years (however has fallen slightly for 16-17 year olds in the last quarter).
    - The number of workless under 25s who have never had a job has decreased since 2012.
    - The 16-24 year old NEET rate (not in education, employment or training) is at its lowest since the series began in 2001.
- There is further evidence of strength and dynamism in the labour market from labour market flows data. Job inflows continue to increase while job outflows continue to fall and job-to-job flows show strong recovery post-recession.
- Employment in low pay sectors continue to perform well against the backdrop of increases in the NMW rates and the introduction of the NLW.

Post-recession recovery

The overall performance of the labour market has been robust as we have continued to experience economic growth. Chapter 1 outlined the aggregate picture: the employment rate has continued to grow and it was at a record high 74.5% in the three months to August 2016. Unemployment rates have followed a similar trend, falling to 4.9%[5] in the three months to August 2016, the joint lowest rate since September 2005.

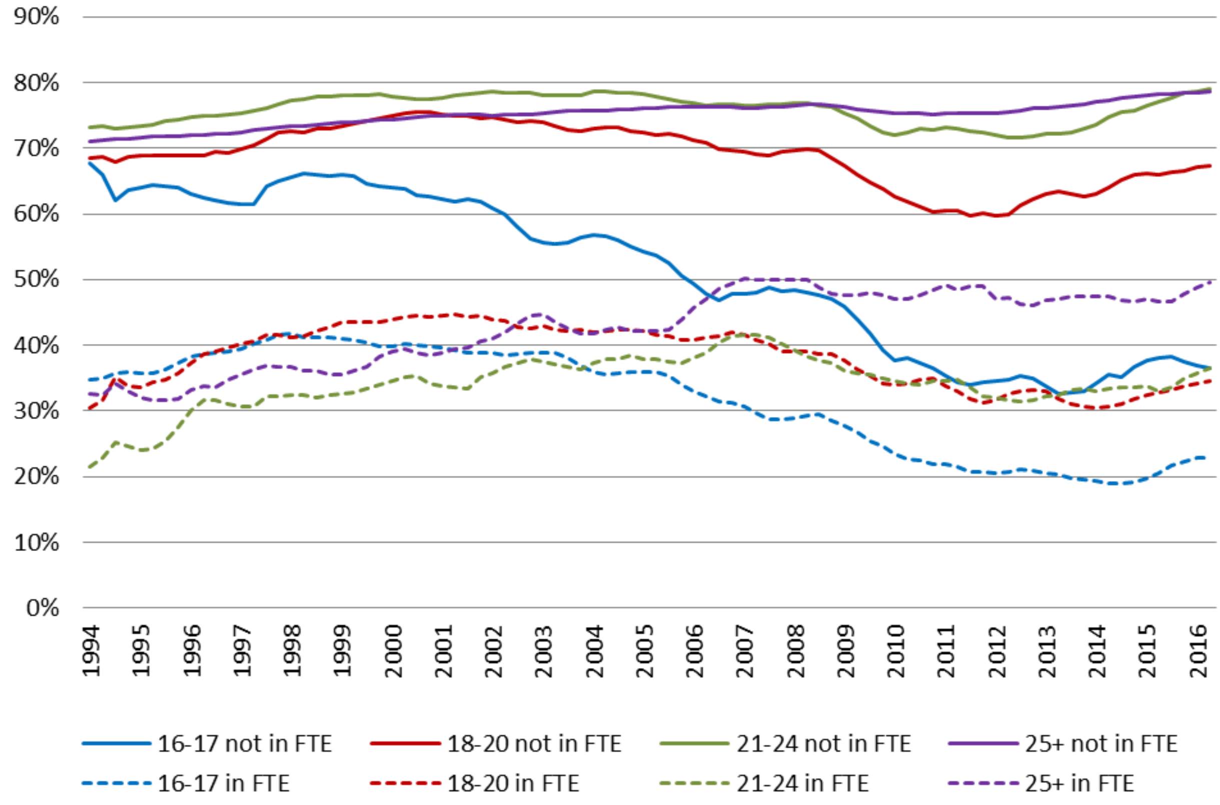
Naturally, labour market trends vary between groups, and different age groups have had different experiences during and since the recession.

Chart 4 shows employment rates for different age groups, and broken down by participation in full-time education (FTE). This reinforces the picture of steady performance for those aged 25 and above. While the recession had an impact on the employment rates of young people not in FTE, it is clear that for both 16-17 year olds and 18-20 year olds there was a structural downwards trend that pre-dated the recession – beginning in the early 2000s (although the 18-20 year olds recovered slightly between 2008 and 2009). More recently though, employment rates of both 16-17 year olds and 18-20 year olds not in FTE have been increasing overall, indicating a reversal in this long term trend. However, 16-17 year olds not in FTE have experienced a slight decrease in employment over the last year. Putting this in context, it is important to consider that this unemployment rate relates to a comparatively small number of people. In particular, there has also been a long term trend of increased participation in FTE, effectively reducing the size of the labour force for young workers, particularly for 16-17 year olds where around 83% are now in FTE.

The employment rate for 21-24 year olds not in FTE remained relatively stable during the recession and is now above its pre-recession level. The employment rate for those aged 25 and over not in FTE and 21-24 year olds not in FTE are now fairly similar.

[5] www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/october2016#average-weekly-earnings

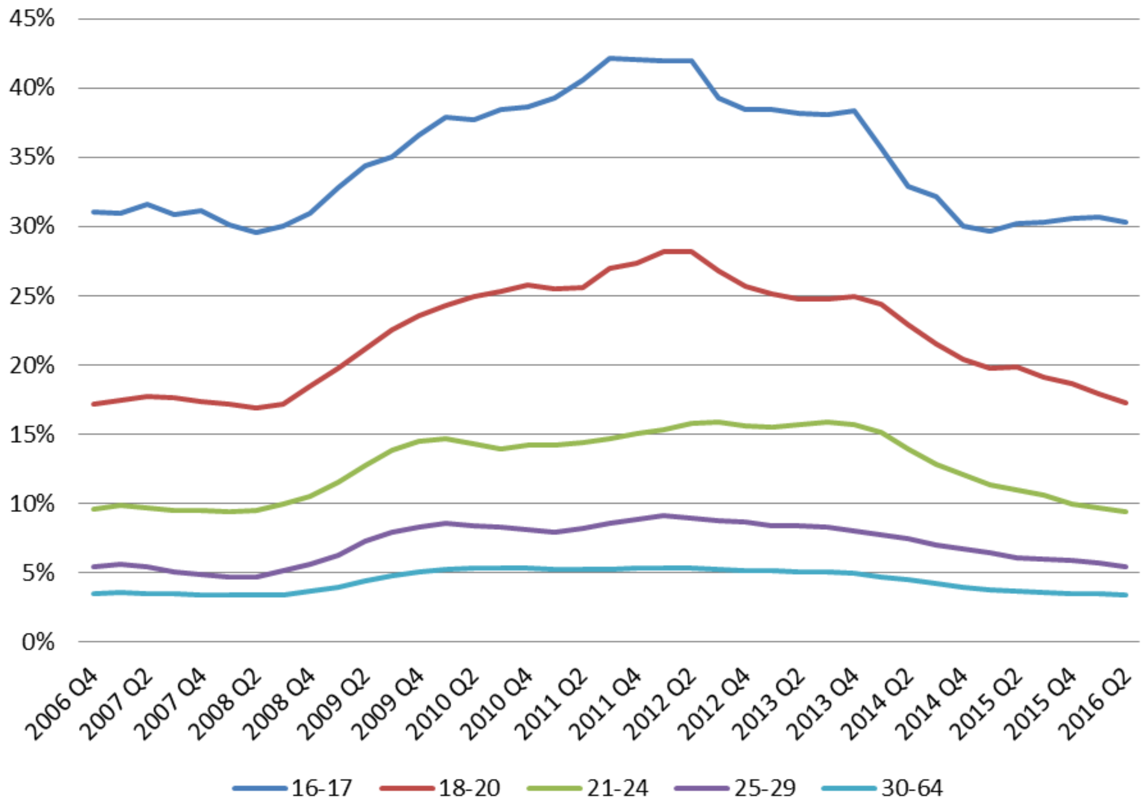
Chart 4: Employment rates for different age groups, in FTE and not in FTE, 1994 to 2016



Source: BIS analysis of ONS Labour Market Survey (up to 2016 Q2), 4 Quarter rolling average

The unemployment rate for workers aged 25 and over remained low relative to the younger equivalent throughout the economic crisis and recovery, as shown by Chart 5. For younger workers, the recession saw significant increases in unemployment rates, but recent years have shown recovery: the unemployment rates are currently between 12 and 13 percentage points lower for workers aged 16-17 and 18-20 than their respective 2011 peaks, while the unemployment rate for those aged 21-24 is approximately 7% lower than its 2013 peak.

Chart 5: Unemployment rate for those not in FTE, 2006 to Q2 2016



Source: BIS analysis of ONS Labour Force Survey Q1 2006- Q2 2016; four quarter rolling averages.

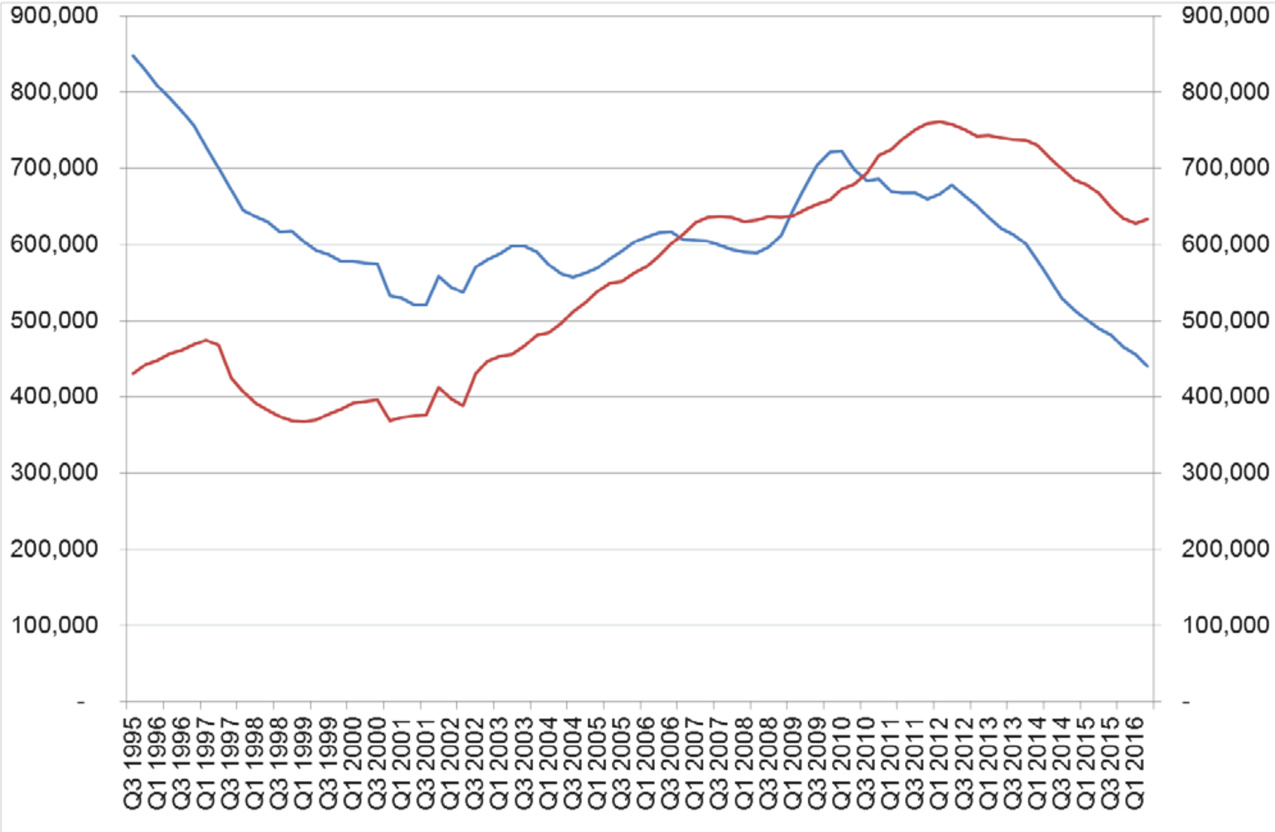
These improvements are reflected in the proportion of young people that are not in education, employment or training (NEETs). The NEET rate for 16 to 24 year olds was 8% in Q2 of 2016 the lowest level since the series began in 2001[6].

Chart 6 illustrates that there was an increase in the number of workless under 25s who have not previously had a job between 1999 and 2011/12. This structural increase was a potential indication that the transition between education and work may have been taking longer for young people to undertake. In line with a reversal in the long term decrease in the employment rates among young people not in FTE mentioned above, this trend has begun reversing since 2011. This is potentially further evidence of structural improvements in the youth labour market.

Chart 6 also illustrates how the number of workless under 25s who have previously had a job continues to fall. This is a welcome trend in the reduction of workless young people.

[6] ONS, Young People not in Education, Employment, or Training (NEETs)

Chart 6: Workless under 25s who have or have not previously had a job (not in FTE)

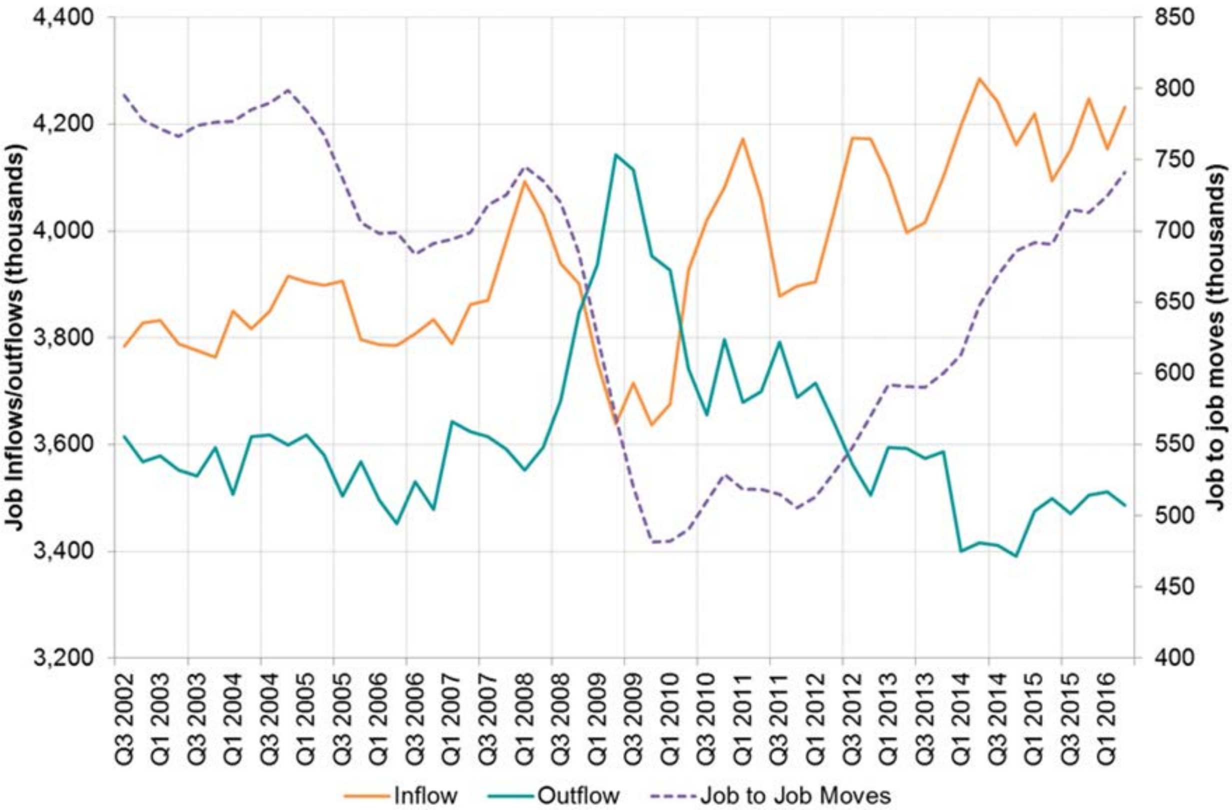


Source: BIS analysis of ONS Labour Force Survey up to 2016 Q2

Job flows

Flows in the labour market between employment and worklessness (unemployed and inactive) are an indicator of dynamic labour market activity. In any given year millions of people move between these groups and millions more move between jobs in employment. As shown in Chart 7, between 3m and 4.5m people move in and out of employment every year.

Chart 7: Flows in and out of employment, and job-to-job flows, 2002-2016



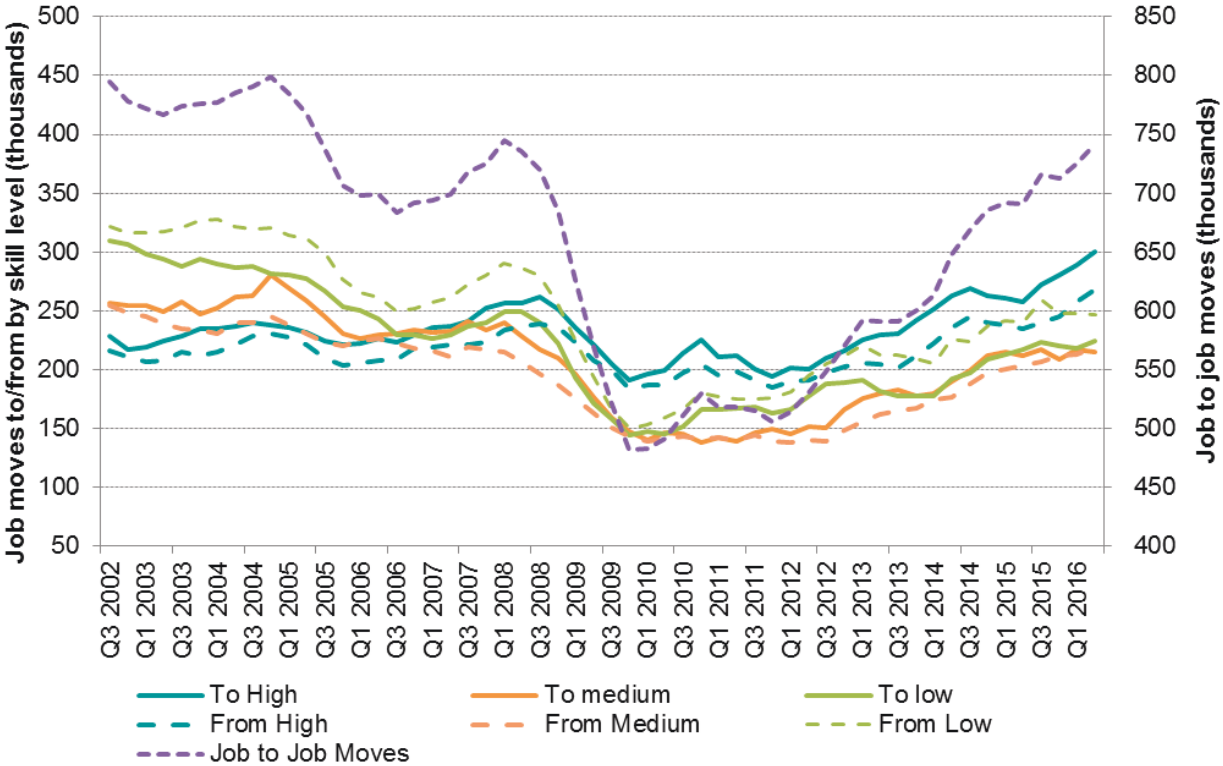
Source: ONS Labour Market Flows August 2016, experimental statistics, four quarter average. Job-to-Job flows from ONS Longitudinal Labour Force Survey

During the 2008-09 recession, job outflows overtook job inflows, coinciding with an increase in redundancies and a reduction in employment. In mid-2012, outflows fell back to pre-recession levels and have continued on a downward trend. Combined with a significant increase in inflows, this has led to a fall in the number of unemployed and economically inactive people. Moreover, job-to-job moves have increased significantly from their recession low. Coupled with increasing median wages and a falling unemployment rate, these factors signal the continued strengthening of the labour market.

Over the last few years, job-to-job flows have also drastically picked up from their recession lows. This provides further evidence on the strength of the labour market and the confidence workers have in being able to change jobs with relative ease. This increased mobility illustrates the availability of jobs.

Skill level flows

Chart 8: Flows to and from jobs by skill level, 2002-2016



Source: ONS Labour Market Flows August 2016, experimental statistics, four quarter rolling average. Skill level flows from ONS Longitudinal Labour Force Survey

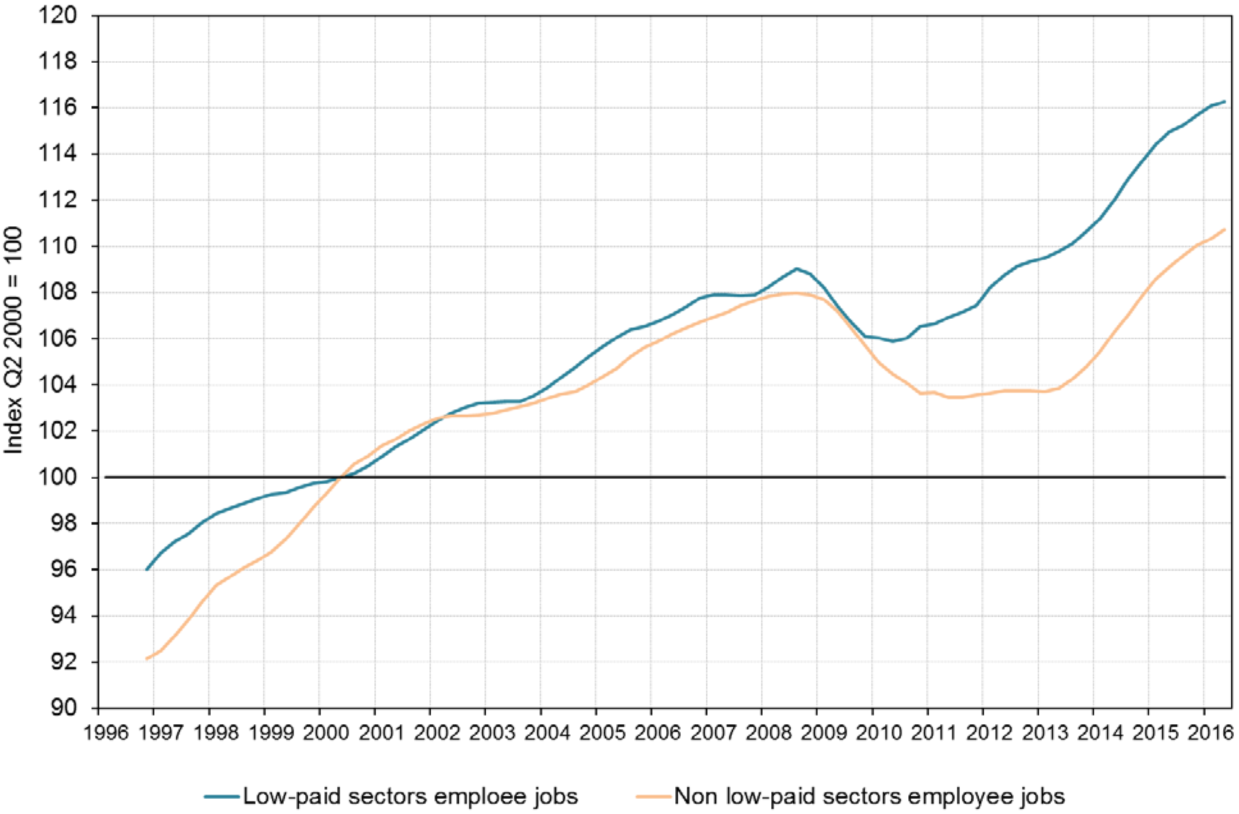
Chart 8 shows total job-to-job flows by changes in skill level, with each skill level classified as high skilled, medium skilled and low skilled.

The recession had an overall impact on job flows, which in turn resulted in a significant fall in job-to-job moves across all skill levels. However, since 2011 job moves have made significant progress towards recovering across all skill levels, with more people moving to high skilled jobs in numbers exceeding pre-recession levels.

Low pay sectors

Low pay sectors are defined by the LPC in its latest report as those with a large number or high proportion of minimum wage workers. These are the specific sectors that may be considered to be most likely to be impacted by changes in the NMW. Employment growth in sectors with a large proportion of minimum wage workers continues to grow strongly despite real increases in NMW rates over recent years (Chart 9).

Chart 9: Growth in employment in sectors with a high proportion of minimum wage workers compared to all other sectors, 1996-2016



Source: ONS Employee Jobs, GB data, LPC definition of low pay sectors from 2016 report, 4 Quarter Rolling Average

The National Living Wage

The National Living Wage came into effect on the 1st of April 2016, with the aim of rebalancing the economy from a low wage, high tax, high welfare society to a higher wage, lower tax, lower welfare society. It is a step towards ensuring that work pays, and means that low wage workers take a greater share of the gains from growth.

Given the short timeframe since the introduction of the NLW, the extent of the impacts is yet to be fully understood. This is primarily because the key data operates with a lag and employers and the economy will take time to fully adjust before any firm conclusions can be made. We will monitor the impacts closely as more data becomes available.

Early survey data by the Federation of Small Businesses (FSB)[7] and Resolution Foundation[8] has indicated that the initial increase has not affected all firms across the economy. The FSB found that only 11% of firms were paying less than £7.20 prior to April 2016 and 49% reported no impact on their wage bill of the initial introduction of the NLW (this figure was 59% in the Resolution Foundation survey). Smaller businesses and those operating in certain low-paying sectors, such as retail, wholesale and hospitality, were most likely to report an increase in wage bills.

Firms will accommodate the NLW in a number of ways, including increasing prices, increasing productivity, reducing hours/employment, reducing premium pay and wider benefits, absorbing costs elsewhere and investing in improving productivity.

Survey data from the Resolution Foundation suggests that firms have primarily absorbed the initial increase in the NLW through increased prices and lower profits but have also taken steps to boost productivity, including investing more in training and technology.

The Government is committed to ensuring that the new NLW works for businesses of all sizes. To help with the transition we are cutting taxes and employer NICs through the Employment Allowance and Corporation Tax. The increase in the Employer Allowance from £2000 to £3000 will benefit up to 500,000 employers and mean that a business will be able to employ up to four people full time on the new National Living Wage without paying National Insurance Contributions. The cut in corporation tax from 20% to 17% by the end of the Parliament will benefit over a million firms of all sizes and give the UK the lowest rate of corporation tax in the G20. In addition, Budget 2016 delivers the biggest ever business rates reduction, cutting the burden by £6.7bn over the next 5 years, cutting business rates for all ratepayers, and ensuring 600k small businesses, occupiers of a third of all properties, will pay no rates at all – a saving of up to £5,900 in 2017-18.

[7] www.fsb.org.uk/docs/default-source/Publications/consultation-responses/fsb-low-pay-commission-submission---july-2016.pdf?sfvrsn=0

[8] www.resolutionfoundation.org/wp-content/uploads/2016/07/NLW-first-100-days.pdf

In Focus – Horticulture

In 2015 farming employed around 476,000, contributed £8.5 billion (provisional value) to the UK economy and utilised around 70% of UK land. Farming covers a wide range of activities, from raising livestock to growing crops. These sectors produced gross output of £23.9 billion in 2015 (provisional estimate), with around £3.1 billion of horticultural output from fruit, vegetables and ornamentals production. Horticultural farms vary in size, from very large employers to small family businesses, and produce a variety of outputs

All farming sectors rely on at least some paid labour, and so farms across different farming sectors may be affected by changes to the NLW and NMW. Farms across the industry will vary in how much capital (for example machinery), and how much labour is used to achieve a certain level of output. Some farm sectors are more labour intensive than others and therefore may be impacted more by changes to labour costs. Evidence suggests that labour costs on horticulture farms account for around a third of total farm business costs compared to less than 10% across all other farm types. At a farm level there will be variation in labour intensity, with some farms having a figure of over 60%.

As with other employers, farms may react to the introduction of the NLW in a number of different ways, particularly depending on a variety of factors, including the size of the wage impact and the market within their sub sectors. For example, they could react through a combination of the following: absorbing the wage increase, passing it down the supply chain, altering labour and capital requirements, increasing output through productivity gains.

Agricultural products (including horticulture) are sold both domestically and internationally in a competitive market. In this case firms may be price takers, and have less ability to pass on increased costs by increasing prices. With less control over output prices, holding all else constant, we would expect to see a decline in profits associated with a rise in labour costs. In reality this may not always be the case. The actual profit a farm will make in any year will be dependent on a wide range of dynamic factors, including how they choose to react to other factors outside their control.

With the introduction of the NLW in April this year it is too soon with the data available to see what the immediate impact of the wage has been. Government will continue to engage and closely monitor the industry to understand the impacts of the NLW going forward.

[1] www.gov.uk/government/collections/agriculture-in-the-united-kingdom

[2] Farm Accounts in England Survey: www.gov.uk/government/statistics/farm-accounts-in-england

Trends in pay

Summary

Updated analysis of the hourly earnings distribution has not been included in this evidence report as there has been no further update to ASHE 2015 since the previous government evidence to the Low Pay Commission published in January 2016. The Government has worked with the Office for National Statistics to ensure that the LPC will have 2016 ASHE data to help inform its recommendations in autumn 2016. In the absence of more detailed data, this chapter summarises more general trends in pay.

- The recent period of low inflation, coupled with growth in nominal average weekly earnings has helped to enable real wages to make a recovery over the last two years, following a period of decline during and immediately after the recession.
- The NLW has increased the wage floor for those aged 25 and above by 7.5% compared to the previous NMW that would have applied for this age group. Accounting for the last four months of inflation, the NLW has increased real hourly wages by 6.7% for this group. As discussed in the previous chapter, the full effects of the NLW on employment and business are still uncertain.
- Since 2013, the main NMW rate has consistently grown faster than median earnings.
- Data suggests that on aggregate, hourly labour costs continue to increase in the economy. It is important to consider the different changes to labour costs across the earnings distribution. For example, increases to the threshold at which employers must pay National Insurance Contributions (NICs) will mean that fewer low paid workers will incur this additional non-wage labour cost. In addition, policies such as NICs relief for under 21s and increases to the employment allowance will impact on the distribution of non-wage labour costs.

Wage trends

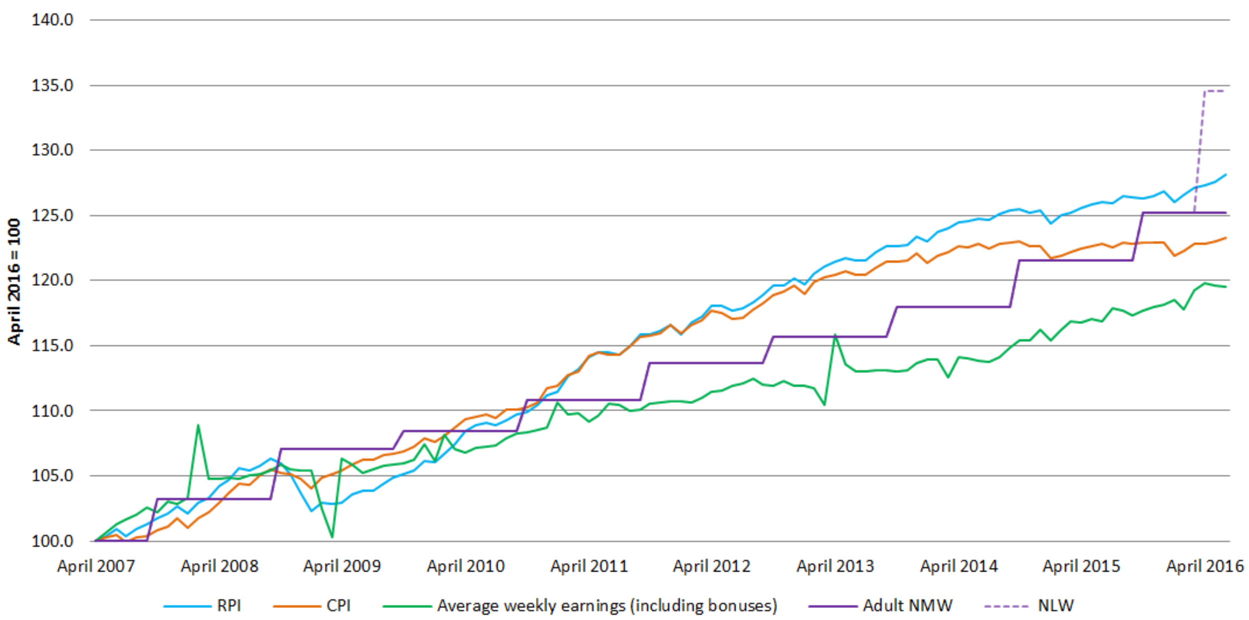
Between June to August 2015 and June to August 2016, in nominal terms, total pay increased by 2.3%, slightly higher than the growth rate between May to July 2015 and May to July 2016 (2.2%). Following the onset of the recession, real average weekly wages decreased overall but have been making a recovery over the last two years, aided in part by recent low inflation.

Real growth in NMW rates and wages

NMW rates have generally tended to rise faster than inflation. However, this trend was less prevalent during and immediately after the recession where the wage floor fell relative to inflation, corresponding with lower minimum wage increases in order to protect employment prospects.

Chart 11 shows that from April 2007 (October 2006 NMW rate) to July 2016, the main NMW rate has increased faster than average weekly earnings overall. Evidence from the LPC has suggested that rate increases to date have had little or no impact on employment outcomes of the lowest paid.

Chart 11: Growth of the main NMW and NLW, retail and consumer prices, and average weekly earnings, April 2007 to June 2016



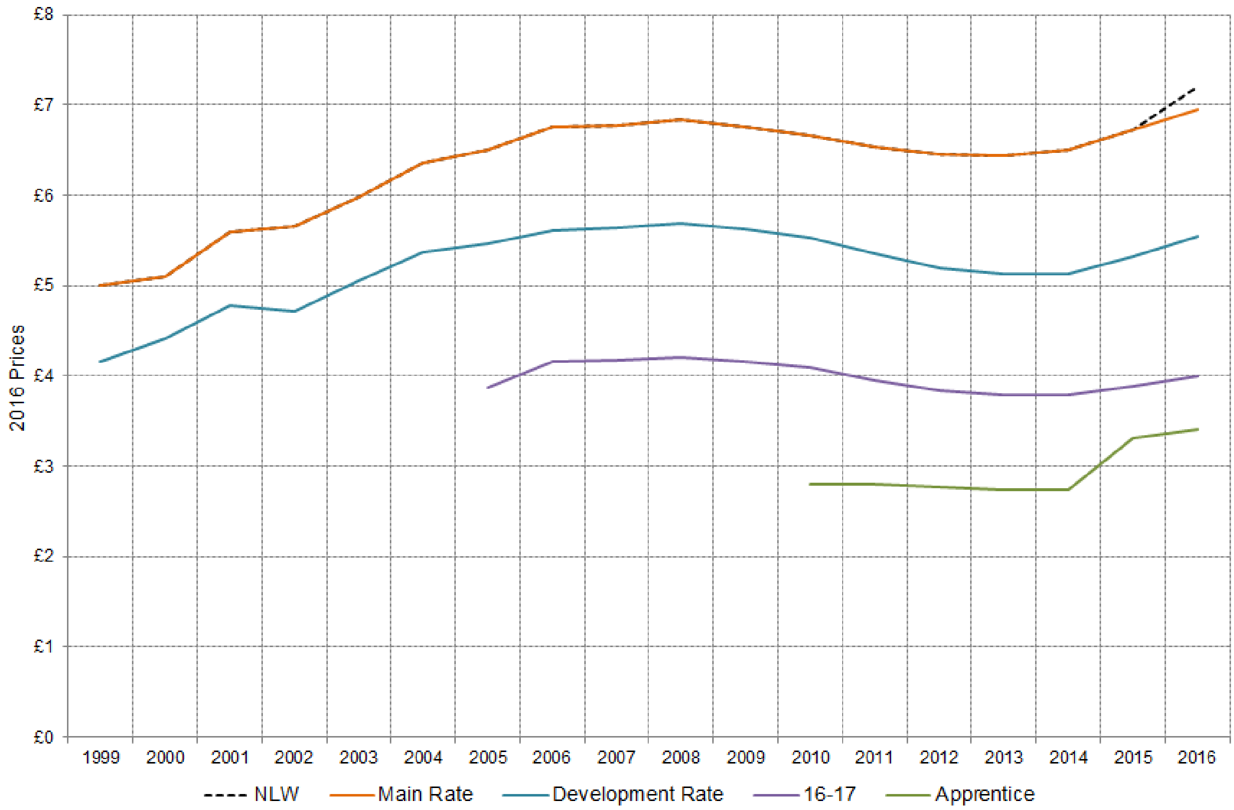
Source: ONS Average Weekly Earnings (K54U), MM23 Consumer Price Indices (CHAW and D7BT).

Chart 12 maps the progression of the various NMW rates after adjusting for consumer price inflation.

All NMW rates have been increasing in real terms consistently for at least two years, illustrating sustained recovery towards their pre-crisis levels, with the main rate (now 21-24) experiencing four years of consistent increases, having reached its real peak this year. The increase coming in on 1st October is expected to reach a new real-terms peak.

The apprentice rate has also reached its peak, following its sharp rise in October. As of April 2016 the real terms main, development (18-20), and 16-17 rates increased by 5.3%, 7.5% and 6.3% respectively from their recession lows.

Chart 12: Real value of NMW and NLW rate October of each year 1999 to 2016, 2016 prices



Note: real value of NMW rates is calculated for each year by comparing the October uprating NMW rates with the CPI (D7BT) for that October.

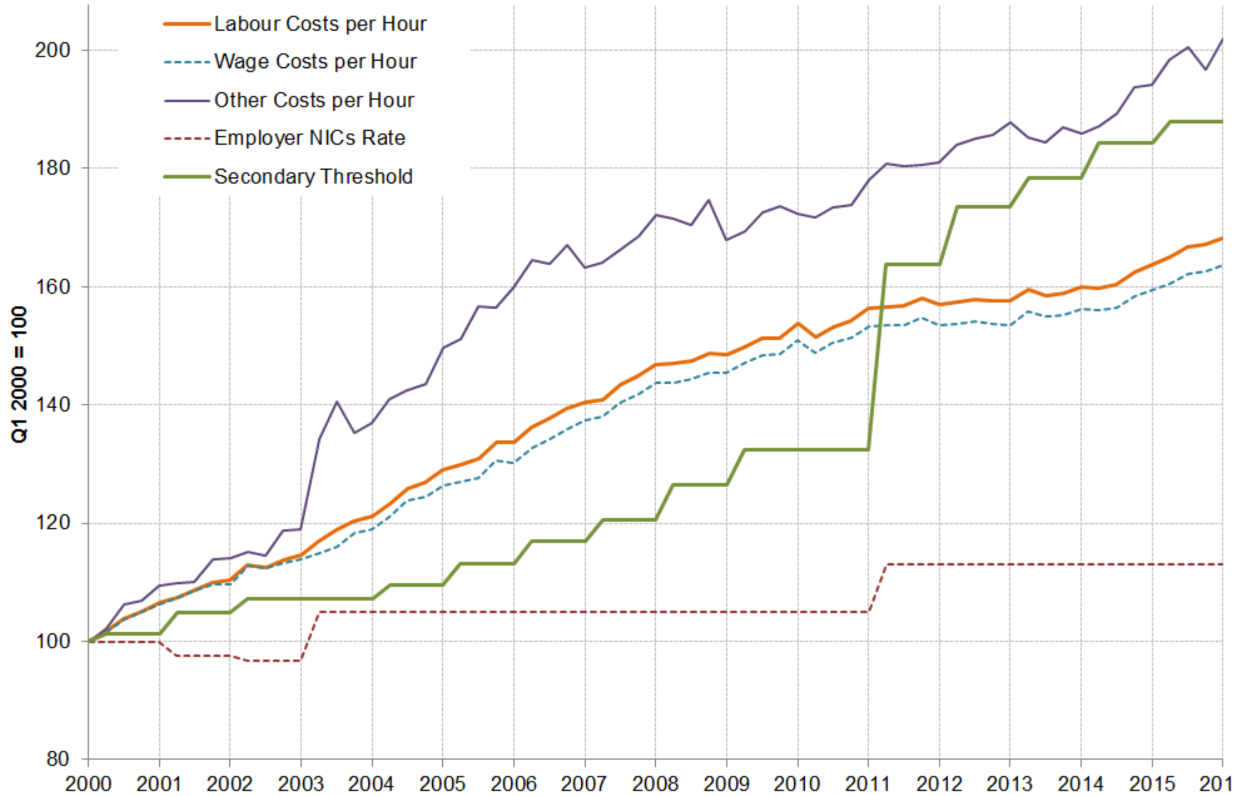
These real increases in the NMW come at a time of recovery for average real wages across the economy. This trend continued into 2016 where real average earnings (total pay) grew by 1.8% in the year to August 2016. This is due to growth in nominal average earnings and a low level of inflation, with CPI increasing by only 0.6% in the year to August 2016.

The introduction of the NLW marked a significant increase in wages for over a million low-paid workers across the UK. In April 2016 when the National Living Wage came into effect, those aged 25 and above on the main NMW saw an increase in real average earnings, exceeding growth rates of both CPI and RPI measures of inflation. As a result of this increase, real hourly wages for the lowest paid (25 and above) grew by 6.7% since April.

Employer labour costs

Employer labour costs are made up of wage costs and non-wage costs. According to experimental statistics from the ONS, the average cost of employing an hour's labour has increased significantly since 2000, as illustrated in Chart 13. Since 2003, other (non-wage) labour costs have increased at a faster rate than wage costs, coinciding with increases in the National Insurance Contributions (NICs) rate. Following this divergence, the position of non-wage labour costs has remained relatively constant, despite increases in the NICs threshold.

Chart 13: Index of labour costs per hour and employer NICs



Source: ONS ILC Quarterly Data. The secondary threshold is the point at which employers start to pay NICs (primary threshold is the point at which employees start paying NICs)

On aggregate, wages remain the largest single component of hourly labour costs and these have been increasing over time driving overall labour costs. Table 3 provides a more specific breakdown of hourly labour costs and shows that NICs and pension contributions are the most significant non-wage labour costs faced by employers. In comparison, benefits in kind and statutory costs faced by employers are the least significant and generally make up a very small percentage of labour costs faced by employers.

While labour costs may have increased on aggregate, this is not necessarily the case across the earnings distribution. For example, increases to the threshold at which employers must pay National Insurance Contributions will mean that fewer low paid workers will incur this additional non-wage labour cost.

In addition, recognising that the NLW would increase costs for some businesses, the Government increased the Employment Allowance from £2,000 to £3,000 in April 2016. This means a business can employ four people full time on the NLW and pay no NICs. The increase will benefit up to 500,000 employers and is expected to take up to 90,000 employers out of paying employer NICs altogether. As mentioned above, the cut in corporation tax from 20% to 17% by the end of the Parliament will also benefit over a million firms of all sizes.

Table 3: Percentage breakdown of employer labour costs

	Wages and salaries	Sickness, maternity and paternity pay	Benefits in kind	Employer pension contributions	Employer national insurance contributions
2009	84.7%	0.7%	1.2%	5.9%	7.6%
2010	84.6%	0.6%	1.2%	6.1%	7.5%
2011	84.5%	0.6%	1.2%	6.1%	7.7%
2012	84.5%	0.6%	0.8%	6.1%	8.0%
2013	84.5%	0.6%	0.8%	6.1%	8.0%
2014	84.7%	0.6%	0.8%	6.1%	8.0%
2015	84.9%	0.7%	0.8%	6.1%	8.0%
2016	84.4%	0.6%	0.8%	6.1%	8.0%

Source: ONS quarterly averages disaggregated ILCH statistics[9]

[9] Figures may not sum to 100% due to rounding.

Trends in Apprenticeships

Apprenticeship National Minimum Wage

The apprentice NMW rate recognises that there are particular costs for employers and benefits for the employee in providing and undertaking an apprenticeship. There is a cost to the employer of providing the training and lower productivity during training. For instance, this can be due to off the job training and the cost of managing the apprentice at the workplace. However, the employer will also reap some of the gains of increased productivity of the apprentice, particularly if they remain with the employer after training.

The apprentice rate is designed to recognise these additional costs alongside the need to ensure sufficient volume, quality and sectoral variety of apprenticeship places to meet employer needs. It currently applies to apprentices under 19, or those over 19 and in the first year of their apprenticeship – all other apprentices qualify for the relevant age-related NMW rate.

Summary

This chapter examines the trends in apprenticeship participation, pay and key quality indicators. Apprenticeships, as full-time jobs, are implicitly included within the assessment of overall employment trends, however we focus on them separately here as the employment relationship and interaction with the National Minimum Wage is slightly different.

This report makes use of recently available and previously unpublished information from the 2016 Apprenticeship Pay Survey and therefore provides more of an in-depth look at apprenticeship trends than previous Government evidence. The full report will be published at the end of 2016 but high level interim findings are included here.

- The Apprentice National Minimum Wage (ANMW) rate increased by 57 pence (21 per cent) from £2.73 to £3.30 in October 2015. This is the largest ever increase in the ANMW.
- Across the UK, apprenticeships starts have performed well over recent years, with a shift towards higher level apprenticeships (Level 4+). In particular, higher level apprenticeship starts have doubled between 2013/14 and 2014/15 in England, and smaller increases in Scotland and Wales, although from a low base.
- Apprenticeship starts in England and Scotland have increased for older age groups. Those aged 25 and above in England increased by over 30 per cent in 2014/15.
- The average length of an apprenticeship achieved in 2013/14 was 15 months. The average length was slightly longer for younger apprentices (18 months) a reflection that older apprentices may have some prior attainment. Apprenticeship durations as measured by planned end dates show a small number (33,600) of apprenticeships which started in 2014/15 were planned to last fewer than 12 months, a decrease of 5.4 per cent on the previous year.

- Since the last Apprenticeship Pay Survey in 2014, median average hourly pay has increased by 7.4 per cent at the overall level. Wage growth has been strongest (10.1 per cent) for apprentices aged 19-20 and in the second year of study. The median average hourly wage for those entitled to the Apprentice Rate (either 16-18 or those older but in the first year of study) increased by 4.0 per cent.
- At the overall level, estimated non-compliance rate among employers of apprentices increased to 18 per cent (up from 15 per cent in 2014). There was an increase of 5 percentage points in non-compliance for the 16-18 year old group, who since October 2015 have attracted the apprentice rate of £3.30. There were slightly smaller increases in the rates of non-compliance for employers of older apprentices in their first year (entitled to at least £3.30 in 2016).

Apprenticeships are a devolved policy responsibility. The data reported below focus on England but also cover the number of starts in Scotland, Wales and Northern Ireland at a high level.

The Government has made a commitment of reaching 3 million apprenticeship starts in England by 2020. Apprenticeships are paid jobs which require substantial and sustained training, leading to the achievement of an apprenticeship standard, and the development of transferable skills. Apprentices have the same rights as other workers and are entitled to be paid at least the apprentice rate of the National Minimum Wage.

The apprenticeship levy will be introduced on 6 April 2017 to fund the increase in quality and quantity of apprenticeships, putting apprenticeship funding on a long-term, sustainable footing. The levy will raise £3 billion a year by 2019-20, £2.5 billion of which will be spent on apprenticeships in England. This is the highest investment in real terms ever made in apprenticeships.

The levy will apply to all employers across the UK with a pay bill of £3m or more. It is set at a rate of 0.5 per cent of pay bill and will be paid by less than 2 per cent of UK employers. The outline of the funding model from May 2017 was published in an employer guide in April 2016.

There will also be changes to apprenticeship funding policy from 1 May 2017 to simplify the system for employers. The Government published details of provisional funding rates for co-investment, funding bands and incentives in August 2016 (available here: www.gov.uk/government/publications/apprenticeships-proposals-for-funding-from-may-2017).

Apprenticeship statistics for England

Two measures of Apprenticeships, starts[10] and participation[11], are presented to give a clearer view of the changes and trends in Apprenticeships in England.

In England, apprenticeship starts increased across the board between 2013/14 and 2014/15 according to the Further Education and Skills Statistical First Release. There was almost half a million apprenticeship starts in 2014/15 with particularly strong growth seen in higher level apprenticeships starts which increased by over 100 per cent.

Data reported so far for the 2015/16 academic year (August 2015 to July 2016) show 503,700 apprenticeship starts. Figures for 2015/16 provide an early view of performance and will change as further data returns are received. It is not possible to determine how complete or incomplete the information returned so far is, so direct comparisons with data from earlier years cannot be made.

Table 4: Apprenticeship Programme Starts, England

Apprenticeship Programme Starts	2013/14 (Final) Aug 2013 - July 2014	2014/15 (Final) Aug 2014 - July 2015	% change 13/14 to 14/15	2015/16 (Reported to date) Aug 2015 - July 2016
Total	**440,400**	**499,900**	**13.5%**	**503,700**
Intermediate (Level 2)	286,500	298,300	**4.1%**	288,600
Advanced (Level 3)	144,700	181,800	**25.6%**	188,400
Higher (Level 4+)	9,200	19,800	**114.5%**	26,800
Under 19	119,800	125,900	**5.1%**	130,400
19-24	159,100	160,200	**0.7%**	152,500
25 and above	161,600	213,900	**32.4%**	220,800
19 and above	320,700	374,000	**16.6%**	373,300

Source: Individualised Learner Record/Further Education & Skills Statistical First Release, June 2016

Apprenticeships participation (the number of individuals on apprenticeships) is up by 2.4 per cent on 2013/14 and is the highest figure on record. Higher apprenticeships and under 19s participation saw the largest increases.

[10] Starts refer to the number of programmes that begin in a given time period. This measure is helpful in determining the take-up of programmes. An Apprentice is counted for each Apprenticeship they start.
[11] Participation refers to the number of people who are undertaking an Apprenticeship in a given time period. This measure is helpful for quantifying the number of people on an Apprenticeship programme throughout the academic year. An Apprentice studying towards more than one Apprenticeship at the same level is counted once.

Data reported so far for the 2015/16 academic year (August 2015 to July 2016) show 904,800apprentices participating. As stated above, direct comparisons should not be made between in-year data for 2015/16 and figures for earlier years.

Table 5: Apprenticeship Participation, England

Apprenticeship Participation	2013/14 (Final) Aug 2013 - July 2014	2014/15 (Final) Aug 2014 - July 2015	% change 13/14 to 14/15	2015/16 (Reported to date) Aug 2015 - July 2016
Total	**851,500**	**871,800**	**2.4%**	**904,800**
Intermediate (Level 2)	503,500	517,400	**2.8%**	517,700
Advanced (Level 3)	351,900	349,100	**-0.8%**	369,100
Higher (Level 4+)	18,100	29,700	**64.1%**	44,400
Under 19	185,800	194,100	**4.5%**	202,200
19-24	308,900	315,000	**2.0%**	310,500
25 and above	356,900	362,600	**1.6%**	392,100
19 and above	665,700	677,700	**1.8%**	702,600

Source: Individualised Learner Record/Further Education & Skills Statistical First Release, June 2016

There has also been a steady increase in the number of workplaces offering apprenticeships. Table 6 provides the number of workplaces offering apprenticeships by age group. The number of workplaces[12] offering apprenticeships to those aged 25 and above increased by 2.8 per cent between 2013/14 and 2014/15, this should be viewed in light of much stronger growth (32.4 per cent) in apprenticeship starts for the 25 and above group in the same time period and suggests individual workplaces are expanding the number of apprenticeships they offer.

[12] Figures on workplaces offering apprenticeship by age do not correspond exactly with the NMW rates a worker may be entitled to because they do not identify whether the apprentice is in their first year and therefore eligible for the apprentice rate.

Table 6: Workplaces Employing Apprentices by Age, England

	2013/14 (Final) Aug 2013 - July 2014	2014/15 (Final) Aug 2014 - July 2015	% change in workplaces 13/14 to 14/15	2015/16 (Reported to date) Aug 2015 - April 2016
Under 19	100,700	107,100	6.4%	103,000
19-20	82,700	86,700	4.7%	82,100
21-24	80,400	84,100	4.6%	80,000
25 and above	93,400	96,000	2.8%	95,800
Total	**240,900**	**252,300**	4.7%	**247,600**

Notes:

1. The sum of age breakdowns is greater than the total as some workplaces deliver apprenticeships to more than one age band.
2. Academic years cover August to July, so the NMW rate used for comparison is the rate introduced in the October of the relevant year (i.e. October 2013 and 2014 rates).

Apprenticeship statistics for Northern Ireland

Table 7 shows apprenticeship starts in Northern Ireland between 2013/14 and 2014/15 and in year data for 2015/16 by level. At the overall level the number of starts in Northern Ireland has remained fairly flat between 2013/14 and 2014/15 (a small increase of 1.1%), this change has been driven by a modest increase in Level 2 starts at the same time as a very small decline in level 3 starts.

Table 7: Apprenticeship starts by level, Northern Ireland

	2013/14	2014/15	% change 13/14 to 14/15	2015/16 (up to Apr 2016)
Level 2	2,709	2,797	3.2%	2,191
Level 3	2,640	2,626	-0.5%	2,158
Total (includes level not assigned)	**5,410**	**5,469**	**1.1%**	**5,208**

Source: Apprenticeships NI Statistical Bulletin from August 2013 to April 2016.

Apprenticeship statistics for Scotland

Table 8 shows apprenticeship starts in Scotland between 2013/14 and 2015/16 by level and age. The headline number of apprentice starts in 2015/16 was up by 2.3 per cent on to 2014/15, and there were increases at Level 3+ and for the older age groups.

Table 8: Modern Apprenticeships starts by level and age, Scotland

	2013/14	2014/15	2015/16	% change 14/15 to 15/16
Total	**25,284**	**25,247**	**25,818**	**2.3%**
Level 2	9,629	9,135	9,055	-0.9%
Level 3	14,805	15,469	15,803	2.2%
Level 4	726	547	862	57.6%
Level 5	124	96	98	2.1%
16-19	13,107	13,247	12,837	-3.1%
20-24	6,766	6,877	7,669	11.5%
25 and above	5,411	5,123	5,312	3.7%

Source: Skills Development Scotland, published 7th June 2016.

Notes:

1. Statistics for the first quarter of 2016/17 were published in August 2016 available here - https://www.skillsdevelopmentscotland.co.uk/media/42017/modern-apprenticeship-statistics-q-1-2016-17.pdf - this shows that there were 3,634 Modern Apprenticeship starts in Scotland.

Apprenticeship statistics for Wales

Table 9 shows apprenticeship starts in Wales by level and age. While the overall number of starts declined by 29.0 per cent between 2013/14 and 2014/15, there was an increase seen in higher apprenticeships in 2014/15. There were decreases in starts seen across the age bands in 2014/15. New investment in apprenticeship funding during 2013/14 resulted in a high number of apprenticeship starts during this year. These learners continued to be supported into the 2014/15 year, i.e. the second year of their apprenticeship programme. However, funding in 2014/15 was firstly directed to support the learning activity for the spike in apprentices recruited in 2013/14. The consequential impact of funding apprentices into their second year resulted in a reduction in funding available to support new starts in 2014/15.

Table 9: Apprenticeship Starts by level and age, Wales

	2013/14	2014/15	% change 14/15
Total	**27,485**	**19,505**	**-29.0%**
Foundation Apprenticeship (Level 2)	14,000	8,430	-39.8%
Apprenticeship (Level 3)	10,185	6,895	-32.3%
Higher Apprenticeship (Level 4+)	3,300	4,175	26.5%
16-19	7,345	5,790	-21.2%
20-24	7,500	6,805	-9.3%
25 and above	12,635	6,905	-45.4%

Source: Welsh Government, Learning programme starts in work-based learning in Wales. August 2016.

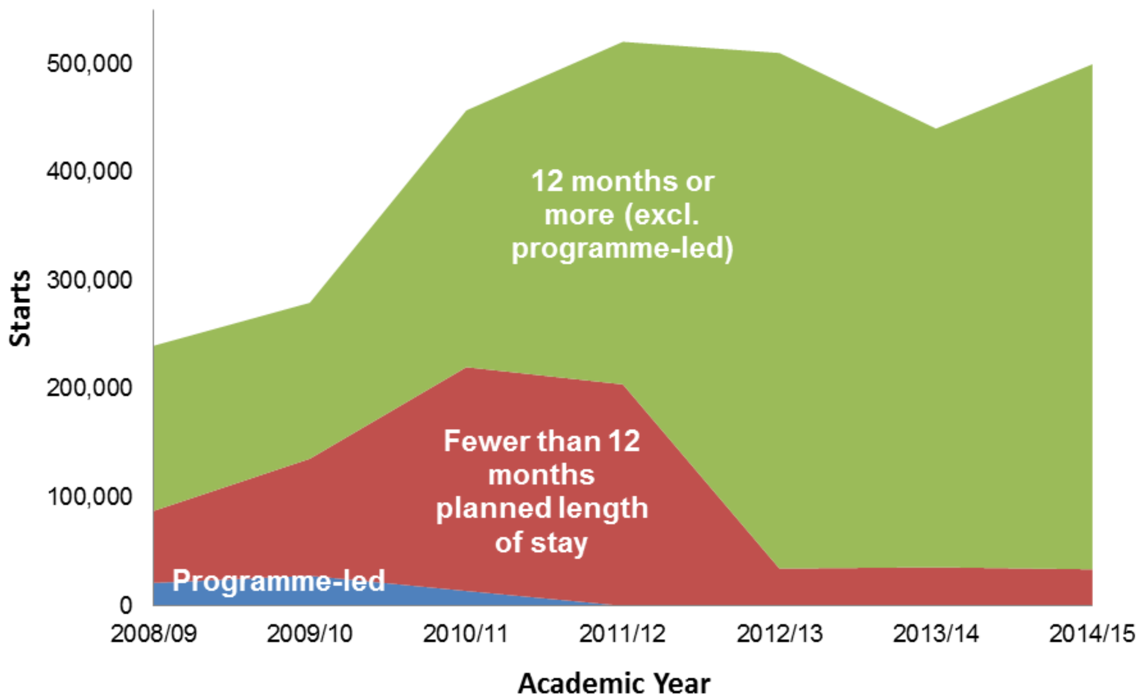
Apprenticeship Quality in England

The Government has a strong focus on increasing the quality of apprenticeships - all apprenticeships must be paid jobs; involve sustained training and clear skills gain including on- and off-the-job training; have a minimum duration of 12 months, and must include English and Maths for those who have not achieved good GCSEs in those subjects. The Government has announced the creation of a new independent statutory body, led by employers, to support the quality of apprenticeships in England. The Institute for Apprenticeships will be fully operational by April 2017. It will be responsible for ensuring the ongoing quality of apprenticeship standards and assessment plans, as well as providing advice to Ministers on funding to be applied to apprenticeship standards.

Chart 14 illustrates the trend in apprenticeship starts by planned length of stay and clearly shows that the number of apprenticeship starts for those planned to last 12+ months has increased over the time-series. As a result of policy changes, the number of apprenticeship starts in England, with a planned length of stay of fewer than 12 months, decreased sharply (fall of 83.2 per cent) between 2011/12 and 2012/13 (from 204,400 to 34,300) and has remained low since. Some apprentices aged over 19 may have completed an apprenticeship in less than 12 months, if they could demonstrate prior attainment of certain relevant qualifications; which may account for the persistence of this low number. Recent changes mean that all apprenticeship are now a minimum of 12 months, regardless of prior attainment.

Data for 2015/16 is not yet available but will be published as part of the Further Education Statistical First Release in due course.

Chart 14: All Age Apprenticeship Starts by planned length of stay, England



Source: Individualised Learner Record/Further Education & Skills Statistical First Release - www.gov.uk/government/statistical-data-sets/fe-data-library-other-statistics-and-research

Table 10 provides a further breakdown of apprenticeship starts by planned length of stay (as per chart 14 above) by age band. This shows that apprenticeship starts planned to last 12+ months increased by 5.7 per cent, 0.4 per cent and 37.5 per cent in 2014/15 for those aged under 19, 19-24 and 25 and above, respectively.

Table 10: Apprenticeship Starts by planned length of stay by age, England

Age	Planned Length of Stay	2013/14	2014/15	% change 14/15
Under 19	Fewer than 12 months	2,400	1,800	-26.4%
	12 months or more	117,400	124,100	5.7%
	Total	**119,800**	**125,900**	**5.1%**
19-24	Fewer than 12 months	16,100	16,600	3.3%
	12 months or more	143,100	143,600	0.4%
	Total	**159,100**	**160,200**	**0.7%**
25 and above	Fewer than 12 months	17,100	15,300	-10.7%
	12 months or more	144,400	198,600	37.5%
	Total	**161,600**	**213,900**	**32.4%**
All Apprenticeships	Fewer than 12 months	35,600	33,600	-5.4%
	12 months or more	404,900	466,300	15.2%
	Total	440,400	499,900	13.5%

Source: Individualised Learner Record/Further Education & Skills Statistical First Release, June 2016

Average length of stay statistics are another way of measuring the duration of apprenticeships. This measure is based on the actual end date of apprenticeship achievements. The latest available data covers the 2013/14 academic year and shows the average length of stay for apprenticeships achieved in 2013/14 academic year was:

- 15 months overall
- 18 months for those aged under 19
- 15 months for those aged 19-24 and
- 14 months for those aged 25 and over.

Care is advised when interpreting the average length of apprenticeships as it is sensitive to the composition of apprenticeship levels and frameworks. For example, a greater proportion of Apprenticeship achievements in frameworks that are typically shorter, will bring down the overall average length despite no change in the length of a particular framework.

The Apprenticeship Evaluation Learner Survey summary report for 2015 supports this data showing quality improvements, and found that:

- Only six per cent of Level 2 and 3 apprentices surveyed in 2015 stated their apprenticeship was intended to last for less than 12 month. This represents a considerable improvement on previous years. In 2013, around half (49 per cent) stated their apprenticeship was supposed to have lasted at least 12 months; by 2014 this had risen to 70 per cent and in 2015 it had reached 94 per cent, showing that the introduction of a minimum 12 month length is beginning to take effect.

- The average duration of an apprenticeship was 17 months.
- Almost 80 per cent apprentices at Level 2 and 3 received formal training, either at an external provider or in the workplace. For the remainder, who reported no formal training, it was most common on specific frameworks such as Education.

The Apprenticeship Evaluation Employer Survey summary report for 2015 provides information on the delivery, satisfactions and retention of apprentices. The survey found:

- Most employers (80 per cent) offered apprenticeships to those aged 19-24 or to those under 19 (74 per cent). Under half (46 per cent) offered to those aged under 19.
- 94 per cent of employers made use of an external training provider to deliver at least some of the apprenticeship training, consistent with 2014.
- Around two-thirds (similar to 2014) of employers' apprentices were still with the company at the time survey, typically around 12-18 months later. More than half (53 per cent) of employers whose apprentices had left reported that this was due to them receiving other or higher paid employment, in line with 2014.
- 86 per cent intended to continue offering apprenticeships in future, an increase from 79 per cent in 2014. Of those intending to continue apprenticeships, 25 per cent reported that they would increase the number of apprenticeship places they offered and a minority intended to either decrease (4 per cent) or stop altogether (6 per cent)
- Satisfaction levels with apprenticeships have increased since 2014, rising from 83 per cent to 87 per cent.

For those employers looking to cut back on places, almost half (48 per cent) reported the need to recruit or train fewer people, while 30 per cent stated that they decided to recruit or train in other ways.

Apprentice pay

The 2016 Apprentice Pay Survey (APS) is a large-scale survey of 9,422 apprentices and is considered to provide the most accurate and up-to-date picture of pay of the apprentice population, in Great Britain (England, Scotland and Wales). The full report will be published at the end of 2016 but high level interim findings are included here.

The 2016 survey shows that the vast majority (83 per cent) of apprentices, where an assessment can be made, are paid at or above the appropriate NMW rate.

The results showing apprentice hourly pay by country and level are available in Table 11. Average pay among Level 2 and 3 apprentices in Great Britain was £6.70. It was £6.78

including all Level 2 to Level 5 apprentices. Level 2 and 3 apprentices in Scotland and Wales had slightly lower median hourly pay rates (£6.66 and £6.63 respectively) than England (£6.70). Median average pay for higher level apprentices (available at the Great Britain level only), is £9.83, this is considerably higher than the overall average.

Table 11: Mean and Median hourly pay for apprentices by level and country

	Base	Mean	Median
Level 2 and Level 3 apprentices			
Great Britain	7,378	£6.98	£6.70
England	4,357	£6.99	£6.70
Scotland	1,411	£7.04	£6.66
Wales	1,610	£6.72	£6.63
Level 4 and Level 5 apprentices			
Great Britain	801	£10.80	£9.83
All apprentices Level 2 – 5 (includes Trailblazers at unknown level)			
Great Britain	8,353	£7.19	£6.78

Notes:

1. Results are based on those for whom it was possible from their survey responses to calculate an hourly pay figure.

Table 12 shows the average wage for apprentices according to which rate they are eligible for as a proportion of median earnings (bite).

This shows that the bite for apprentices due the Apprentice rate, at 51.2 per cent is much lower than the bites for the 19-20, 21-24 and 25 and above NMW rates at 88.3 per cent, 90.5 per cent and 88.6 per cent respectively. However, this is a noticeable increase (7.9 percentage points) on the bite in 2014 and a result of the largest ever increase in the apprentice rate to £3.30 in October 2015.

The bite for apprentices due the 21-24 rate is the highest, and at over 90 per cent, means that the £6.70 rate is close to the middle of the pay distribution for those apprentices aged 21-to 24 and in the second year of study. This suggests that changes in the NMW will have the greatest effect on apprentices aged 21 to 24 in the second year of study.

Since the last Apprenticeship Pay Survey in 2014, wage growth, as measured by median average hourly pay, has increased by 7.4 per cent at the overall level. Wage growth has been strongest (10.1 per cent) for apprentices aged 19-20 and in the second year of study. The median average hourly wage for those entitled to the Apprentice Rate (either 16-18 or those older but in the first year of study) increased by 4.0 per cent.

Table 12: Apprentice Pay Survey estimates of the bite[13], split by NMW rates

NMW Rate Apprentice is entitled to	Median wage 2014	Bite 2014	Median wage 2016	Bite 2016	Growth in median wage, 2014-2016	Annualised Growth in median wage
Apprentice rate (£3.30)	£6.19	43.3%	£6.44	51.2%	4.0%	2.0%
19-20 rate (£5.30)	£5.45	93.2%	£6.00	88.3%	10.1%	4.9%
21 – 24 rate (£6.70)	£6.76	93.3%*	£7.40	90.5%	9.5%*	4.6%
25 and above rate (£7.20)	£7.54	83.7%*	£8.17	88.1%	8.4%*	4.1%
Total	£6.31	-	£6.78	-	7.4%	3.7%

Notes:

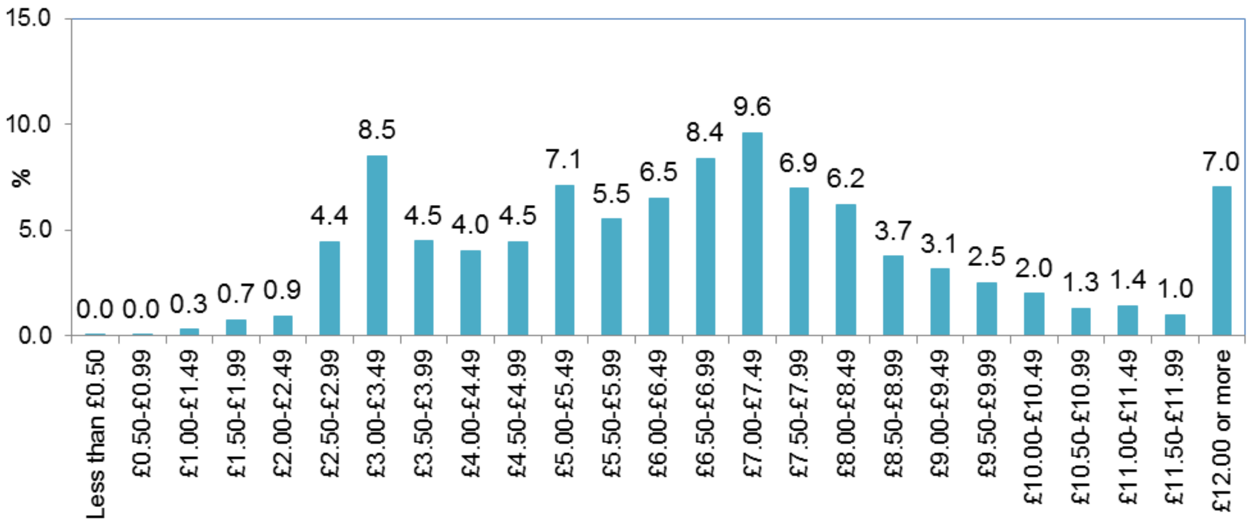
1. Caution is advised in making direct comparisons across years as wage changes may be the result of compositional changes.
2. *indicates that there was not a specific NMW rate for these age groups in 2014 (only the 21+ rate) so bites are indicative and should be treated with caution.

Chart 15 below compares the earnings distribution for Level 2 and Level 3 apprentices across Great Britain in 2016. The chart shows there are clear peaks with the corresponding NMW rate for the various age groups i.e. between £3.00-£3.49, £5.00-£5.49, £6.50-£6.99 and £7.00-£7.49.

In 2016, 58.5 per cent were being paid between £3.00 and £7.49 with a further 35.2 per cent being paid more than £7.50.

[13] The NMW rate as a proportion of median earnings is often described as the 'bite' and is used as a measure of how high up the earnings distribution the NMW rate cuts in.

Chart 15: Distribution of basic hourly pay, 2016 (%) (Level 2 and 3 apprentices across GB)



Source: Apprentice Pay Survey 2016, interim findings
Base: 7,378 Level 2 and 3 respondents

Chart 16 illustrates the change in hourly wages between 2014 and 2016, at the lowest 10th through to 60th percentiles of the distribution, for each NMW rate. The pattern broadly shows that hourly pay percentiles at the bottom of the distribution (10th and 20th percentiles) saw the largest increases since 2014.

For apprentices aged 16-18 and entitled to at least the £3.30 rate, hourly pay increased strongly. Those at the 10th, 20th, 30th percentiles saw similar levels of hourly pay growth, with around 20 per cent increases each.

For apprentices aged 19-20 in the first year of study (entitled to at least £3.30), again those at the 10th, 20th and 30th percentiles saw the highest growth in hourly pay, with increases of 20.1, 21.3 and 9.6 per cent. There were slight decreases for those at the median and 60th percentiles.

The largest increase seen for apprentices aged 21-24 (entitled to at least £3.30), and indeed for all groups, was for hourly pay at the bottom 10th percentile, this increased by 22.7 per cent rise on 2014.

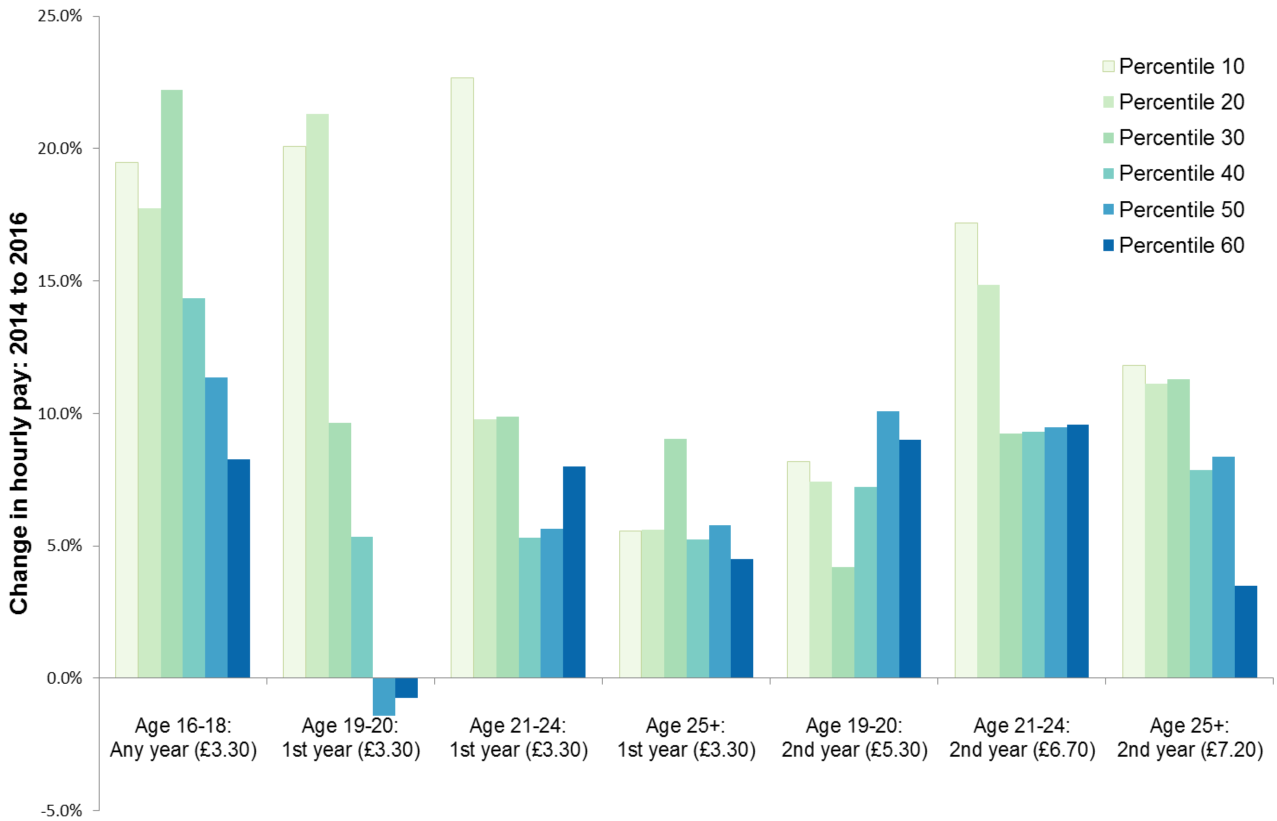
The large increase in the Apprentice rate (21 per cent) in October 2015 and the associated increase in the bite has been a strong driver for the changes seen in the distribution for these age groups due the apprentice rate.

However, for apprentices aged 25 and above and in the first year of study, hourly wages increased at the lowest level overall and with relatively little variation seen across the distribution. These smaller increases appear to reflect the fact that older apprentices tend to be paid a higher hourly wage than younger apprentices, even when young and old are in the first year of study. This means, the introduction of the £3.30 apprentice rate in October 2015 had less impact on the pay for older apprentices as hourly pay had to rise at a lower level to keep pace with the new rate.

Hourly pay for apprentices entitled to the age related rate of £5.30 shows a slightly mixed picture, with pay at the 20th, 30th and 40th percentiles increases at a lower rate than the median and 60th percentiles.

Hourly pay for apprentices entitled to at least the £6.70 and £7.20 rates (in 2016) saw the strongest growth for the 10th percentile groups, in both cases.

Chart 16: Change in NMW calculated Pay, 2014 to 2016 (%) for all apprentices across GB split by NMW rates



Source: Apprentice Pay Survey 2016, interim findings

Notes:

3. Caution is advised in making direct comparisons across years as wage changes may be the result of compositional changes. In particular, apprentices aged 19 and above entitled to the Apprentice Rate (£2.68 in the 2014 survey and £3.30 in 2016) will move from this rate entitlement at the end of the first year of study.

Apprenticeship Pay Survey – compliance with the NMW

Compliance with the National Minimum Wage is estimated in the Apprenticeship Pay Survey by calculating the basic pay at the standard hourly rate, the provision of accommodation (and/or any associated charges) and unpaid overtime hours.

While this data is considered to be detailed and accurate the information is self-reported by apprentices and it is possible that exact amounts are not provided during interview. Apprentices were asked to have a pay slip to hand, but this was only possible in 37 per cent of cases; where a pay slip was not available, apprentices made an estimate. Evidence from other pay surveys suggests respondents are likely to overestimate hours, underestimate earnings and round numbers, rather than give accurate amounts. Given the very precise numbers in this report, small errors can substantially impact on derived pay rates. For example, a first year apprentice working 32 hours per week at £3.30 per hour will earn £105.50, but they may report this as 32 hours per week for £100. This produces a derived hourly pay rate of £3.13, which is non-compliant by approximately 5 per cent.

Therefore, these estimates of non-compliance should be treated with caution and may not represent a direct measure of non-compliance with NMW legislation.

It is feasible that some apprentices are intentionally paid below the NMW, for example, an hourly rate that is too low or charging high amounts for live-in accommodation. Conversely, underpayment could be the results of mistakes. Earnings below NMW could arise from a delay in an apprentice's pay being increased following a change in eligibility (completing their first year or an increase in age) or from an apprentice voluntarily working additional hours on top of their paid hours. It may also occur due to mistakes by employers about which elements of apprentices' pay counts towards the minimum wage or a lack of knowledge about the NMW rates themselves. However, enforcement of the NMW law is applied equally, irrespective of the reasons or motives for any underpayment.

Previous research[14] has indicated that while the Apprenticeship Pay Survey is considered the most accurate source of apprenticeship pay it is likely to be an upper bound of non-compliance. More generally, previous analysis of ASHE[15] has suggested that underpayment may be due to misunderstanding NMW rates and the draw of focal points rather than deliberate non-compliance. The Government is clear that no level of non-compliance is acceptable and has taken action to raise awareness and improve enforcement of the NMW and NLW.

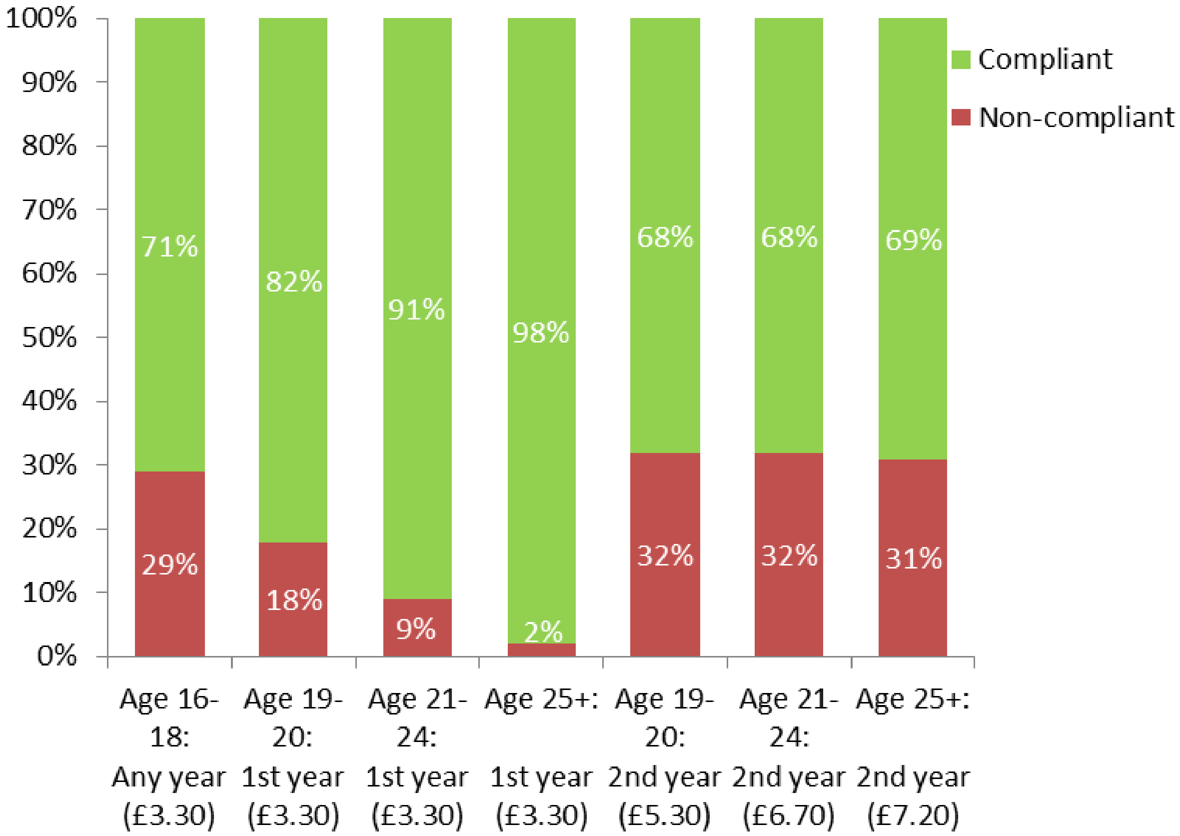
Looking at compliance split by the different NMW levels for each age group and year of Apprenticeship, those aged 19-20 and 21-24 in their second or later year of their Apprenticeship were the most likely to be in the non-compliant category, with 32 per cent paid less than the appropriate NMW rate, £5.30 or £6.70 an hour. Those aged 25 or older in the second year or later were slightly less likely to be non-compliant, with 31 per cent

[14] Understanding Apprentice Pay: Interim Report
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/520388/Drew_Ritchie_Velizioti s_Interim_Research_Report_February_2016.pdf

[15] Final Evidence to the Low Pay Commission: Jan 2016
https://www.gov.uk/government/publications/national-minimum-wage-final-government-evidence-to-the-low-pay-commission-2016

paid less than £6.70, followed by those aged 16-18, with 29 per cent paid less than £7.20. Only 2 per cent of those aged 25 and over in their first year were paid less than £3.30.

Chart 17: Compliance by age and year of Apprenticeship (GB Level 2 and 3) split by NMW rates, 2016



Base: All GB L2 & L3 where compliance can be calculated (7,876)
Source: Apprentice Pay Survey 2016, interim findings

Table 13 below shows non-compliance for Level 2 and 3 apprentices at the overall level is up to 18 per cent in 2016 up from 15 per cent in 2014. There was an increase of 5 percentage points in non-compliance for the 16-18 year old group, who since October 2015 have attracted the apprentice rate of £3.30. There were smaller increases in the rates of non-compliance for older apprentices in their first year (entitled to at least £3.30 in 2016). The following chapter focuses on enforcement of the NMW and shows how the Government has strengthened enforcement since April 2016.

The non-compliance rate for Apprentices in the second year of study and aged 19-20 increased by 2 percentage points but for those aged 21-24 decreased by 4 percentage points. This may be a result of some employers opting to pay 21-24 year old workers a higher hourly rate in an effort to comply with the National Living Wage for those aged 25 and above.

The largest percentage point increase in non-compliance is for apprentices aged 25 and above and in their second year, with an increase of 8 percentage points. This is perhaps unsurprising given the National Living Wage was only introduced in April 2016 so apprentices aged 25 and above and in the second year of study were previously entitled to the 21+ rate.

Table 13: Apprenticeship Pay Survey compliance by age and year of apprenticeship, 2014 and 2016

Age and year of apprenticeship	Non-compliance rate in 2014	Non-compliance rate in 2016	Change in non-compliance rate (percentage point)	Change in NMW rates since 2014 survey (%)
Age 16-18: Any year (£3.30)	24%	29%	5 p.p.	23%
Age 19-20: 1st year (£3.30)	14%	18%	4 p.p.	23%
Age 21-24: 1st year (£3.30)	8%	9%	1 p.p.	23%
Age 25 and above: 1st year (£3.30)	1%	2%	1 p.p.	23%
Age 19-20: 2nd year (£5.30)	31%	32%	2 p.p.	5%
Age 21-24: 2nd year (£6.70)	35%	32%	-4 p.p.	6%
Age 25 and above: 2nd year (£7.20)	23%	31%	8 p.p.	14%
All apprentices	**15%**	**18%**	**3 p.p.**	-

Source: Apprenticeship Pay Survey 2016, interim findings

Enforcement

Summary

The Government is committed to increasing compliance with the NMW through the provision of guidance and support to employers and workers. We are also tough on employers who fail to comply and have strengthened enforcement of the NMW. This chapter presents key data on the NMW enforcement activity covering up to the end of 2015/16 financial year.

- HMRC enforcement activity shows an increase in investigations from 2,204 investigations in 2014/15 to 2,667 in 2015/16.
- In 2015/16, almost £10.3 million in arrears were identified to over 58,000 workers. More than triple the amount of money and more than double the number of workers helped in 2014/15.
- To date (as of September 2016) 687 employers have been named for NMW underpayment since the scheme began.
- HMRC have closed over 800 cases in the 'Accommodation and Food Services' and over 400 cases in the 'Wholesale and Retail Trade' sectors. The largest number of cases related to employers in London (329) and the North West (309). Investigations are partly driven by worker complaints and partly by targeted work.

Estimated extent of non-compliance

NMW underpayment can be estimated using the Annual Survey of Hours and Earnings (ASHE). ASHE is a survey of employees completed by employers which can be used to identify jobs paid below the NMW rate. However, **it is does not offer a direct measure of NMW non-compliance** in the population as there are legitimate reasons for a job to be paid below the NMW, for example where accommodation is provided by the employer. In addition, as results from ASHE are based on a sample of employee jobs in Pay-As-You-Earn income tax schemes, it does not include all workers who earn below the Lower Earnings Limit or account for work that is undeclared to Government. ASHE is considered an accurate measure of pay information in the formal economy; however an evidence gap remains in reliable earnings data in the informal economy.

An assessment of non-compliance based on the Annual Survey of Hours and Earnings 2015 was included in the 2015 Final Evidence document and has not been repeated here. Findings from the next Annual Survey of Hours and Earnings for 2016 will be released in October 2016.

National Living Wage awareness

In advance of the introduction of the National Living Wage in April 2016, the Government ran a large scale communications campaign to raise awareness of the £7.20 rate. The campaign targeted both workers and employers and ran across TV, radio, billboards, digital and print media which launched in December and continued to through to mid-April 2016. The evaluation research showed the campaign performed strongly with over 80 per cent awareness of the NLW rate among workers and employers, and over one million people visiting the campaign website.

Enforcement operations

The Government is committed to cracking down on employers who break NMW law. We are absolutely clear that everyone entitled to be paid the minimum wage should receive it. BEIS are responsible for NMW compliance and enforcement policy and HMRC enforce the NMW Act on BEIS's behalf.

We have increased HMRC's enforcement budget to £20 million from April this year, up from £13 million in 2015/16. This will bolster HMRC's resources through setting up a dedicated team focused on tackling the most serious cases of wilful non-compliance. It will also increase the number of compliance officers available to investigate NMW complaints and allow HMRC to enhance their programme of targeted enforcement.

HMRC continues to investigate every complaint it receives, including those made to the ACAS helpline and those it receives from other sources. HMRC conducts full investigations into employers when the complainant wishes to remain anonymous. In addition, HMRC proactively conducts risk-based or targeted enforcement in sectors and areas where there is a higher risk of workers not getting paid the legal minimum wage.

Where HMRC have investigated an NMW complaint, found arrears and issued a Notice of Underpayment detailing those arrears and penalty due in respect of the complainant, they have the flexibility to instruct the employer to self-correct for the rest of their payroll – freeing up HMRC staff to work on more investigations. This approach is only used in cases where it is deemed appropriate and HMRC follow up with a sample of workers to ensure the arrears due have been paid. Self-correction can be viewed as an additional tool to maximise the impact of their enforcement activity; for example, in response to targeted "nudge" communications.

Self-correction has helped identify a significant amount of arrears and ensure it has been paid back to workers (over £4.6m in 2015/16) while only requiring minimal investment of public funds. Arrears achieved via self-correction are not included in total arrears employers are **named** for. Penalties can only be applied to arrears recorded on the Notice of Underpayment, so self-correction reduces the employer's liability to penalties, but does not reduce the amount of arrears they must repay.

Our priority as a Government is ensuring that workers receive the money they are owed as quickly as possible. For this reason in the vast majority of cases HMRC follow the civil enforcement route, which is the quickest way of ensuring workers receive their arrears. The civil route is the result of HMRC conducting an investigation and identifying a worker(s) has been underpaid. HMRC then issue a Notice of Underpayment and instruct the employer to pay the workers the arrears they are owed. In addition, the employer then pays a penalty to the Exchequer which since April 2016 is calculated based on 200 per cent of the arrears they owe.

HMRC refer the most serious cases for criminal investigation. The decision on whether to prosecute or not is ultimately made by the Crown Prosecution Service (CPS) who will consider all the evidence and whether it is in the public interest to prosecute.

The Government has set up a dedicated HMRC team focused on targeting the most serious cases of wilful non-compliance, and identifying early when cases may reach the threshold for prosecution.

In addition, a statutory Director of Labour Market Enforcement has been created, to set a single set of priorities for the enforcement bodies across the spectrum of labour market abuse and non-compliance.

Since the Government began enforcing the minimum wage in April 1999, it has identified £68 million in arrears for over 313,500 workers during more than 70,200 employer interventions.

Table 14 shows that in 2015/16, the Government identified almost £10.3 million in arrears for over 58,000 workers. The number of workers helped has more than doubled, up from over 26,300 in 2014/15. This is in part, a reflection of the introduction of new types of intervention and a new focus on improving the front-end processes so complaints are investigated faster. The extra resources are then invested in NMW enforcement meaning more cases can be tackled, this can be seen in the recent rise in the number of investigations completed. However, it should also be noted that the identification of a few large cases (in terms of arrears) may influence the overall figures.

The table below also shows the 'strike-rate' of NMW investigations. The strike-rate represents cases where arrears have been identified as a proportion of all cases investigated. After a rise to 47 per cent in 2013/14 (from 43 per cent in 2012/13) the overall strike rate has remained relatively flat, 33 per cent in 2014/15 and 36 per cent in 2015/16.

Strike rates can be affected by a number of different factors. Firstly, where an investigation has been the result of a worker complaining directly, there is a greater likelihood arrears will be found than where third-party intelligence or targeted enforcement was the source of information. Secondly, strike rates vary across sectors (see Table 15), as a result of varying levels of low-paid workers and sector specific work characteristics, for example, greater use of travel time or high number of apprentices. Thirdly, the strike rate may not reflect current levels of non-compliance across the UK labour market. This is because the strike rate only represents the outcome of cases closed in a 12 month period ending 31st March and does not necessarily cases opened in the same period which may close in subsequent years.

Furthermore, strike rates might be interpreted as either a positive or negative indicator. In one sense an increasing strike rate might demonstrate HMRC are targeting compliance and enforcement in the right areas. Conversely, an increasing strike-rate might be considered to be an indicator of non-compliance increasing in the population as a whole.

In focus: Social Care

The Social Care sector continues to be treated as a priority for NMW enforcement and is one of HMRC's targeted enforcement sectors for 2016/17. This means NMW cases are opened without the need of a worker complaint.

Between 1st April 2013 and 31st March 2016, HMRC have opened 482 investigations in the social care sector, of which:

- 394 were initiated by a worker complaint
- 88 were based on targeted enforcement activity

National Minimum Wage underpayment has been found in 129 cases closed so far and resulted in over £702,000 for 3,868 workers. Employers have been charged penalties totalling over £150,500 for failing to comply with the law.

Table 14: NMW investigations, 2009/10 to 2015/16 (financial year)

	Closed cases	Closed cases with arrears	Strike rate	Arrears identified	Workers identified	Average Arrears per worker	No. of penalties issued	Penalties
2009/10	3,643	1,256	34%	£4.39m	19,245	£228	381	£111,200
2010/11	2,901	1,140	39%	£3.82m	22,919	£167	934	£520,600
2011/12	2,534	968	38%	£3.58m	17,371	£206	906	£766,800
2012/13	1,696	736	43%	£3.97m	26,519	£150	708	£776,500
2013/14	1,455	680	47%	£4.65m	22,610	£205	652	£815,300
2014/15	2,204	735	33%	£3.29m	26,318	£125	705	£934,700
2015/16	2,667	958	36%	£10.28m	58,080	£177	815	£1,780,500

Notes

1. Between 2005/06 and 2009/10, there were 21,208 investigations, which found arrears of £19,094,334 to 101,259 workers and 753 penalties and charges were issued.

Table 15: NMW investigations by Trade Sector, 2014/15 to 2015/16 (financial year)

		2014/15				2015/16			
Trade Sector	Estimated jobs at or below NMW[1]	Closed cases	Strike-rate	Workers identified	Arrears identified (£)	Closed cases	Strike-rate	Workers identified	Arrears identified (£)
Accommodation and Food Services	354,000	528	28%	4,099	385,300	819	22%	4,219	1,419,700
Administrative and Support	226,000	231	34%	3,421	273,200	232	34%	16,071	4,747,800
Arts, Entertainment and Recreation	43,000	59	41%	448	183,400	58	45%	4,783	597,800
Construction	31,000	109	34%	121	110,700	90	50%	90	127,300
Education	48,000	59	37%	336	132,100	57	56%	214	237,100
Financial and Insurance Activities	5,000	33	30%	84	21,300	12	58%	17	19,200
Human Health and Social Work	133,000	186	34%	12,157	904,400	276	48%	2,562	750,700
Information and Communication	15,000	51	33%	38	49,200	39	31%	292	19,900
Manufacturing	81,000	88	34%	361	217,100	168	23%	113	77,500
Other Service Activities	56,000	285	44%	367	376,400	293	57%	959	327,800
Professional, Scientific and Technical	43,000	70	26%	36	37,200	69	45%	4,218	162,700
Real Estate Activities	8,000	31	35%	125	72,600	24	54%	31	56,800
Transportation and Storage	22,000	73	27%	98	79,700	91	26%	42	22,200
Wholesale and Retail Trade	345,000	357	33%	4,568	395,700	402	39%	23,985	1,665,100
Other	20,000	44	32%	59	53,000	37	32%	484	49,600
Total	**1,429,000**	**2,204**	**33%**	**26,318**	**3,291,500**	**2,667**	**36%**	**58,080**	**10,281,400**

Notes

1. The estimated number of employee jobs paid below NMW is based on ASHE 2015 and uses those paid within 5 pence of the NMW rates. A trade sector to Standard Industry Classification code lookup is available here - www.hmrc.gov.uk/gds/vsme/attachments/trade_classes.doc
2. 'Other' includes seven trade sectors including 'Agriculture, Forestry and Fishing', 'Electricity, Gas, Steam and Air Conditioning Supply', 'Mining and Quarrying', 'Public Administration and Defence, and 'Water Supply; Sewerage, Waste Management and Remediation Activities'.

Table 16: NMW enforcement by workplace region, 2015/16 (financial year)

Region	Closed cases (complaint and risk-based)	Closed cases with arrears	Strike-rate	Arrears identified (£)	Workers identified	Value of Penalties (£)
East Midlands	185	70	38%	£208,100	3,478	£92,900
East of England	243	69	28%	£694,100	3,510	£71,100
London	329	108	33%	£5,218,400	21,409	£667,100
North East	107	52	49%	£228,700	491	£101,800
North West	309	128	41%	£360,600	969	£177,500
Northern Ireland	95	29	31%	£68,600	309	£47,600
Scotland	234	91	39%	£436,200	664	£102,800
South East	280	116	41%	£336,900	1,155	£129,000
South West	244	81	33%	£1,584,600	18,545	£143,400
Wales	116	33	28%	£114,000	291	£57,300
West Midlands	268	87	32%	£798,100	6,084	£83,500
Yorkshire and The Humber	252	94	37%	£233,200	1,175	£106,400
Total	**2,667**	**958**	**36%**	**£10,281,396**	**58,080**	**£1,780,367**

Source: BEIS/HMRC enforcement data

Notes

1. Regional trends may be the result of differences in the concentration of employers across the UK or in the sector composition within a region – for example a region with a large number of employers in low-pay sectors will drive investigations in that region. Furthermore, these figures combine complaint-led and targeted enforcement work and there may be a different pattern when these breakdowns are considered separately.

Naming scheme

The naming scheme is now firmly established as part of the civil sanctions used to deter employers from breaking NMW rules. Table 17 shows that since the introduction of the revised scheme, BEIS has named 687 employers, who between them owed over £3.5 million in arrears and paid penalties of almost £1.4 million (arrears achieved via self-correction are not included in total arrears employers are named for). BEIS considers all employers for the naming scheme, with the exception of the following cases:

- Where the investigation commenced before the advent of the naming scheme.
- Where an employer self-corrected the arrears and paid it back to workers.
- Where the arrears owed were £100 or less.
- Where a case is being considered for criminal prosecution.

Employers are not named at the point when a Notice of Underpayment (NoU) is issued. Under the NMW regulations, employers have 28 days to appeal against an NoU. They then have a further 14 days to make representations to the BEIS against being named. Furthermore, BEIS wait for the judgement of Employment Tribunals and/or Section 19D action (payment recovery) before considering the case for naming. The published criteria for exemptions to naming includes consideration where naming carries a risk of personal harm to an individual or their family, there would be a national security risk because of naming, or naming would be against the public interest.

Table 17: Employers named for NMW underpayment (revised naming scheme)

Date of Naming	Employers named	Arrears Recovered in Naming Round	Workers covered	Average Arrears per worker
Feb 2014	5	£6,900	6	£1,144
Jun 2014	25	£43,900	78	£563
Nov 2014	25	£89,600	80	£1,120
Jan 2015	37	£177,100	806	£220
Feb 2015	70	£157,700	405	£389
Mar 2015	48	£162,800	4,026	£40
Jul 2015	75	£154,000	293	£525
Oct 2015	113	£387,500	1,693	£229
Feb 2016	92	£1,873,700	3,352	£558
Aug 2016	197	£465,300	2,168	£214
To date	**687**	**£3,518,400**	**12,907**	**£272**

Source: BEIS/HMRC enforcement data

This publication available from www.gov.uk/beis

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