Department for Business Innovation & Skills

NATIONAL MINIMUM WAGE

Final government evidence to the Low Pay Commission 2012

JANUARY 2013

MINISTERIAL FOREWORD

The Coalition Government is fully committed to the National Minimum Wage. We believe that the protection the minimum wage gives to low income workers, whilst incentivising them to work, continues to be of great importance. This is especially true in the current economic climate.

We greatly value the work of the Low Pay Commission and welcome its ongoing focus in helping as many low paid workers as possible, without adversely impacting employment prospects. We again encourage the Commission to retain this focus for its next report.

The Commission took difficult decisions in its last report when it recommended moderate increases in the adult and apprentice minimum wage rates, and recommended freezing the youth rates. We know that these decisions were not easy. However, uncertain economic conditions, particularly in the youth labour market, were such that focussing on employment meant caution in recommending changes to the rates was indeed the most appropriate course. We therefore accepted the LPC's recommendations, even though it was a very tough decision to agree to freeze the youth rates.

The Government is supporting lower and middle income earners by raising the personal tax allowance to £10,000, with real progress towards this goal every year. The increases announced so far will benefit 25 million workers – 2.2 million workers will be taken out of tax altogether from April 2013. The increase to the personal allowance that was announced in this year's Autumn Statement means that - for the first time – someone on the minimum wage working 29 hours a week will no longer pay income tax.

Economic conditions remain difficult. The Commission once again faces a challenging remit. Rate recommendations will need to be made against a difficult economic background. Economic growth is expected to remain relatively subdued. The level of employment is now above its pre-recession peak, but the employment rate is below the pre-recession peak. This means that we believe that caution is required – particularly as the minimum wage rate is now at its highest ever level relative to average earnings for adults and remains high for young people. This applies to a greater extent for young people, where the Commission also needs to consider how raising the participation age (the age to which all young people in England must continue in education and training) interacts with the NMW framework – this will change and add uncertainty to the youth labour market.

We know that many find the minimum wage system simple and easy to understand. However, we think its right that we should consider whether we could make them even simpler. We have welcomed the Commission's decision to review the accommodation offset rules. We have also asked the Commission to evaluate the rules for salaried workers to see if these can be simplified. These rules have never been reviewed before and there may be scope to make them easier to understand so that employers know they are paying the minimum wage and workers are confident that they are being paid the minimum wage.

We look forward to receiving the Commission's next report.

JO SWINSON

Minister for Employment Relations and Consumer Affairs
Parliamentary Under Secretary of State

December 2012

FINAL GOVERNMENT EVIDENCE TO THE LOW PAY COMMISSION DECEMBER 2012

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SECTION 1 EXECUTIVE SUMMARY

1.1. The Government welcomes this opportunity to present the Low Pay Commission (LPC) with its final evidence on the National Minimum Wage (NMW). The Coalition Government fully supports the NMW and considers it as one of the most important workplace rights.

1.2. This document includes both the Government's final economic and non-economic evidence. This report is an updated version of the October 2012 report to reflect the latest information on earnings and economic forecasts.

1.3. The evidence is structured according to the remit for the LPC's 2013 report, a copy of which can be found at **Annex B**.

1.4. Section 2 provides evidence on issues relevant to the LPC's task of monitoring, evaluating and reviewing the NMW and its impact and making recommendations. Section 3 concentrates on reviewing the labour market position of young people. Section 4 deals with other remit issues, including apprenticeships and benefit reform.

REMIT ISSUES – THE NMW RATES

1.5. Section 2 provides details on the economic and non-economic evidence relating to the NMW rates. This section includes macroeconomic conditions and outlook, evidence of the NMW on pay, the impact of the NMW on the labour market and the Plan for Growth.

1.6. After the most damaging financial crisis in generations and a decade of growth built on unsustainable levels of debt the UK's recovery was already expected to be subdued by historical standards. But as a result of the lasting effect of the financial crisis, the euro area crisis, global uncertainty and unexpected commodity price rises in 2011, GDP growth has been weaker and inflation higher than expected in 2010.

1.7. The OBR's December forecast revised down expected GDP growth to -0.1 per cent in 2012 and 1.2 per cent in 2013. Employment has grown more strongly in 2012 than forecast and has been revised up in every year of the OBR's forecast. ILO and claimant count unemployment is forecast by the OBR to increase slightly before falling in the medium term. Annual real wage growth is expected to remain weak.

1.8. Given the scale and persistence of the challenges facing the UK economy, Government would want the LPC in their 2013 report to consider concentrating their attention on the effect of the NMW on employment.

1.9. The last six annual adult upratings (2007 to 2012) have been in-line with average earnings growth. However, the adult minimum wage as a proportion of median earnings, or 'the bite' has increased further and is at its highest ever level. Between 1999 and April 2012, the 'adult bite' has increased by 8.0 percentage points.

1.10. The adult bite of the NMW based on Annual Survey of Hours and Earnings (ASHE) data was stable between 2007 and 2010. This is because ASHE hourly median earnings grew at a similar rate to average earnings' growth over this period. Since April 2010, the 21+ bite has increased by 2.0 percentage points.

1.11. Between its introduction in October 2010 and October 2012, the apprentice rate has increased by 6 per cent. This increase is higher than average earnings growth which was 3.5 per cent over the same period.

1.12. Overall, an increasing proportion of low-paid workers are being paid the NMW.

1.13. The latest data from the ONS suggests that the UK labour market continues to demonstrate resilience.

1.14. Prior to 2012, empirical studies from the UK had not shown significant evidence that the adult NMW rate has reduced adult employment, although most of the evidence focused on a period in which there was a growing labour market. However, a recent study commissioned by the LPC found some evidence to suggest that the introduction of the NMW may have had a small adverse impact on the employment opportunities of some low-paid workers. This includes female part-time workers.

1.15. In order to reduce the 'bite' of the NMW, it would be necessary for the NMW to grow by less than average earnings. The evidence on the bite, combined with weak annual GDP growth and the emerging empirical evidence noted above, suggests a cautious approach, concentrating attention on any possible adverse effect on employment, when recommending changes to the adult NMW rate.

REMIT ISSUES – THE YOUTH LABOUR MARKET

1.16. Section 3 provides details on the labour market position of young people. The labour market for young people has shown some signs of improvement. However, the extent of this is not as good as for adults.

1.17. The NMW bite for young people is at a much higher rate than for adults. Although, there were small decreases in the NMW bite for 16-17 year olds and those on the development rate between 2011 and 2012, the bites are still higher than in the recent past. The impact of the freeze of the NMW rates for 16-17 year olds and 18-20 year olds cannot be assessed until new data is available in 2013.

1.18. The Government is increasing the age to which all young people in England must continue in education or training. There is a need to consider the implications of raising the English participation age with the UK-wide youth and apprentice NMW rates.

1.19. Given the relatively weak position of young people in the labour market, we would want the LPC to consider the contribution the NMW could make to improving the employment and training situation of young people.

1.20. All of the factors that suggest caution for the main adult NMW rate also apply to young people. And, there are extra reasons for the LPC to be cautious and moderate when recommending changes to the youth NMW rates.

OTHER REMIT ISSUES

1.21. Section 4 provides details on a range of NMW policy issues that relate to the remit the Government has given to the LPC for its 2013 report. It provides updates on apprenticeships, simplification of NMW rules (for salaried hours' workers and following the potential abolition of the Agricultural Wages Board), workplace pension reforms, benefit reform and changes to the personal tax allowance.

1.22. Universal credit will support people both in and out of work, replacing Working Tax Credit, Child Tax Credit, Housing Benefit, Income Support, income-based Jobseeker's Allowance and income-related Employment and Support Allowance. The first new claims to Universal Credit are expected to begin from October 2013.

1.23. The Government is supporting lower and middle income earners by raising the personal tax allowance to £10,000, with real progress towards this goal every year. The increases announced so far will benefit 25 million workers – 2.2 million workers will be taken out of tax altogether from April 2013.

1.24. These are important policy changes that the LPC will need to consider when recommending changes to the NMW rates.

SECTION 2 REMIT ISSUES – NMW RATES

Macroeconomic conditions and outlook

Summary

After the most damaging financial crisis in generations and a decade of growth built on unsustainable levels of debt the UK's recovery was already expected to be subdued by historical standards. But as a result of the lasting effect of the financial crisis, the euro area crisis, global uncertainty and unexpected commodity price rises in 2011, GDP growth has been weaker and inflation higher than expected in 2010.

The OBR's December forecast revised down expected GDP growth to -0.1 per cent in 2012 and 1.2 per cent in 2013.

Employment has grown more strongly in 2012 than forecast and has been revised up in every year of the OBR's forecast. ILO and claimant count unemployment is forecast by the OBR to increase slightly before falling in the medium term.

Annual real wage growth is expected to remain weak.

Given the scale and persistence of the challenges facing the UK economy, Government would want the LPC in their 2013 report to consider concentrating their attention on the effect of the NMW on employment.

Economic outlook, forecasts revisions

2.1. After the most damaging financial crisis in generations and a decade of growth built on unsustainable levels of debt the UK's recovery was expected to be subdued by historical standards. But as a result of the lasting effect of the financial crisis, the euro area crisis, global uncertainty and unexpected commodity price rises in 2011, GDP growth has been weaker and inflation higher than expected in 2010.

2.2. In March the OBR predicted growth in 2012 of 0.8 per cent which was slightly above the average forecasts at the time. The average independent forecasts for UK GDP growth have fallen over recent months and now stand at -0.2 for 2012 and 1.1 for 2013.

2.3. As a result of these factors, GDP growth has been weaker and inflation higher than was originally forecast by the OBR when the Government's economic strategy was put in place. Compared with Budget 2012, the OBR's December 2012 Economic and fiscal outlook has revised down its forecast for UK GDP growth across the forecast horizon, reflecting the scale and persistence of the challenges facing the economy. The revision in the OBR's fiscal forecast since Budget 2012 largely reflects a persistent cyclical, rather than a permanent structural deterioration.

2.4. GDP growth is projected to pick up in every year of the forecast, as the factors weighing on recovery ease.

Table 2.1: Forecasts for GDP growth 2012 to 2014

Forecasts for GDP growth (per cent)	2012	2013	2014
OBR (March 2012 Budget)	-0.1	1.2	2.0
Bank of England mode projection (November 2012)	0.1	0.8	1.6
Avg. of independent forecasters (November 2012)*	-0.2	1.1	1.7

Notes: *Forecasts for the UK economy: A comparison of independent forecasts, November 2012, compiled by HM Treasury.

Economic growth, UK economy re-enters recession

2.5. Since the December 2011 Government Evidence to the Low Pay Commission report, the UK economy re-entered recession in 2012 Q1 and experienced three consecutive quarters of negative growth, followed by quarter on quarter growth of 0.9 per cent in 2012 Q3. This is a strong performance in Q3 it was to a certain extent a result of one off factors, such as the Olympics. The GDP level in 2012 Q3 remained flat when compared to the previous year. The economic recovery is still expected to be uneven and short-term growth prospects remain subdued while output in real terms remains roughly 3.1 per cent below its pre crisis peak

2.6. The UK economy has experienced one of the deepest recession of any major economy, during which Gross Domestic Product (GDP) fell by 6.3 per cent. The UK entered the crisis with the highest structural deficit in the G7 and the UK economy was forecast to become the most indebted in the world[1]. The UK's open economy and large financial sector make it susceptible to global risks from deteriorating global confidence and nervous financial markets.

[1] Debt and deleveraging: The global credit bubble and its economic consequences, McKinsey Global Institute, January 2010

2.7. The recovery of the UK economy has subsequently been hit by repeated shocks. Higher inflation driven by global commodity prices have reduced real incomes, increased business costs and weighted on global growth. Despite recent reductions in the rate of inflation the OBR consider these inflationary pressures to have been the main drag on growth over the past 18-months.

2.8. In 2012 Q3 the euro area re-entered recession, creating further uncertainty, undermining confidence and feeding through to a financial sector already experiencing the unexpectedly persistent effects of the financial crisis. In export markets, conditions remain challenging given that the euro area remains the UK's major trading partner, accounting for over 40 per cent of all UK exports. The greatest threat to the UK recovery stems from the risk that the Euro crisis is not effectively managed and contained and the BoE November Inflation Report highlights that even if an effective set of policies is implemented, the scale of the necessary adjustments points to a sustained period of sluggish euro area growth and heightened uncertainty.

2.9. Lastly, the financial crisis of 2008 and 2009 reduced the UK's potential output relative to pre-crisis levels.

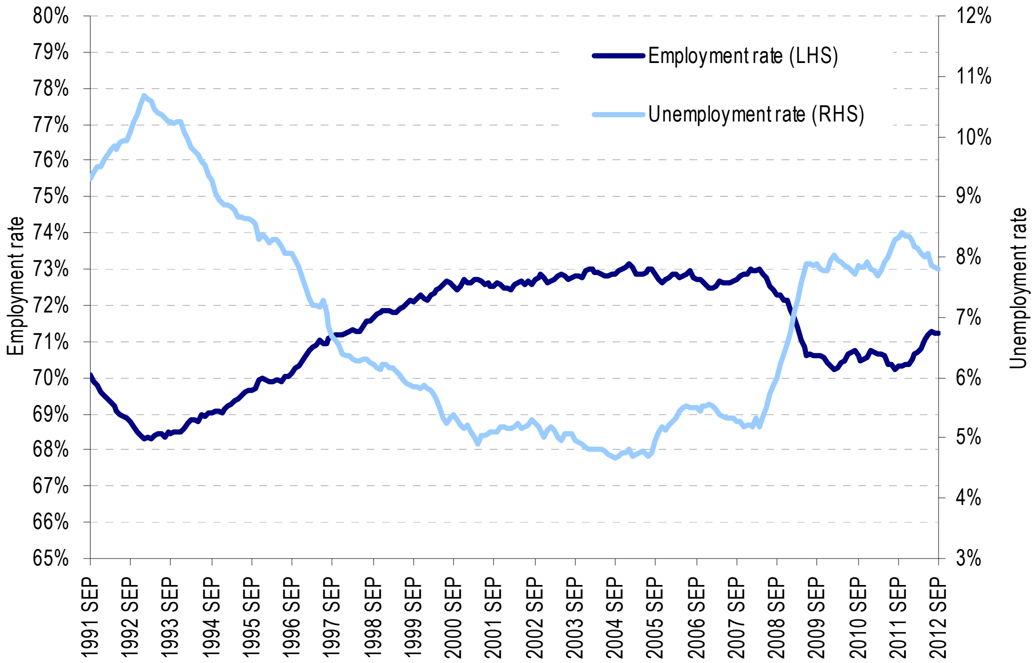
The labour market

2.10. Since the introduction of the National Minimum Wage in 1999 the UK labour market has fared well, with the level of employment increasing by around 2.4 million in the nine years to the end of 2007. Over the same period the employment rate has touched historic highs and the unemployment rate historic lows.

2.11. Employment has showed surprising strength over 2012 given weaker than expected growth. Over the last year to the third quarter of 2012, employment has risen by over half a million.

2.12. The employment rate (measured as a proportion of those aged 16-64) has increased by 0.9 percentage points over the last year to 71.2 per cent in the three months to October 2012. Although, this is almost two percentage points below its peak in early 2008, the number of individuals in employment is at it's highest ever level. The unemployment rate was 7.8 per cent in the three months to October 2012 down 0.5 percentage points on a year earlier (see chart 2.1).

Chart 2.1: UK labour market



Source: Office for National Statistics, Monthly data, Labour Market Statistics. Employment rate is a proportion of working age. Unemployment rate is a proportion of all aged 16 and over.

2.13. The 2008 recession lasted for five quarters and was a larger decline in output than in either the early-1980s or early-1990s recessions (Table 2.2). Comparing the contraction of total employment in these recessions (given the loss in output) illustrates the resilience of the labour market.

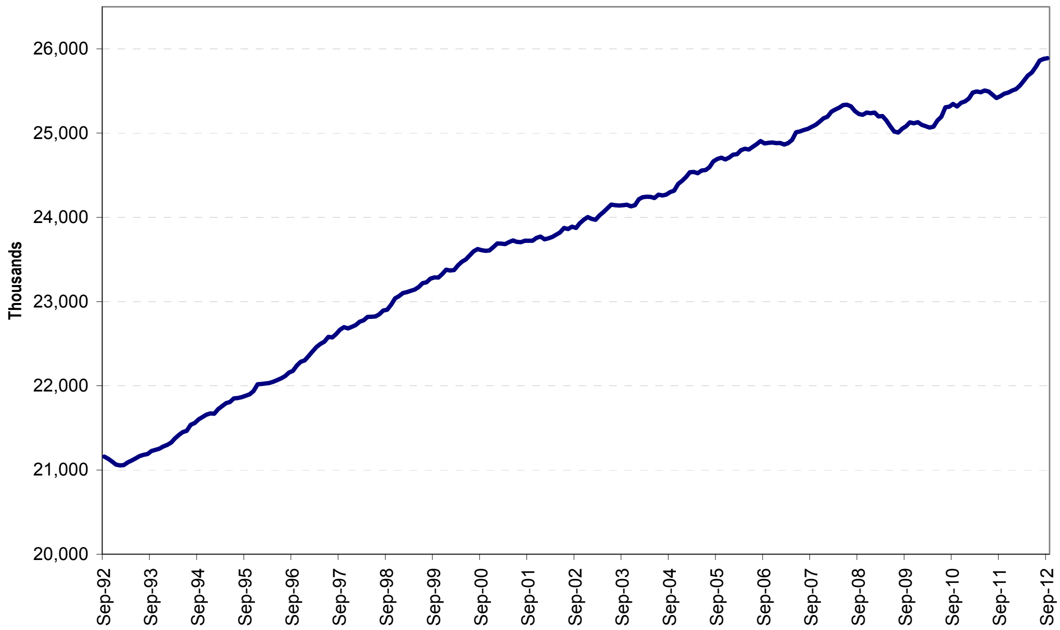
Table 2.2: Fall in output and employment in recessions

	Percentage change in recession[1]		
	1980s	1990s	2008-09
Gross domestic product	-6.0	-2.5	-6.1
LFS employment	-2.0	-3.4	-2.1

Source: Office for National Statistics. [1] The percentage change is taken from the quarter in which output peaked to the last quarter in which output declined.

2.14. This labour market resilience is mostly regarding people aged 25 and over. Employment of adults aged 25 and over has been on an upwards trend since early 1993 until the recent recession. Between the lowest point in December 1992 and the pre-recession peak (May 2008) employment (seasonally adjusted) had risen by around 4.3 million. During the 2008 recession employment (seasonally adjusted) fell from pre-recession peak (May 2008) to post-recession trough (June 2009) by approximately 331,000 and returned to the pre-recession level by August 2010. It is now approximately 29,000 above the pre recessionary peak (three months to May 2008). Although, the employment rate of those aged 25-64 remains about 0.7 percentage points below its pre-recession level.

Chart 2.2: Employment aged 25 and over

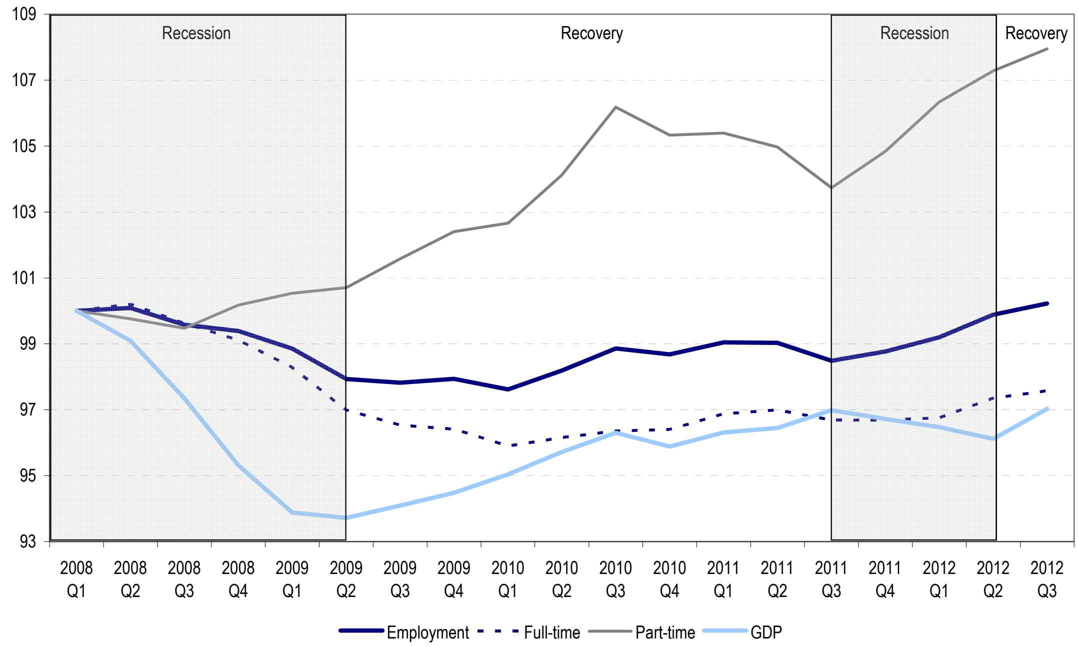


Source: Office for National Statistics, Monthly data, Labour Market Statistics.

2.15. A key reason for the resilience of the labour market is its diversity and dynamism, thereby allowing firms to adjust to the recession in a number of ways. Whilst there has been some degree of reduction in hours and some nominal wage moderation, there is some evidence to suggest that the UK's liberal employment regulation regime and factors such as welfare to work policies, have contributed towards this good employment performance. Whilst there were jobs losses during the recession recruitment into jobs increased which was a major reason for 'job richness' over the recession. Outflow rates from the claimant unemployment count have remained high and so while long term claimant unemployment has increased, it has remained lower than in previous recessions. Welfare to work policies will have played some part in this.

2.16. The composition of the labour market has changed throughout this current recession. The number of part-time workers has increased significantly since the start of 2008. This can be seen in chart 2.3 below.

Chart 2.3: UK employment and GDP changes, 2008 Q1 =100



Source: Office for National Statistics, Monthly data, Labour Market Statistics. Employment rate is a proportion of working age. Unemployment rate is a proportion of all aged 16 and over.

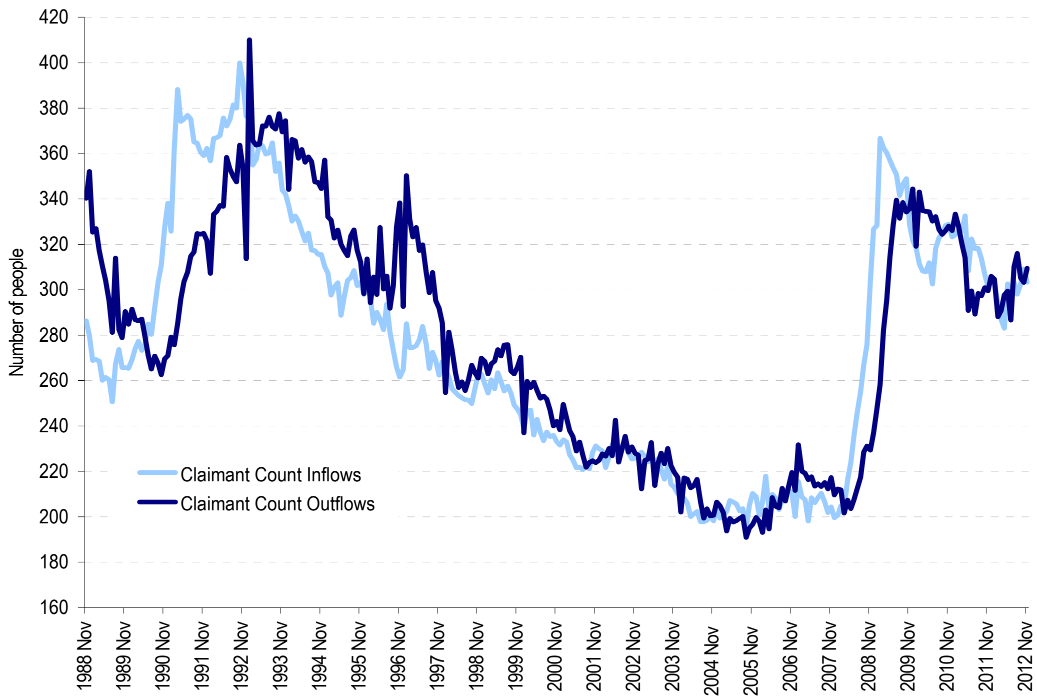
2.17. Part-time work has grown strongly during the recent recession, with a significant proportion of workers having taken this as a second choice to a full-time role, but in preference to unemployment. In the three months to October 2012, there were 1.4 million part-time workers working part-time because they could not find a full time job, up 125,000 on the previous year. Recent ONS data shows that between 2008 and 2012 the number of people wanting to work more hours has increased by 1 million to 3.05 million[2].

2.18. The claimant count in November 2012 was 1.58 million down 20,900 on a year ago. The claimant count is now around 43,400 below its recessionary peak in October 2009.

[2] http://www.ons.gov.uk/ons/dcp171776_289024.pdf

2.19. Claimant count outflows rose sharply during the recession, from 207,300 in April 2008 to 336,800 in September 2009. Since then claimant count outflows have eased back a little to 309,400 in November 2012.

Chart 2.4: Standardised inflows and outflows of claimant unemployment



Source: Office for National Statistics, Labour Market Statistics, Monthly data

Outlook

2.20. The labour market has performed more strongly than the OBR expected back in March, and they have revised down their previous forecast for unemployment in line with recent labour market performance. Unemployment is now expected to rise slightly over the next two years, with the unemployment rate peaking at 8.3 per cent of the workforce at the end of 2013, before falling back again from 2014 to 6.9 per cent at the end of 2017.

2.21. Consistent with the adjustment to unemployment the OBR have also adjusted their forecast of the claimant count downwards in the short term and upwards in the medium term. Although, the OBR expect the increase on the claimant count to be slightly larger due to the effect of the increase in the women's state pension age relative to men and the likelihood of lone parents moving onto Jobseeker's Allowance through the Lone Parent Obligation increasing. The Claimant count is now expected to peak at around 1.7 million by the second half of next year.

2.22. Between the start of 2011 and the start of 2018 the OBR expect total market sector employment to increase by around 2.4 million, offsetting a total reduction in general government employment of around 1.1 million.

Average weekly earnings and inflation

2.23. Average weekly earnings (including bonuses) growth from October 2011 to October 2012 was 1.8 per cent which is slower than AWE growth of 2.1 per cent a year earlier. Growth in average weekly earnings has continued to be subdued throughout the downturn.

2.24. Average weekly earnings (excluding bonuses) growth has been less volatile than the AWE (including bonuses). AWE growth (excluding bonuses) for the whole economy in the three months to October 2012 was 1.7 per cent.

Table 2.3: Growth in various wage measures

Annual per cent change, 3 month average to October

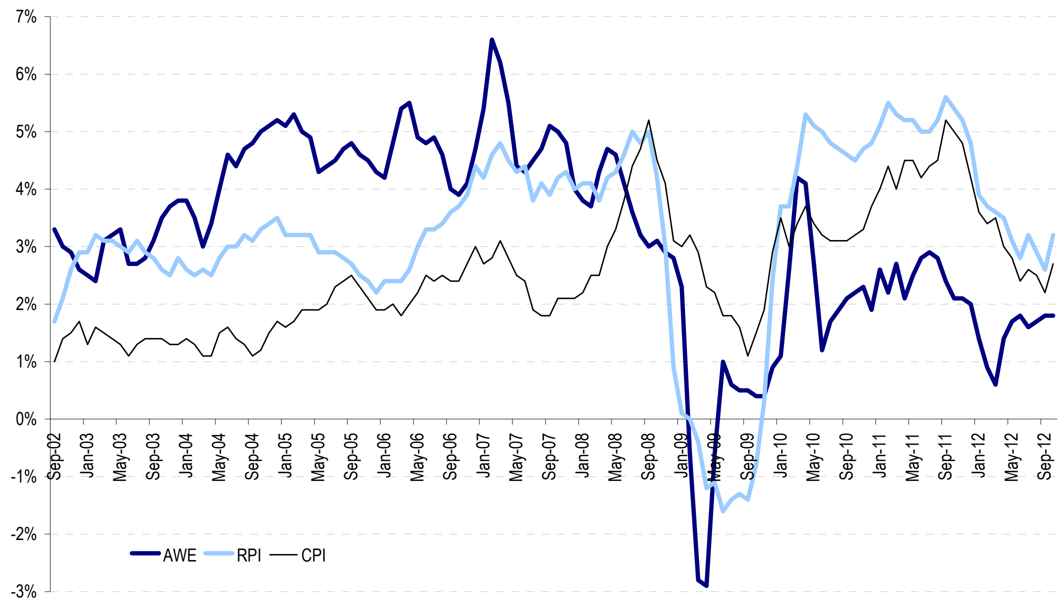
	2009	2010	2011	2012
Average weekly earnings (incl. bonuses) - all sectors	0.4	2.2	2.1	1.8
Average weekly earnings (incl. bonuses) - private sector	-0.5	2.1	2.2	1.7
Average weekly earnings (incl. bonuses) - public sector excluding financial services	2.7	1.7	1.7	2.2
Average weekly earnings (excl. bonuses) - all sectors	1.2	2.3	1.8	1.7
Average weekly earnings (excl. bonuses) - private sector	0.3	2.2	1.8	1.7
Average weekly earnings (excl. bonuses) - public sector excluding financial services	2.9	2.0	1.7	2.2

Source: Office for National Statistics, Monthly Wages and Salaries Survey (Note: The AWE uses data collected from the Monthly Wages and Salaries Survey. It is a measure of the level of average earnings, derived by separately weighting the earnings and employment data for the sampled businesses in each month and then calculating the ratio. The AWE replaced the Average Earnings Index (AEI) which used the same data sources and measured growth by calculating the changes in the weighted average pay only for businesses responding to the survey in successive months (the 'matched' sample).

2.25. Earnings growth has remained subdued and consumer prices inflation has been decreasing throughout 2012 to 2.7 per cent in October 2012, 2.3 per cent below its level this time last year. This is due to previous rises caused by high global energy and commodity prices and the January rise in VAT to 20 per cent dropping out of the 12 month comparison. More recently CPI has increased slightly mainly due to the increase in university tuition fees. RPI annual growth was at 5.4 per cent in October 2011 although has since decreased to 3.2 per cent (with increases in the 'formula effect' contributing to the difference between CPI and RPI). Chart 2.5 below plots annual growth in whole economy average weekly earnings total pay, CPI and RPI annual growth rates. In 2011 and 2012 both RPI and CPI inflation have been above

AWE suggesting that high price inflation has not fed through into higher wage growth.

Chart 2.5: Annual change in average weekly earnings, consumer and retail prices



Source: Office for National Statistics. Average weekly total pay growth on a year ago 3 month average (KAC3). RPI, percentage change over 12 months (CZBH). CPI annual growth rate (D7G7).

Outlook

2.26. CPI inflation was 4.5 per cent in 2011. Since then the 2011 VAT increase has fallen out of the annual comparison in January 2012, causing CPI inflation to fall to 2.7 per cent in the third quarter of 2012. CPI inflation is forecast to be above target in 2012 and 2013 largely due to higher than expected effects from the increase in tuition fees and rises in domestic energy prices. OBR expect inflation will return to the 2 per cent target by the start of 2015.

2.27. The OBR now expect nominal wage growth in 2013 through to 2016 to be weaker than the March 2012 forecast. Whole economy wages and salaries per employee are expected to grow by around 2.7 per cent in 2012 and 2.2 per cent in 2013 before picking up gradually to 4.0 per cent in 2016.

Evidence on pay

Summary

The last six annual adult upratings (2007 to 2012) have been in-line with average earnings growth.

Between its introduction in October 2010 and October 2012, the apprentice rate has increased by 6 per cent. This increase is higher than average earnings growth over the same period.

However, the adult minimum wage as a proportion of median earnings, or 'the bite' has increased further and is at its highest ever level. Between 1999 and April 2012, the 'adult bite' has increased by 8.0 percentage points.

The adult bite of the NMW based on Annual Survey of Hours and Earnings (ASHE) data was stable between 2007 and 2010. This is because ASHE hourly median earnings grew at a similar rate to average earnings' growth over this period. Since April 2010, the 21+ bite has increased by 2.0 percentage points.

An increasing proportion of low-paid workers are being paid the NMW.

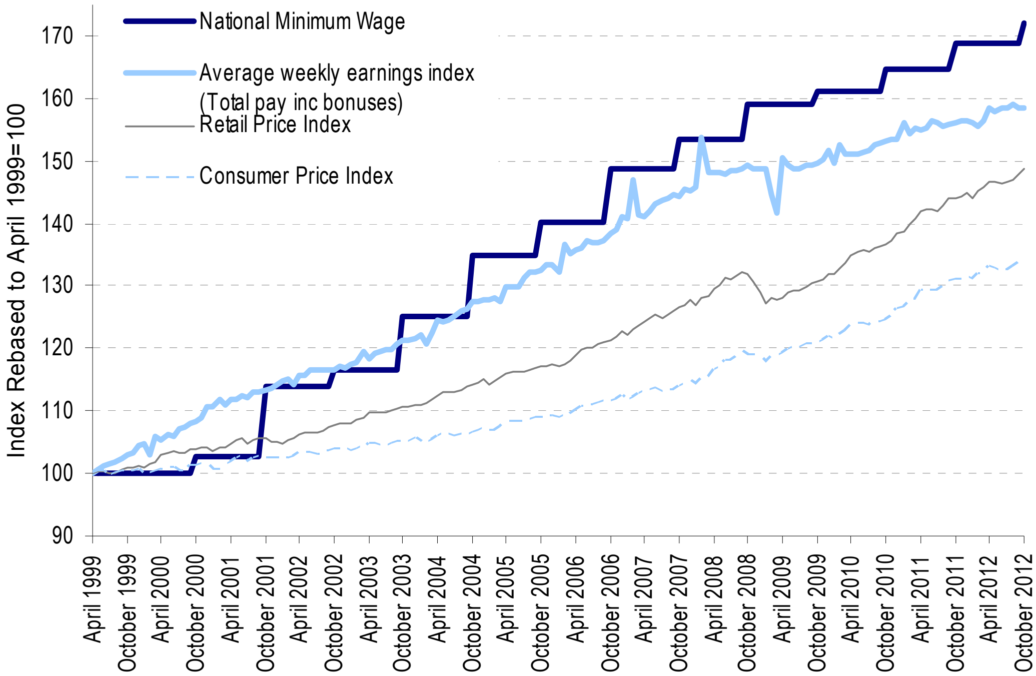
Growth in the adult National Minimum Wage rate

2.28. The last six annual adult upratings (2007 to 2012) have been in line with average earnings' growth. This followed increases in the adult NMW in 2001, 2003, and 2004 that were substantially above average earnings' growth.

2.29. Since it was introduced, the NMW rate has increased substantially faster than both average earnings and prices. The October 2012 NMW rate is 72 per cent higher than the original April 1999 level. In comparison, the rise in Average Weekly Earnings (total pay, including bonuses) over the same period is estimated to be around 58.5 per cent (see Chart 2.6), the increase in the Retail Price Index (RPI) is estimated to be around 49 per cent, and the Consumer Price Index (CPI) around 34 per cent between April 1999 and October 2012.

Chart 2.6: Adult NMW rate increases compared to earnings growth and inflation

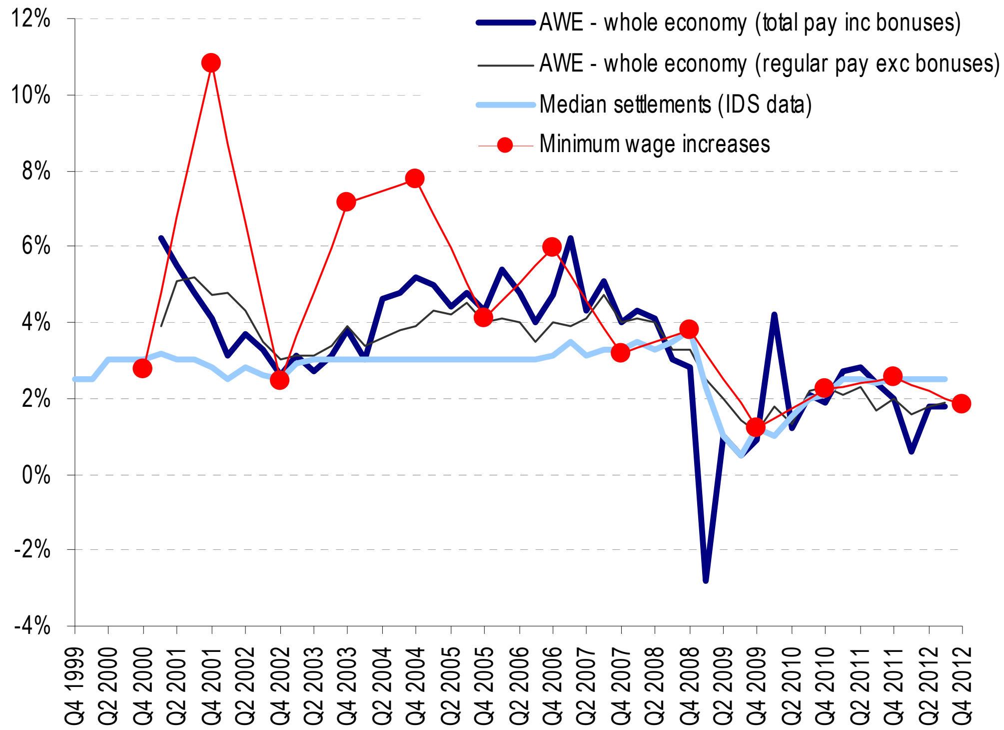
Index rebased to April 1999=100



Source: Office for National Statistics; Retail Price Index, Consumer Price Index and Average Weekly Earnings; Low Pay Commission. Between April 1999 and December 1999 Average Weekly Earnings was extrapolated using the Average Earnings' Index.

2.30. Chart 2.7 plots annual adult NMW increases: the largest percentage rise in the NMW was in October 2001. The October 2012 increase (1.8 per cent) is the lowest NMW increase since the year 2000. It is the same as the AWE total pay increase and 0.1 percentage points lower than the increase in AWE regular pay. Although, median pay settlements have mirrored minimum wage increases relatively closely since October 2007, since October 2011, the two series have begun to diverge slightly.

Chart 2.7: Average annual earnings growth, pay settlements and adult NMW increases



Source: Office for National Statistics, Average Weekly Earnings; Median settlement (IDS data)

The bite of the National Minimum Wage rate

2.31. The NMW rate as a proportion of median earnings is often termed the ‘bite’ and is a measure of how high up the earnings distribution the NMW rate cuts in. Usually, median earnings is preferred over average (mean) earnings as it is less sensitive to changes among very high earners.

2.32. Between April 2011 and April 2012, the adult bite increased by 0.6 percentage points[3] to reach its highest level since the introduction of the NMW in April 1999. Since its introduction, the bite of the adult NMW rate has increased from 45.6 per cent of the median wage to 53.7 per cent in April 2012 (see Chart 2.8)[4]. From October 2010, 21 year olds were included in the scope of the adult rate. This could partly explain the increase in the adult bite between April 2010 and April 2011 due to a reduction in the median earnings level for this group. However, as is demonstrated by the dotted black line in

[3] Using revised estimates for April 2011

[4] In this report we use earnings’ data from the 2012 Annual Survey of Hours and Earnings and calculate bites based on the appropriate NMW rates for April 2012.

chart 2.8, the bite for both age groups, 21+ and 22+ increased over this period.

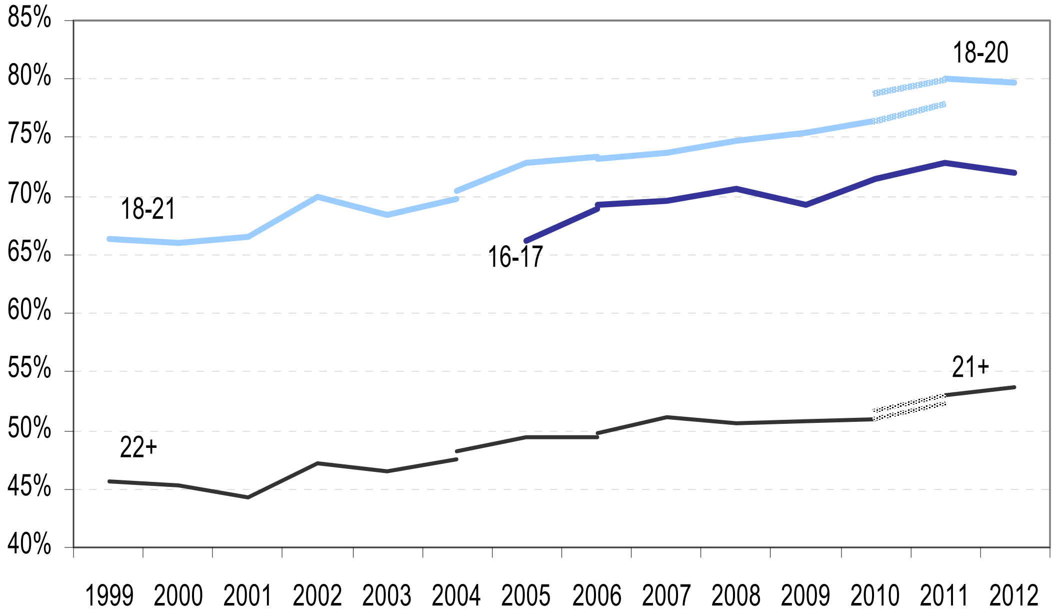
2.33. The ‘adult bite’ has increased by around 8.0 percentage points since the NMW was introduced in 1999. However, it remained broadly stable between April 2007 and April 2010. Since then, the 21+ bite has increased from 51.6 per cent in 2010 to 53.7 per cent in April 2012. The ‘adult NMW’ in April 2010 applied to workers aged 22+. The 22+ bite in April 2010 was 50.9 per cent and the difference between this bite and the 21+ bite in April 2012 was 2.7 percentage points. The related adult NMW upratings were 2.2 per cent in October 2010 and 2.5 per cent in October 2011.

2.34. Our most recent bite estimate does not measure the impact of the October 2012 uprating in the NMW rate, as median earnings’ data for this period is not yet available. However, the October 2012 NMW rate increase (1.8 per cent) is broadly in line with average (mean) earnings’ growth in 2012[5] so far. Based on this, it may be that there is no further increase in the adult bite over the current minimum wage year.

2.35. The bite for 18-20 year olds fell slightly between April 2011 and April 2012 to 79.7 per cent of the median in 2012. However, this is still high. 21 year olds moving out of scope of the development rate is likely to have contributed to the relatively large jump in the associated bite between April 2010 and April 2011. The impact of this change was greater for this age group than for adults. The bite for 16-17 year olds also decreased slightly in 2012 to 72 per cent, perhaps reflecting the relatively moderate increase in the 16-17 year olds rate from £3.64 to £3.68 over this period. These estimates do not reflect the October 2012 freeze of the 16-17 year old and development rate and we will not know the effects of these until the release of new data. Further discussion on youth earnings is presented in section 3.

[5] The measure for average earnings growth used here is the ONS KAB9 data series, seasonally adjusted Average Weekly Earnings index (total pay including bonuses).

Chart 2.8: The bite of the NMW rates



Source: Office for National Statistics, Annual Survey of Hours and Earnings. 1999-2004 ASHE data - excluding supplementary information 2004-2006 ASHE data - old methodology. 2006-2012 ASHE data - new methodology.

Apprentice pay

2.36. Evidence from the 2011 Apprenticeships pay survey showed that the average (median) hourly pay for apprentices under 19 was £3.00, and the bite of the apprenticeship rate at the median was 83 per cent which is high compared to the 18-20 non-apprenticeship equivalent bite.

2.37. For all ages, median gross pay varied widely between sectors from £6.71 in electrotechnical to £2.64 for hairdressing and £4.40 for construction. Therefore the bite in sectors such as hairdressing and construction is likely to be much higher than in sectors with a higher median wage.

2.38. Since this report the apprenticeship minimum wage has increased from £2.50 in 2010 to £2.60 in 2011 and £2.65 in 2012 which is an increase of 6 per cent. In this same period average weekly earnings (including bonuses), has increased by 3.5 per cent. This is likely to further increase the apprenticeship minimum wage bite and affect a larger number of apprenticeships especially in sectors such as hairdressing and construction.

Annual Survey of Hours and Earnings (ASHE) 2012 results

2.39. The ONS estimates that growth in median gross hourly earnings (excluding overtime) for all employees on adult rates of pay whose pay was unaffected by absence between April 2012 and April 2011 was 1.2 per cent. Growth in median gross weekly earnings over the same period was 1.3 per cent. Average Weekly Earnings (AWE) growth in total pay[6] in the three months to April 2012 was 1.4 per cent.

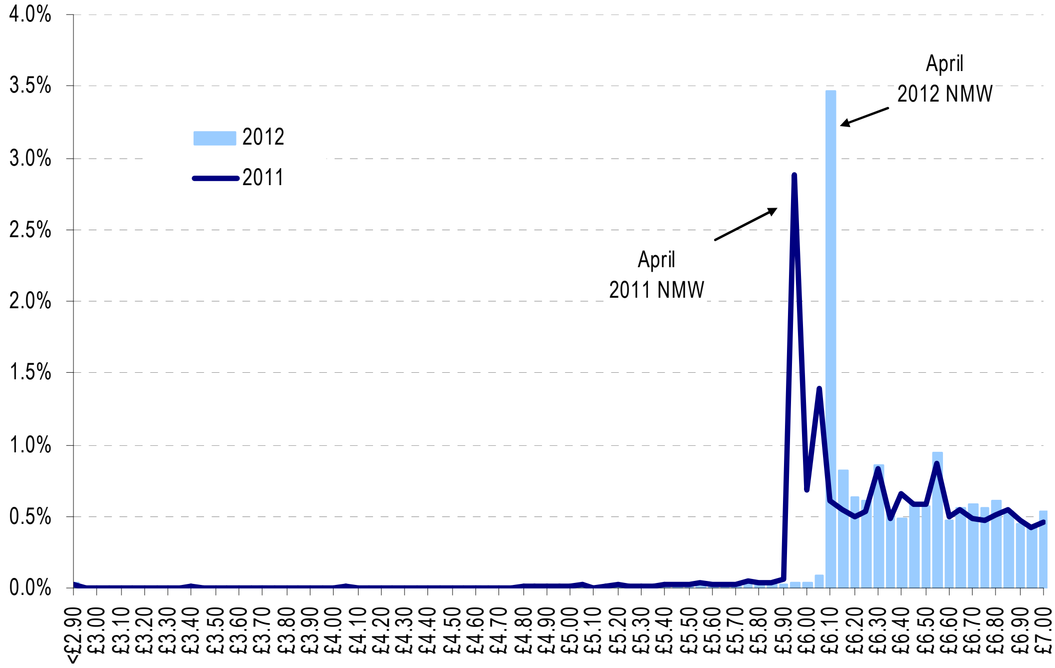
2.40. In summary, the ASHE 2012 results have little difference to the relevant AWE results for the same period.

Greater proportion of employees earning the NMW

2.41. Chart 2.9 shows the proportion of adult jobs (21 years or older) at different points across the hourly pay scale in 2011 and 2012. It highlights a jump in the distribution of adult hourly pay at the point where the NMW rate cuts in. In particular, the increase in the adult rate from £5.93 to £6.08 in October 2011 resulted in this spike moving from the old rate to the new higher rate between April 2011 and 2012.

[6] Including bonus pay

Chart 2.9: Adult low-pay distribution, April 2012 - per cent of adult jobs (21 years or older)



Source: Office for National Statistics, Annual Survey of Hours and Earnings

2.42. The proportion of jobs held by adults earning the adult NMW has increased over the two previous years. In 2011, 2.9 per cent of jobs were earning the NMW compared to 3.5 per cent in 2012. Some of this increase may be contributed to by the fact that between April 2011 and April 2012, the NMW rate crossed over the £6.00 threshold. Since 2009, the proportion of jobs earning the minimum wage has been increasing and has increased by 1.2 percentage points between April 2009 and April 2012.

2.43. The proportion of jobs held by 16-17 year olds earning the 16-17 year old NMW rate increased from 6.7 per cent in 2011 to 7.1 per cent in 2012. The proportion of jobs held by 18-20 year olds earning the 18-20 year old NMW rate decreased from 8.2 per cent in 2011 to 7.7 per cent in 2012. This is discussed in more detail in section 3.

The numbers of jobs paying less than NMW rates

2.44. It is of critical importance to the Government that everyone entitled to the NMW actually receives their entitlement. The Government has introduced new penalties for all employers who underpay the NMW and a fairer system of paying arrears under the Employment Act 2008. These new measures came into force on the 6th April 2009.

2.45. However, there are some workers who are paid below NMW rates for reasons other than non-compliance. There are a number of circumstances where the NMW does not apply and so individuals may legitimately earn less than the appropriate NMW rate for their age. For example, employees may not be receiving the NMW in cash terms because employers can legitimately reduce rates to take into account the cost of accommodation provided, for which there is a standard level of deduction. Individuals may also be on Government training programmes, where they are exempt from the NMW.

2.46. According to the latest Office for National Statistics (ONS) estimates of low pay based on data from the new Annual Survey of Hours and Earnings (ASHE), in spring 2012, there were 287,000 jobs held by people aged 16 or over, paying less than the appropriate NMW rate. This is equivalent to 1.1 per cent of all UK jobs. This comprised of 18,000 jobs held by 16-17 year olds (6.5 per cent of jobs in this age group), 58,000 jobs held by 18-20 year olds (5.2 per cent of jobs in this age group) and 211,000 jobs held by those 21 and older.

2.47. Table 2.4 provides more details of the proportion of jobs paid at hourly wage rates less than the prevailing NMW rate. It should be noted that these estimates are approximate, and subject to revision.

2.48. Between 1998 (before the introduction of the NMW) and 2012, the number of jobs held by part-time workers earning below the NMW rate fell from 14.1 per cent of part-time jobs to 1.7 per cent. This compares with a decline in the number of jobs held by full-time workers earning below the NMW rates from 2.4 per cent in 1998 to 0.9 per cent in 2012.

Table 2.4 Proportion of UK jobs paid below minimum wage

		1998*	2000	2002*	2004	2006	2008	2010	2011	2012
All (18+)		5.6	1.0	1.4	1.1					
All (16+)***						1.2	1.0	1.0	1.1	1.1
All 16-17						3.8	3.9	5.6	5.7	6.5
All 18-21		7.2	2.2	2.7	2.3	2.3	2.5	3.0		
All 22+		5.4	0.9	1.3	1.0	1.0	0.9	0.9		
All 18-20****									4.4	5.2
All 21+ ****									0.8	0.9
All men		2.9	0.6	0.8	0.9	0.9	0.8	0.9	1.0	0.9
All women		8.4	1.3	2	1.4	1.4	1.4	1.2	1.4	1.3
Men	full-time	1.8	0.3	0.5	0.7	0.7	0.7	0.8	0.8	0.8
	part-time	14.4	4	4.4	2.5	2.4	1.3	1.6	1.7	1.6
Women	full-time	3.6	-	0.7	0.8	0.9	1.1	0.8	0.9	0.9
	part-time	14.1	2.3	3.6	2.1	2.2	1.9	1.8	2.0	1.7
All full-time		2.4	0.4	0.5	0.8	0.8	0.8	0.8	0.9	0.9
All part-time		14.1	2.6	3.7	2.2	2.2	1.8	1.8	1.9	1.7

Notes

Table 2.4:

- Sample size too small for reliable estimate

* Figures for 1998, before the NMW was introduced, are for jobs paid less than £3.00 p/h (aged 18-21) or £3.60 p/h (aged 22 and over).

** Estimates for 1998-2003 are based on a central estimate of the LFS and ASHE.

*** Before 2005 the estimates are for employees aged 18 and over, from 2005 the estimates are for those aged 16 and over.

**** 21 year olds were moved onto the adult rate of the NMW in October 2011.

Historical minimum wage rates:

£3.00 per hour (aged 18-21) or £3.60 per hour (aged 22 and over) for 1998 to 2000.

£3.50 per hour (aged 18-21) or £4.10 per hour (aged 22 and over) for 2002.

£3.80 per hour (aged 18-21) or £4.50 per hour (aged 22 and over) for 2004.

£3.00 per hour (aged 16-17) or £4.25 per hour (aged 18-21) or £5.05 per hour (aged 22 and over) for 2006.

£3.40 per hour (aged 16-17) or £4.60 per hour (aged 18-21) or £5.52 per hour (aged 22 and over) for 2008.

£3.57 per hour (aged 16-17) or £4.83 per hour (aged 18-21) or £5.80 per hour (aged 22 and over) for 2010.

£3.64 per hour (aged 16-17) or £4.92 per hour (aged 18-20) or £5.93 per hour (aged 21 and over) for 2011.

Compression of the earnings distribution

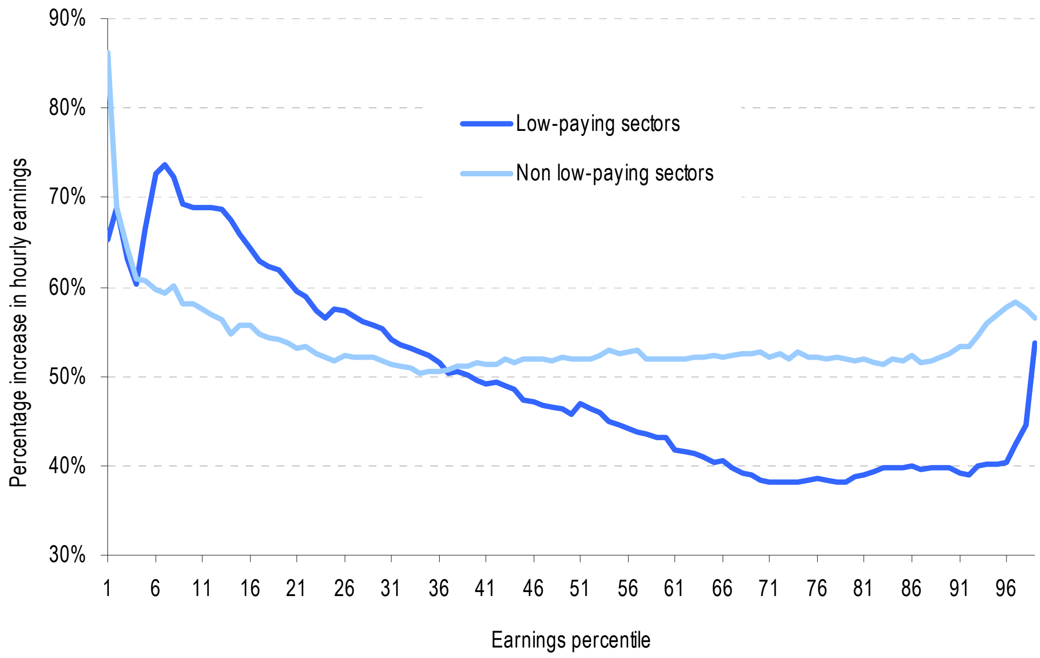
2.49. As the NMW increases relative to median earnings, there is an increase in both the proportion of employees earning the NMW and those earning relatively close to it.

2.50. In addition, the introduction and uprating of the NMW has not just benefited the bottom few per cent of employees. Over time, there has been an ‘upward ripple’ effect, with NMW increases influencing pay scales above the NMW. Chart 2.10 shows the increase in hourly pay across the earnings distribution, from the lowest to highest income earners, between 1999 and 2012 for both the low-paying and non low-paying sectors. It highlights that employees at the lower end of the pay scale have received larger percentage increases in their pay than those at the middle or top end over this period. This is particularly true for employees working in the low-paying sectors. Over the shorter term, the same pattern is not as strong. According to ASHE 2012, between April 2011 and April 2012 the hourly earnings for full-time employees of the bottom decile grew by 2.3 per cent compared to a fall of 0.2 per cent for the top decile[7].

[7] Only including individuals on hourly rates of pay and excluding individuals whose pay was affected by absence.

Chart 2.10: Percentage increase in earnings by percentile, 1999-2012

Per cent increase



Source: Office for National Statistics, Annual Survey of Hours and Earnings

Personal tax allowance and take-home pay

2.51. The Government has announced an increase in the personal allowance from £8105 in 2012/13 to £9440 in 2013/14. There are also changes to the National Insurance Contribution (NIC) payments with employees only paying NICs on weekly pay above £149 in 2013/14 up from £146 in 2012/13.

2.52. To demonstrate the impact that these recent tax and NICs changes could have on minimum wage workers, below we explore two hypothetical examples. The individual in example A falls under the personal allowance and NICs levels prior to the change and the individual in example B is over both levels in the 2012/13 tax year. Neither individual in these examples are in the welfare or tax credit system. We also assume that individuals do not change their working hours between years. The hourly wage that the example individuals receive in the 2012/13 tax year is £6.08 for the first half of the year and £6.19 in the second half of the year. This averages to an hourly wage for the year of £6.13. We have assumed no increase in the National Minimum Wage so the hourly wage that the example individuals receive in the 2013/14 tax year is £6.19 for the entire period.

Example A:

2.53. An employee earning below the tax personal allowance threshold, working fewer hours will benefit from the October 2012 uprating of the adult minimum wage. A single 25 year old employee working 20 hours a week at national minimum wage would earn £6,380 in the 2012/13 tax year. In the 2013/14 tax year, they would earn £6438 assuming that the same number of weekly hours are worked in this year. This pay increase of £58 is primarily driven by the October 2012 NMW increase rather than changes in the tax framework.

Example B:

2.54. In the 2012/13 tax year, a 25 year old working 30 hours a week at the relevant minimum wage would earn £9,040 after NICs and income tax[8]. Assuming that the same employee continues to work 30 hours a week in the 2013/14 tax year, and remains on a minimum wage of £6.19 per hour for the entire period, the employee would earn £9,384 or £344 more in that year.

2.55. Employers are also slightly affected by tax and NICs changes as the threshold for employer NICs contributions increases to £148 per week in 2013/14 from £144 in 2012/13.

[8] This figure takes in to account the increase of the adult NMW in October 2012 from £6.08 to £6.19.

Impact of the NMW on the labour market

Summary

The latest data from the ONS suggests that the UK labour market continues to demonstrate resilience.

Prior to 2012, empirical studies from the UK had not shown significant evidence that the adult NMW rate has reduced adult employment, although most of the evidence focused on a period in which there was a growing labour market. However, a recent study commissioned by the LPC found some evidence to suggest that the introduction of the NMW may have had a small adverse impact on the employment opportunities of some low paid workers. These include women working part-time.

In order to reduce the 'bite' of the NMW, it would be necessary for the NMW to grow by less than average earnings.

The evidence on the bite, combined with weak annual GDP growth and the emerging empirical evidence noted above, suggests a cautious approach, concentrating attention on any possible adverse effect on employment, when recommending changes to the adult NMW rate.

Resilient UK labour market

2.56. The latest data from the Office of National Statistics (ONS) suggests that the UK's labour market continues to demonstrate flexibility and resilience. The level of employment remains (just) above its pre-recession peak, but the employment rate is below the pre-recession peak of 73.0 per cent.

2.57. The Government's last final evidence to the LPC in December 2011 included labour market data up to August 2011. Since this point, the employment rate has increased from 70.2 per cent to 71.2 per cent in the three months to October 2012. Over the same period employment grew by around 538,000. The unemployment rate fell from 8.3 per cent in the three months to September 2011 to 7.8 in the three months to October 2012.

2.58. The ONS estimated that GDP increased by 0.9 per cent in Q3 2012 compared to the previous quarter[9]. This marks the end of a period of

[9] Quarterly National Accounts, Q3 2012, ONS

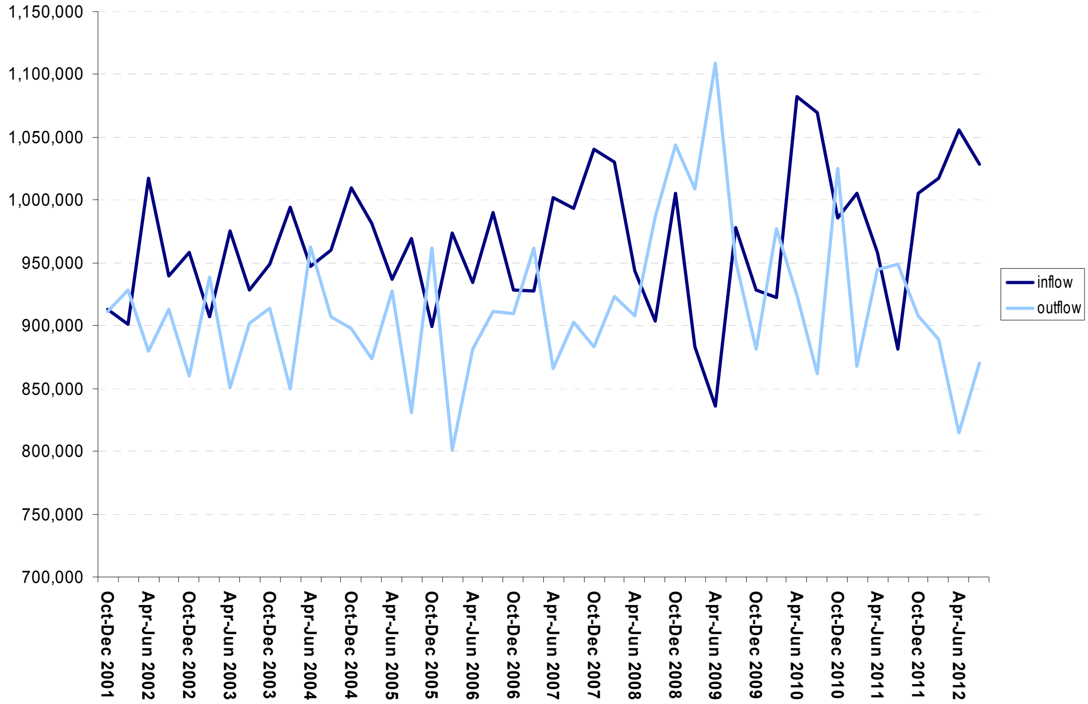
recession in which quarterly GDP fell relative to the previous quarter since Q3 2011. Quarterly growth can vary over the course of the year. In volume terms, GDP was estimated to have been flat compared to a year earlier.

2.59. The resilience of the labour market during the recent dips in GDP mostly relates to people aged 25 and over. Between the lowest point in the three months to February 1993 and the pre-recession peak (three months ending July 2008) employment (seasonally adjusted) had risen by around 4.28 million. During the 2008-09 dip in the recent recession, employment (seasonally adjusted) for the over 25s fell from pre-recession peak (June 2008) to post-recession trough (July 2009) by approximately just 331,000 and returned to the pre-recession level by September 2010. In the three months to October 2012 it reached approximately 553,000 above the pre-recessionary peak (June 2008) after increasing consistently through the period of negative GDP growth between Q3 2011 and Q2 2012. The employment level for the remainder (aged 16-24) is still approximately 478,000 below the level it was in June 2008. However, in the three months to August 2012, youth unemployment fell below 1 million for the first time since a year earlier.

2.60. Flows in the labour market between employment and worklessness (unemployment and inactive) are an indicator of dynamic labour market activity and in any given year amount to millions of people moving between these groups. In addition to this there are millions more that move between jobs in employment. Every year between 3.5 and 4m people move in and out of employment as shown below in quarterly data. Over this recession, flows have remained at a similar level however the outflow was has been higher than the inflow resulting in a drop in employment. In Q2 2009 the net flow between employment and worklessness was -290,000, it’s highest fall.

2.61. Since then, outflows from employment have fallen back to pre-recession levels while inflows have been high which indicated that the strong labour market performance is due to hiring rather than hoarding. In Q2 2012 the employment net flow has been the highest for a decade resulting in a rise in employment of 160,000.

Chart 2.11: Flows in and out of employment



Source: Office for National Statistics, Labour Market Flows, experimental statistics

Employment trends in the low paid sectors

2.62. The low-paying sectors are defined by the Low Pay Commission as those with a large number or high proportion of minimum wage workers[10].

2.63. This section reviews the most recent data on employment using ONS employee jobs and ASHE data for any emerging employment trends in the low-paid sectors. This includes analysis up to the third quarter of 2012. This is only a preliminary analysis, which does not control for other factors that may be impacting on employment in the low pay sectors. It should also be read in the context of prospects for the macroeconomy and labour market.

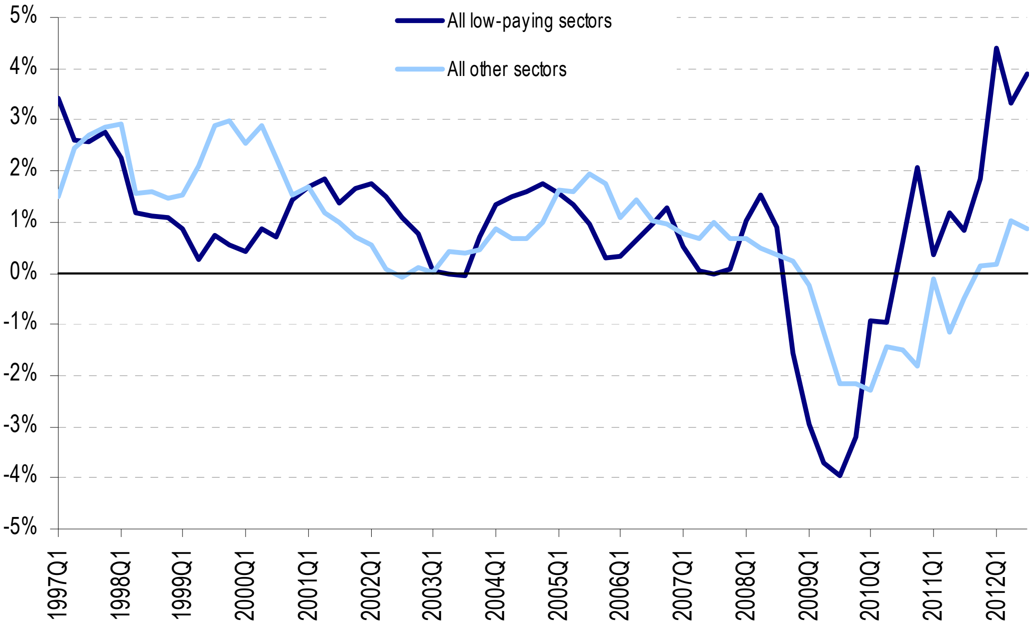
2.64. Research suggests that the NMW has not had a significant impact on employment. When the NMW began to rise more rapidly from 2001 to 2005 (with an average annual growth of 7 per cent), job growth in the low-paying sectors tended to at least match the annual growth rate in the rest of the economy. Since 2010 Q1 the annual job growth for low-paid sectors has been higher than all other sectors (see Chart 2.12). Despite increases in the NMW in October 2010 and October 2011, job growth in low-paying sectors has

[10] www.lowpay.gov.uk/lowpay/report/pdf/2012_Report.pdf, figure 2.2

remained positive (since Q4 2010). This has not necessarily been the case for all other sectors which only began to demonstrate positive jobs growth again from Q4 2011.

Chart 2.12: Annual jobs growth

Annual per cent change



Source: Office for National Statistics, Employee jobs

Hours worked in the low-paying sectors

2.65. Employers may decide to alter hours rather than levels of employment in response to NMW rate increases. This is particularly likely for low-paying sectors as they have low fixed costs per worker, little on-the-job training, high labour turnover, limits to the substitution of capital for labour and a high incidence of part-time work. A recent study commissioned by the LPC found some evidence that NMW rate increases had a negative impact on hours, notably among young people[11].

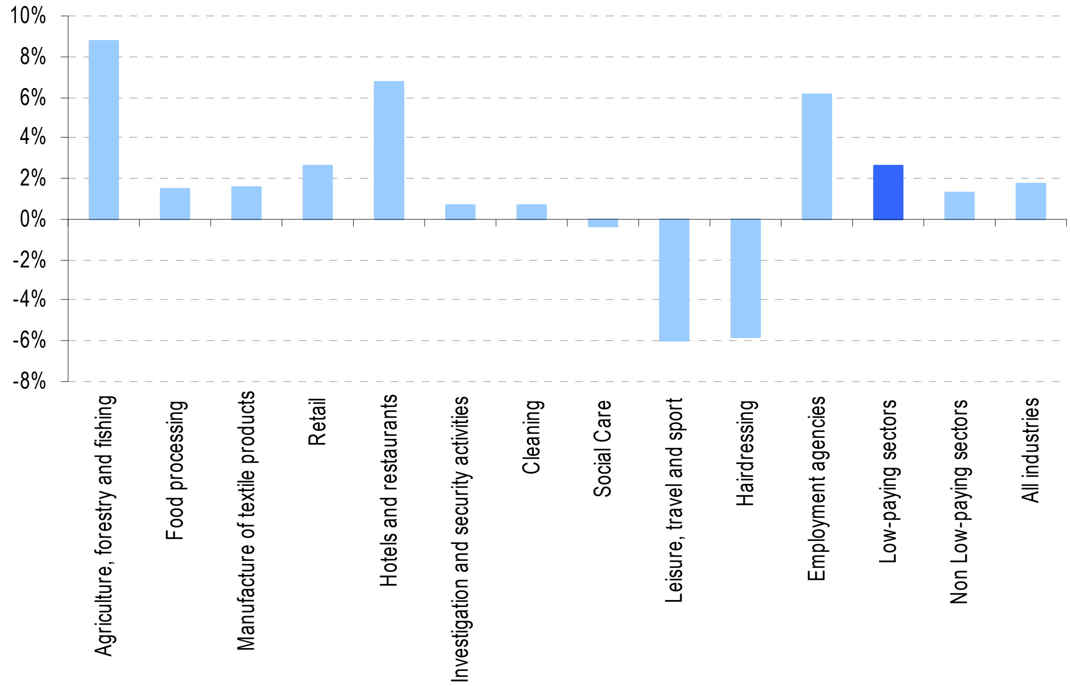
2.66. Over 2011-2012, total hours worked in the low-paying sectors increased by around 2.6 per cent, compared to a 1.3 per cent increase in non-low-paying sectors (see Chart 2.13). The growth in hours worked in low-

[11] M. Bryan, A. Salvatori & M. Taylor, 2012, The Impact of the National Minimum Wage on Earnings, Employment and Hours through the Recession, A report to the Low Pay Commission, Institute for Social and Economic Research (ISER) University of Essex

paying sectors over 2010-2011 was lower, at just 0.3 per cent. The variation across the low-paid sectors has been significant. However, it is not possible to disentangle the impact of the NMW from the UK being exposed to lower cost international competition and other factors.

Chart 2.13: Changes in total hours worked for low pay sectors, 2011-2012

Per cent change



Source: Office for National Statistics, Annual Survey of Hours and Earnings. 2010 and 2011 - ASHE data - new methodology.

Empirical studies from the UK

2.67. Prior to 2012, empirical work from the UK had not found significant evidence that the adult NMW rate has reduced employment. A recent study from January 2012, Dickens, Riley and Wilkinson examined the most recent data on earnings, employment and hours impacts and found some evidence to suggest that the introduction of the NMW may have had a small adverse impact on the employment opportunities of particular low-paid workers, although, in line with previous research, for many low paid workers they find no impact[12].

[12] R. Dickens, R. Riley and D. Wilkinson, January 2012, Re-Examining The Impact Of The National Minimum Wage On Earnings, Employment And Hours: The Importance Of Recession And Firm Size Report to the Low Pay Commission, University of Sussex , National Institute of Economic and Social Research

Policy background

Plan for Growth

2.68. The Government's Plan for Growth was announced at Budget 2011 and details were included in the Government evidence to the LPC last year. It sets out the Government's economic policy objective 'to achieve strong and sustainable growth that is more evenly balanced across the country and between industries'.

2.69. A report on progress across all the measures announced in The Plan for Growth was published alongside the Autumn Statement 2012[13].

[13] http://www.hm-treasury.gov.uk/as2012_index.htm

SECTION 3 REMIT ISSUES – THE YOUTH LABOUR MARKET

Summary

The labour market for young people has shown some signs of improvement. However, the extent of this is not as good as for adults.

The NMW bite for young people is at a much higher rate than for adults. Although, there were small decreases in the NMW bite for 16-17 year olds and those on the development rate between 2011 and 2012, the bites are still higher than in the recent past.

The impact of the freeze of the NMW rates for 16-17 year olds and 18-20 year olds cannot be assessed until new data is available in 2013.

The Government is increasing the age to which all young people in England must continue in education or training. There is a need to consider the implications of raising the English participation age with the UK-wide youth and apprentice NMW rates.

Given the relatively weak position of young people in the labour market, we would want the LPC to consider the contribution the NMW could make to improving the employment and training situation of young people.

All of the factors that suggest caution for the main adult NMW rate also apply to young people. And, there are extra reasons for the LPC to be cautious and moderate when recommending changes to the youth NMW rates.

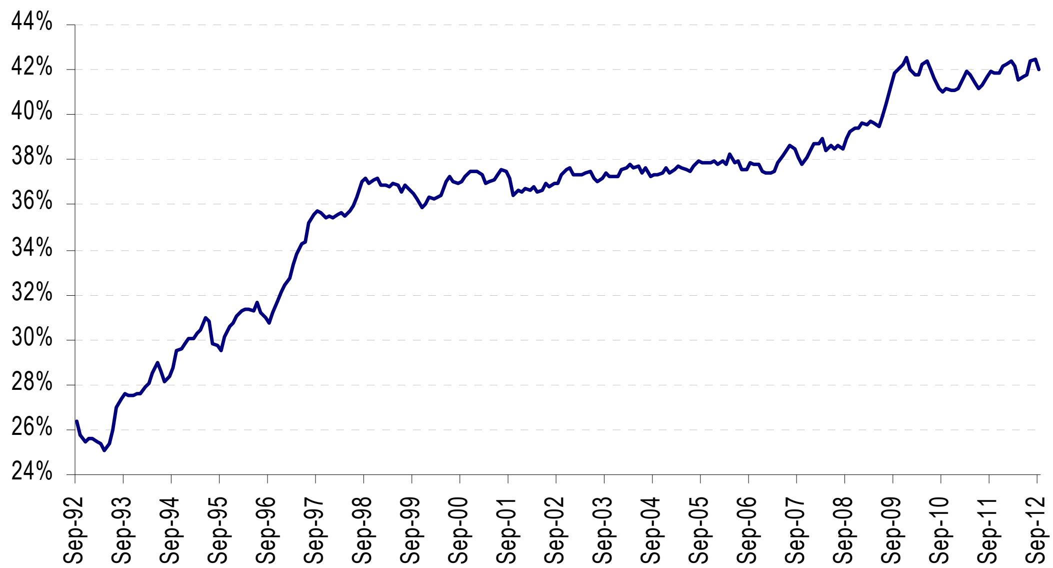
Economic background

3.1. The proportion of 16-17 year olds participating in education and work based learning has been increasing since the end of 2001 with more sharp rises over recent years. For 16 year olds, this reached almost 96 per cent at the end of 2011 and around 88 per cent for 17 year olds[14]. There has also been an upward trend in those in full-time education. Chart 3.1 shows the proportion of the UK population of 16-24 year olds in full-time education over the period September 1992 to 2012. The proportion of 16-17 year olds in full-time education has increased and this is also true for 18-24 year olds.

3.2. The proportion of 16-17 year olds who are not in education, employment or training (NEET) has been falling since 2005, reaching 2.8 per cent for 16 year olds and 6.7 per cent for 17 year olds at the end of 2011[15]. The Government's aim is for all 16-17 year olds to participate in education or training as we raise the participation age. Further information about the policy position is set out on page 49.

Chart 3.1: Proportion of UK population aged 16-24 years in full-time education

LFS seasonally adjusted



Source: Office for National Statistics Labour Market statistics.

[14] http://www.education.gov.uk/researchandstatistics/statistics/statistics-by-topic/post16/Participation/a00210462/participation-in-education-training-employment-16-18

[15] http://www.education.gov.uk/researchandstatistics/datasets/a00215766/neet-statistics-quarterly-brief-quarter-3-2012

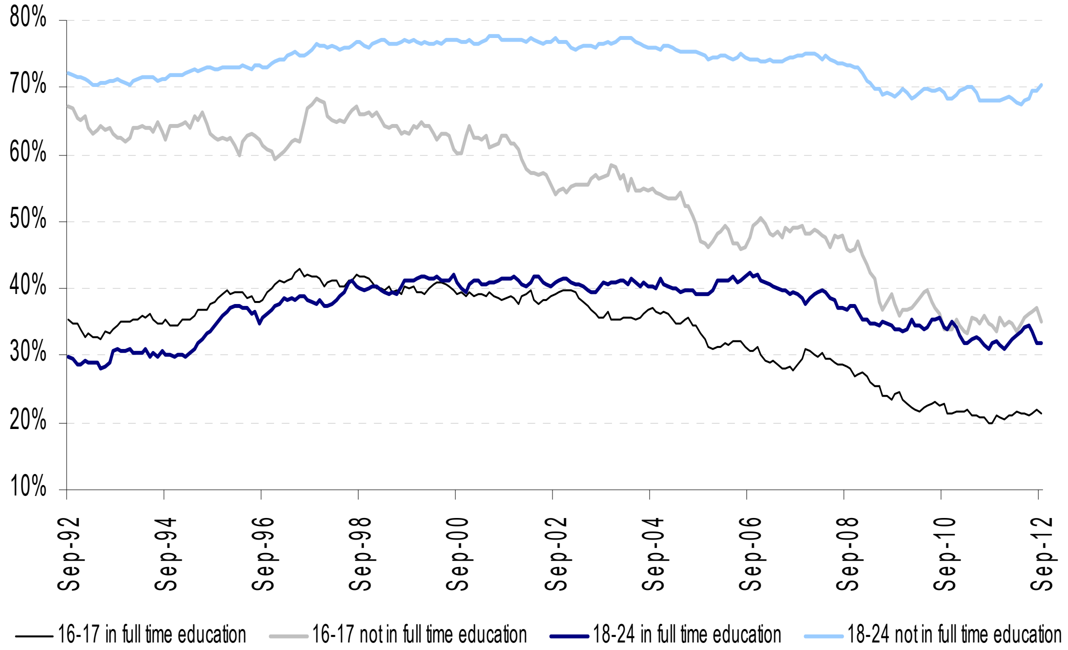
Labour market background for young people by participation in full-time education

3.3. Chart 3.2 shows that the employment rates of 16-17 year olds have been on a downward trend for both those in, and not in, full-time education. However, the decline has been steeper for 16-17 year olds not in full-time education; falling by 33 percentage points from November 1997 to September 2012 compared to just over 20 percentage points for 16-17 year olds in education over the same time period. For 16-17 year olds in full-time education, the employment rate has fluctuated around 22 per cent since early 2010.

3.4. The employment rates for 18-24 year olds have been relatively level since mid-1998 for those in full-time education. However, from early 2007, the rate for this group of individuals began to decline and continued to do so throughout the recession beginning at the start of 2008. The employment rate for 18-24 year olds not in full-time education also appears to be cyclical and has declined since the 2008/09 recession. However, during the recent period of negative GDP growth, employment rates for 18-24 year olds not in full-time education remained flat whereas it increased slightly for those aged 18-24 in full-time education.

Chart 3.2: Employment rate of 16-17 and 18-24 by participation in full-time education

Per cent of age group



Source: Office for National Statistics Labour Market statistics. Not in Full time education includes people in part-time education and/or some form of training. Estimates of the number of young people who are not in employment, education or training ("NEET") cannot therefore be derived form this graph.

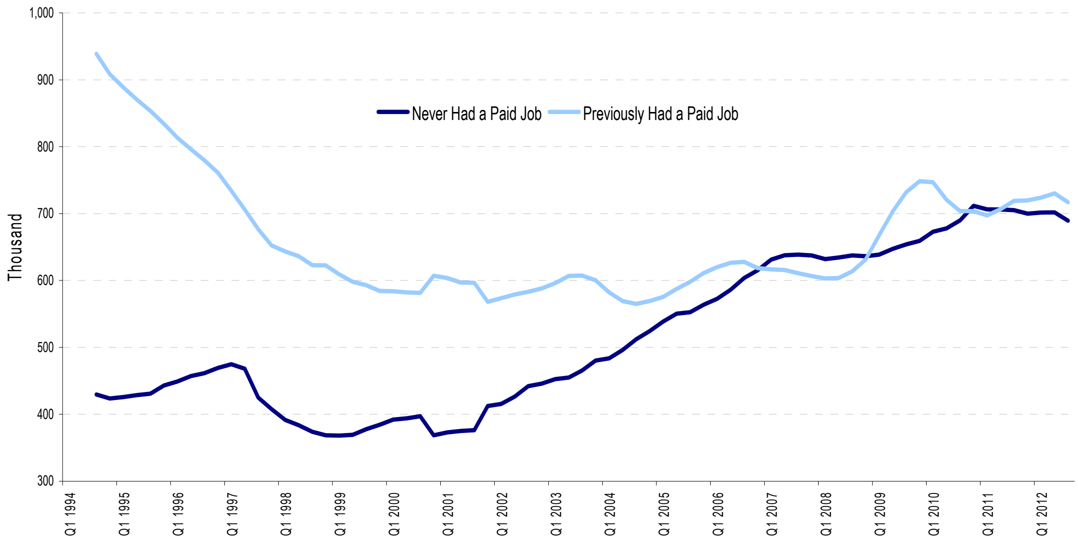
Young people, not in full-time education: workless who have never had a job and previously had a job

3.5. Chart 3.3 below plots under 25 year olds (excluding full-time education) not in employment (inactive or unemployed) and whether they have never worked or have previously held a paid job. Young people who have never worked has been rising since the beginning of 2001, reaching a peak at the end of 2010. From this point, the level of young people who have never worked has been slowly declining such that 689,000 young people aged under 25 have never held a paid job in 2012 Q3. Despite this recent improvement, there are still indications of growing structural worklessness problems for the young in making the transition from education to work.

3.6. Chart 3.3 also shows young people in worklessness who have had a paid job previously. The movements in this series seem more closely related to the economic cycle. There is a local peak at the end of 2009, after a period of recession, with some improvement during 2010 until another short period of slightly increasing worklessness among young people that had previously had a paid job coinciding with a further period of negative GDP growth. In 2012 Q3, levels are still higher than before the 2008/09 recession at 717,000.

3.7. These series' might suggest that during the 2011/12 recession, there were different implications for young people out of work depending on whether they have previously had a job or not compared to the 2008/09 recession.

Chart 3.3: Under 25 year olds (excluding those in full-time education): workless who have never had a job and previously had a job



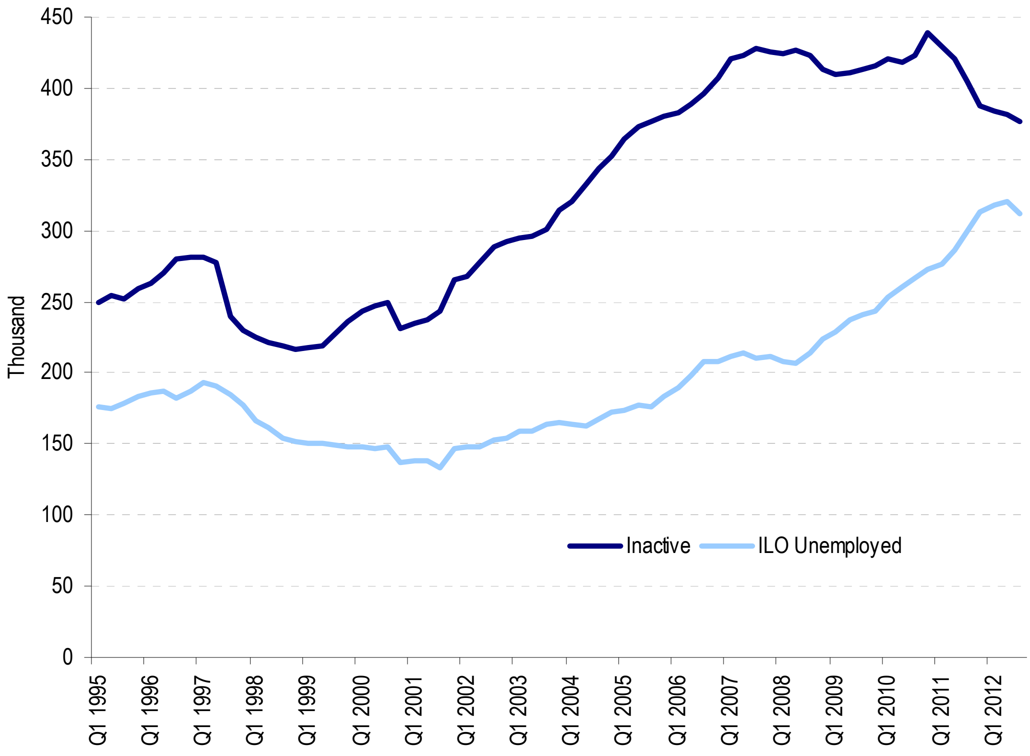
Source: BIS analysis of Labour force survey. 4 quarter rolling average

Youth unemployment and those who have never worked

3.8. Chart 3.4 below shows that the number of inactive people under 25 years old who never had a job has approximately doubled between trough and peak. The number of International Labour Organisation (ILO) unemployed people under 25 years old has more than doubled from peak to trough, going from 134,000 in Q3 2001 to 320,000 in Q2 2012.

3.9. In the last year, the number of inactive under 25 year olds who have never had a job has decreased significantly, while the number of unemployed under 25 year olds has risen. This evidence suggests a problem in the transition between education and work for young people. The transition between education and work will be affected by the raising of participation age in England.

Chart 3.4: Under 25 year olds (excluding Full-time education): workless who have never had a job



Source: BIS analysis of Labour force survey. 4 quarter rolling average

16-17 Age group

3.10. Evidence suggests (for example Neumark and Wascher 2004[16] and 2007[17]) that labour market outcomes of younger workers are more at risk from increases in the NMW level. This is one of the reasons why there is a lower rate for workers aged below 21. Other recent evidence suggests a negative effect of age-specific rates on employment of individuals of a particular age[18]. The labour market performance of younger workers tends to be hit hard during and after economic recessions. Also, it should be noted that it will be this age group that will be affected most by the raising of the participation age in England.

3.11. The NMW rate for 16-17 year olds was introduced in October 2004. It was initially set at the rate of £3.00. Apart from 2005, it has been increased every year and was increased to £3.68 in October 2011. The Government accepted the LPC's recommendation that this rate should remain at £3.68 for another year from October 2012.

3.12. Unemployment rates for 16-17 year olds have generally been hit hard by the recession. Chart 3.5 shows that for 16-17 year olds, the unemployment rate (excluding full-time students) increased from 29.9 per cent in 2008 Q1 (start of the 2008/09 recession) to a peak at the beginning of the 2011/12 downturn (Q3 2011) of 41.8 per cent; a rise of 11.9 percentage points. Since this peak, the unemployment rate of 16-17 year olds excluding full-time students has decreased, reaching 39.1 per cent in Q3 2012.

3.13. In the three months ending October 2012 there were 198,000 16-17 year olds who were ILO unemployed[19]. A total of 128,000 were unemployed for up to six months (65 per cent of all unemployed), 35,000 were unemployed for over six and up to 12 months (18 per cent of all unemployed) and 35,000 were unemployed for over 12 months (18 per cent of all unemployed). Since early 2001 there has been a slight trend towards 16-17 year olds being

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[16] Neumark D., Schweitzer M. and Wascher W. (2004) Minimum Wage Effects throughout the Wage Distribution. Journal of Human Resources. Vol. 39 (2): 425-50.

[17] Neumark D. and Wascher W. (2007) Minimum Wages and Employment, IZA Discussion Paper Series.

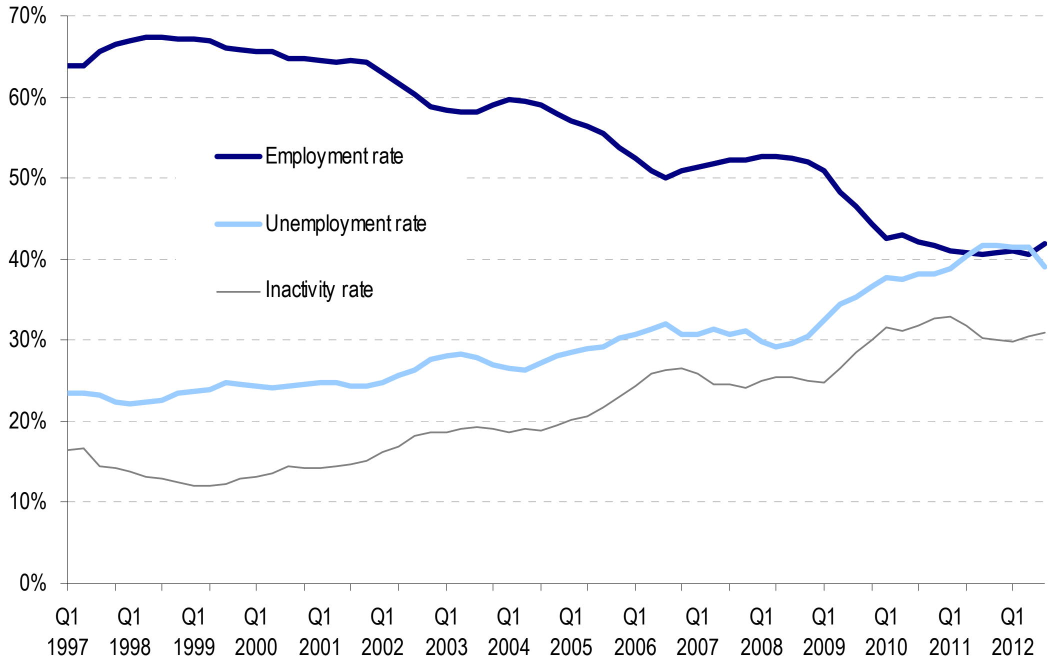
[18] Firdmuc, J. and Tena, J.D. (2012) National Minimum Wage and Labour Market Outcomes of Young Workers. Universidad Carlos III de Madrid Working Paper 12-12. Statistics and Econometric Series 09.

[19] The 198,000 figure includes those in full-time education, whereas chart 3.3 shows only those who are not in full-time education or graduates and has not been seasonally adjusted. This is because duration of unemployment is not published for those not in full-time education.

unemployed for longer. The proportion of 16-17 year olds unemployed for less than 6 months has followed a downwards trend and the proportion of those unemployed between 6 and 12 months and 12 months or more has increased.

Chart 3.5: Employment, unemployment and inactivity rates of 16-17 year olds, excluding full time students and graduates

Per cent of age group, four quarter moving average



Source: BIS analysis of Office for National Statistics, Labour Force Survey. 4-quarter averages. Not seasonally adjusted.

3.14. Inactivity rates for 16-17 year olds (excluding full-time students) have also increased significantly since the start of the recession. The inactivity rate increased by 8.1 percentage points during the recession, up from 25.0 per cent in 2008 Q1 to a peak of 33.1 in 2011 Q1, however it fell to 31 per cent in 2012 Q3.

18-20 age group

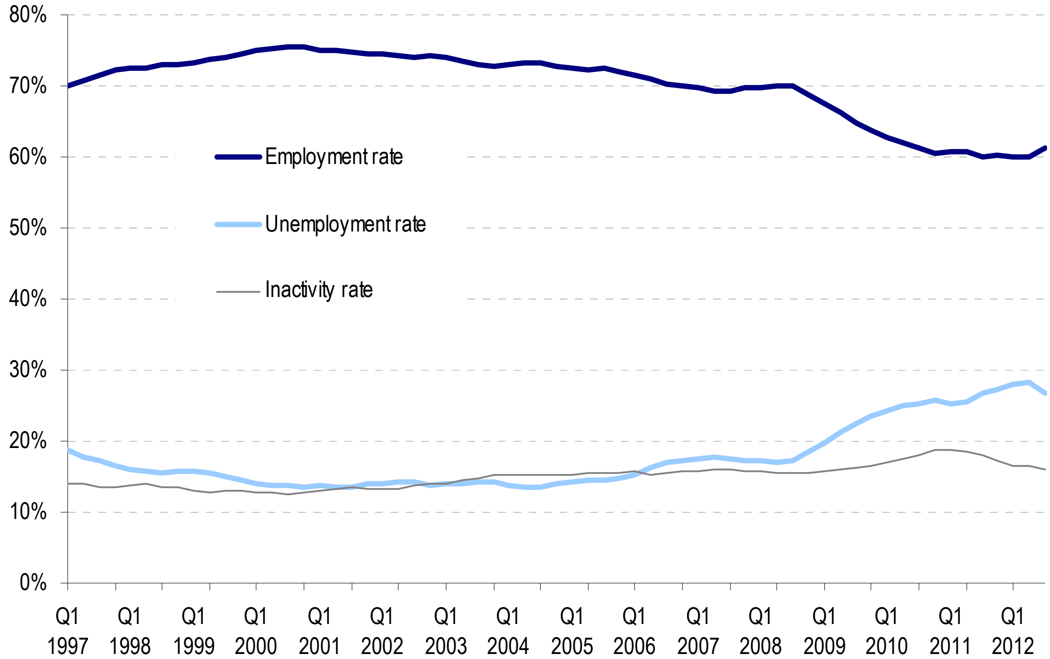
3.15. The NMW rate for 18-21 year olds was introduced in October 1999 alongside the adult rate. It was initially set at £3.00 and was gradually increased to £4.98 in October 2011. From October 2010, 21-year olds have been eligible for the adult NMW rate. The Government accepted the LPC's recommendation that the NMW rate should remain at £4.98 for this age group from October 2012.

3.16. Chart 3.6 shows the unemployment rate and inactivity rate of 18-20 year olds. Unemployment rates for 18-20 year olds increased significantly during since the recent recession. The total unemployment rate has increased from 17.2 per cent in 2008 Q1 to 28.1 per cent in 2012 Q2 before falling to 26.9 per cent in 2012 Q3.

3.17. Inactivity rates, also presented in chart 3.6, have responded less to the downturn, and have recovered slightly in the past year. The inactivity rate for 18-20 year olds, excluding full-time students and graduates, fell to 16.1 per cent in 2012 Q3 from the recession high of 18.7 per cent in 2011 Q1. This is just 0.4 percentage points above the pre-recession level of 15.7 per cent in 2008 Q1.

Chart 3.6: Employment, unemployment and inactivity rates of 18-20 year olds, excluding full-time students and graduates

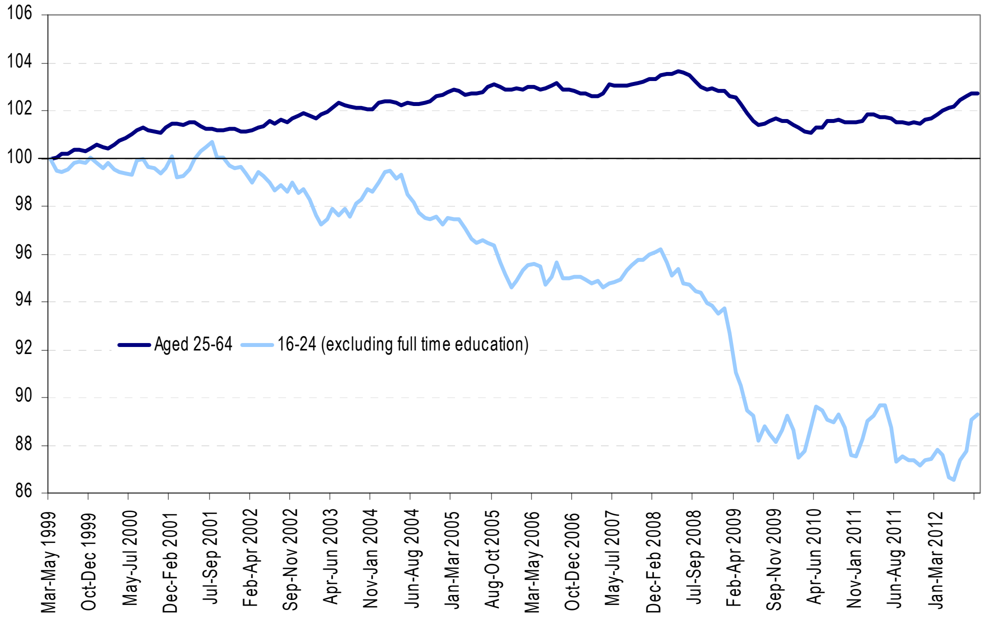
Per cent of age group, four quarter moving average



Source: BIS analysis of Office for National Statistics, Labour Force Survey. 4-quarter averages. Not seasonally adjusted. See Annex D for further information.

3.18. Youth unemployment dropped below a million in the three months to September and in very recent months, the youth labour market has demonstrated some positive signs. However, the relative position of young people in the context of the wider labour market is still weak and we would want the LPC to consider the contribution the NMW could make to improving the employment and training situation of young people. Chart 3.7 below demonstrates the employment rate of adults and young people (excluding those in full-time education). This chart shows that young people have suffered a long term decline in employment over time with a particularly sharp fall from early 2008.

Chart 3.7: Employment rate of adults and young people (excluding those in full-time education)



Source: ONS Monthly Labour Market Statistics

Distribution of earnings of young employees earning the NMW for different age groups

3.19. Between 2012 and 2011, the 'bite' for individuals on the 16-17 year old and development rate has decreased. However, the bites corresponding to both youth NMW rates still remain significantly above the adult bite. For those aged 21 and above, the bite has continued to increase and rose from 53.1 per cent in 2011 to 53.7 per cent in 2012. For 21 year olds only, the bite increase was higher, with a rise of 1.4 percentage points. Table 3.1 below shows the youth bite rates in 2011 and 2012. Chart 2.8 on page 21 shows how the bites for the various NMW rates have changed over time.

Table 3.1: National Minimum wage youth bite

	16-17 year olds	18-20 year olds	21 year olds only
April 2011	72.8%	80.0%	87.0%
April 2012	72.0%	79.7%	88.4%

Source: BIS analysis of ASHE data

3.20. The bite for 16-17 year olds last decreased between April 2008 and April 2009. During this period, the relevant NMW rate was frozen. Including the recent decrease, from 2009 to 2012, the bite increased by 2.8 percentage points.

3.21. Below, we have examined the proportion of jobs at different points across the hourly pay distribution. Please note the following analysis includes some people in full-time education.

3.22. The three National Minimum Wage (NMW) rates which are likely to affect the hourly pay scale are the adult rate, the development rate (for workers aged 18-20) and the 16-17 year olds rate. See table 3.2 below for the values of the different rates.

Table 3.2: National Minimum wage rates

	Adult rate	Development rate (for workers aged 18-20/21*)	16-17 year olds rate
April 2011	£5.93	£4.92	£3.64
April 2012	£6.08	£4.98	£3.68

Source: Low Pay Commission. As ASHE data is from April of the relevant year the NMW rate from the previous year introduced in October is used. E.g. for 2012 ASHE data from April 2012 the relevant NMW rate at the time was those introduced in October 2011.

3.23. Firstly, the main conclusions are demonstrated in the charts that follow; you will see there are spikes in the distribution of hourly pay. These spikes are generally found at the three points where the different NMW rates by age cut in. These spikes indicate that the three rates set at the NMW have some effect on the distribution of young peoples' pay even if they do not apply to them.

3.24. Secondly, the distributions are very similar in 2012 as in 2011. However, there have been different changes to the bite across age groups. The bite for 16-17 year olds and 18-20 year olds has decreased slightly (by 0.8 and 0.3 percentage points respectively) whereas the bite for 21 year olds only has increased by 1.4 percentage points. The pay distribution for 21 year olds only has remained the same between 2012 and 2011 providing no evidence that the increased bite for 21 year olds is due to the changes in the distribution. The pay distribution for 16-17 year olds has a few more prominent spikes above the adult NMW rate in 2012 than in 2011 suggesting that slightly more 16-17 year olds may have moved on to higher pay.

3.25. Thirdly, although for 16-17 year olds and 21 year olds, there is a greater tendency for firms to pay the relevant NMW rate, for the development rate this is not true. For all 3 age groups, there has been an increase in those being paid the adult rate. For 21 year olds some of this may be driven by the fact that the relevant NMW rate crossed over the £6.00 threshold between April 2011 and April 2012. This effect will not be as strong for those below the age of 21.

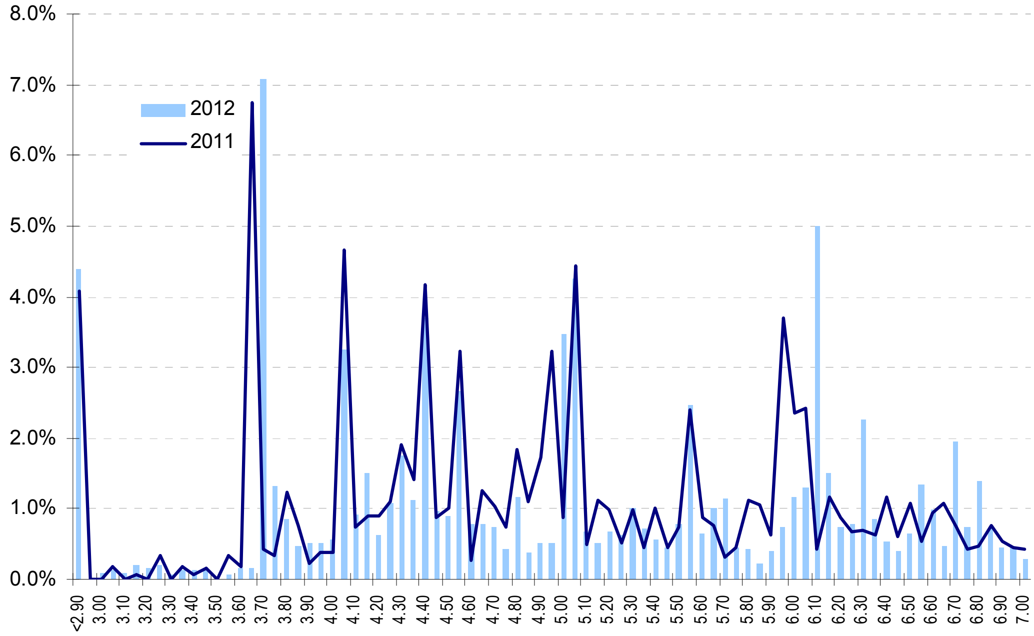
16-17 year olds

3.26. The proportion of jobs for 16 to 17 year olds across an hourly pay scale is substantially more volatile. In both 2011 and 2012 the greatest proportions of jobs (6.7 per cent and 7.1 per cent respectively) were earning around the 16-17 year olds rate.

3.27. The proportion of jobs earning the development rate increase by 0.3 percentage points between 2011 and 2012, up to 3.5 per cent.

Chart 3.8: Low-pay distribution, April 2012

Per cent of jobs (16-17 year olds)



Source: Office for National Statistics, Annual Survey of Hours and Earnings

3.28. The proportion of jobs earning around the adult rate increased significantly between 2011 and 2012. In 2012, 5 per cent of 16-17 year olds' jobs earned around the adult rate, up from 3.7 per cent in 2011.

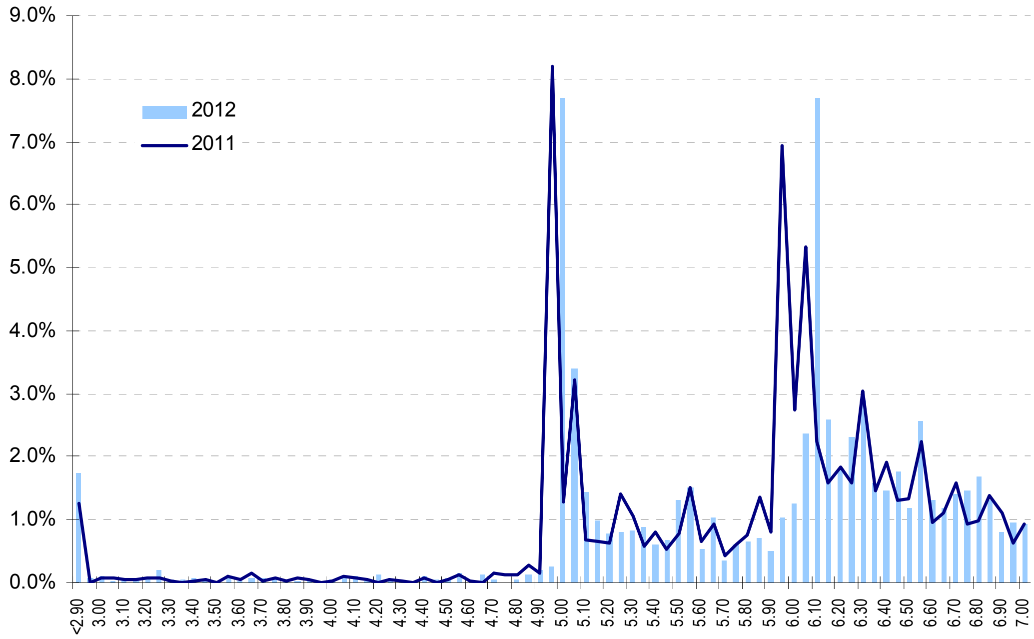
3.29. There are other spikes in the pay distribution of 16-17 year olds generally corresponding with round values. Below the adult rate the proportion of jobs at these pay levels have tended to stay relatively constant between 2011 and 2012. However, above the adult rate there are a few more prominent spikes in 2012 than in 2011.

18-20 year olds

3.30. In April 2012, the low pay distribution of 18-20 year olds was bi-modal with modes corresponding with the development NMW rate and the adult NMW rate. There was a 0.5 percentage point decrease for the proportion of jobs earning around the development rate, down to 7.7 per cent in 2012. The proportion of jobs earning around the adult rate increased by 0.8 percentage points to also reach 7.7 per cent.

Chart 3.9: Low-pay distribution, April 2012-12

Per cent of jobs (18-20 year olds)



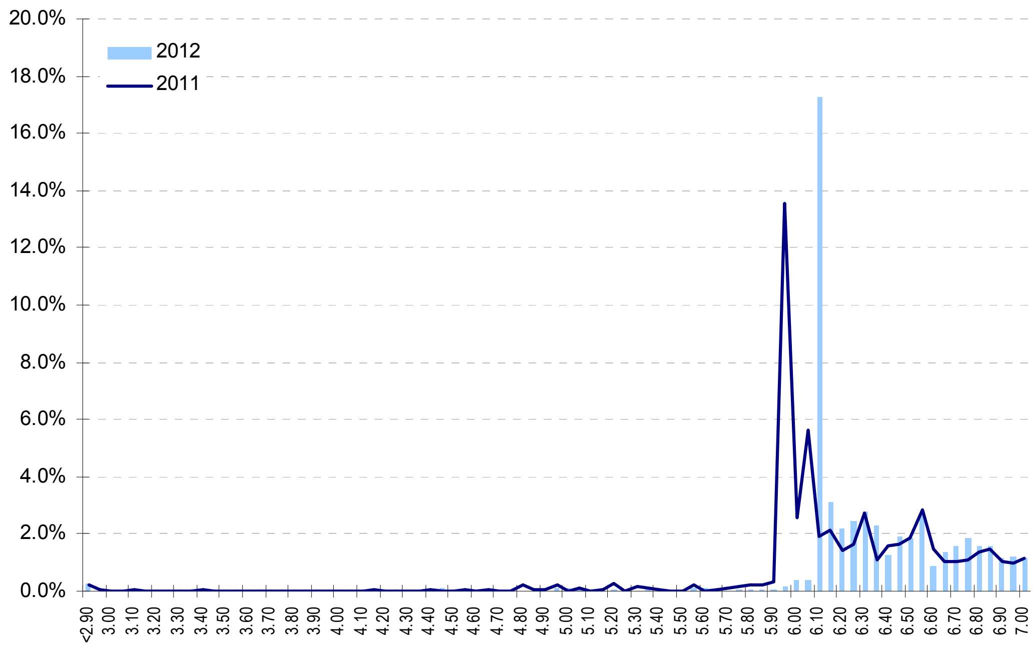
Source: Office for National Statistics, Annual Survey of Hours and Earnings

21 year olds only

3.31. There was a 3.8 percentage point increase for the proportion of jobs earning around the adult rate, up to 17.3 per cent in 2012. Part of this increase could have been driven by the adult rate changing from under £6.00 in April 2011, to over £6.00 in April 2012. There is often a tendency for firms to pay individuals in values rounded to the nearest pound therefore those that were being paid £6.00 per hour in 2011 would have to move at least on to the adult rate of £6.08 in April 2012.

Chart 3.10: Low-pay distribution, April 2012

Per cent of jobs (21 year olds only)



Source: Office for National Statistics, Annual Survey of Hours and Earnings

3.32. The charts have shown that the overall trend for 2011-2012 is that the changes in the distributions have been largely driven by changes in the different NMW rates, whilst the rest of the distribution remained relatively similar.

3.33. 16-17 year olds saw an increase in the proportion of jobs earning around the development rate (up 0.3 percentage points) and an increase in the proportion of jobs earning around the adult rate (up 1.3 percentage points). In contrast, 18-20 year olds saw a decrease in the proportion of jobs earning around the development rate (down 0.5 percentage points) and an increase in the proportion earning around the adult rate (up 0.8 percentage points).

3.34. As there has been relatively little movement in the distribution (with the exception of the movement of the spike following NMW uprating) there is no evidence to suggest that higher paid jobs have disappeared for any age group between 2011 and 2012.

Policy background

Young people and the Participation Strategy

3.35. In December 2011, the Government published its Youth Participation Strategy. Details were included in the Government's 2011 evidence to the LPC[20].

3.36. Participation in education and training has for many years risen significantly, although the most recent data indicates that this has flattened[21]. However, the proportion of young people who are NEET (Not in Education, Employment or Training) remains unacceptably high. The Government is committed to tackling this problem. Being NEET is an enormous waste of a young person's potential, their contribution to their community, and to the economy. This is why reducing the numbers of young people who are NEET is an important priority for the Government. The Government wants to ensure that all young people are able to get the skills they need to succeed in a competitive, high-skilled labour market and make a successful start in employment.

Youth Contract

3.37. For 16-17 year olds, we are investing £126 million in England over the next three years specifically to support disengaged 16 to 17 year olds to move into education, training or employment with training. This will help to support the Government's overall commitment to full participation for this age group as we raise the participation age to 17 in 2013 and 18 in 2015. (See below for more information on raising the participation age).

3.38. This programme of additional support will be focused on young people who are NEET, have low levels of attainment and are likely to experience a range of factors that put them at greater risk of long-term disengagement. At least 55,000 16 to 17 year-olds are NEET with no GCSEs at grades A* to C.

3.39. For 18-24 year olds, we will provide nearly half-a-million new opportunities, including apprenticeships and voluntary work experience placements. From April 2012 until April 2015, employers are able to take

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[20] http://www.bis.gov.uk/assets/biscore/employment-matters/docs/n/12-513-national-minimum-wage-evidence-2011.pdf

[21] Further information available at: http://www.education.gov.uk/rsgateway/DB/SFR/s001072/index.shtml

advantage of 160,000 wage incentives. These are worth up to £2,275 each where they employ an 18 to 24 year old from:

- the Work Programme, or
- Jobcentre Plus (for employers who take on a young person living in one of 20 local authority areas)

3.40. In addition, a wage incentive scheme is available to employers who recruit a young disabled person from Work Choice in England, Scotland and Wales – a specialist disability employment programme that provides tailored support to help disabled people who have the most complex support needs.

3.41. Further information on the Youth Contract is available from: http://www.dwp.gov.uk/youth-contract/key-initiatives/

Raising the Participation Age (RPA)

3.42. From 2015, all 16 and 17 year olds in England will be required to continue in education or training. This change is happening in two phases: from summer 2013, all young people will be required to continue in education or training until the end of the academic year in which they turn 17; and from 2015 they will be required to continue until they turn 18.

3.43. They will be able to participate in a number of ways:

- full-time education, such as school or college;
- an Apprenticeship, or
- full-time employment, volunteering or self-employment with part-time accredited education or training alongside.

3.44. We are setting a definition of the minimum required 'full-time' education for RPA at 540 hours. Those hours will not necessarily need to be purely made up of study towards an accredited qualification (i.e. GLH), and any of the activity suggested within the principles of 16-19 study programmes (such as work experience and tutorials) could be counted towards that. Further information on study programmes can be found at: www.education.gov.uk/a00210755/16-19-study-programmes

3.45. With regard to young people meeting the duty to participate through working with part-time study alongside; we have decided that volunteering, self-employment and holding an office should count as employment for the purposes of RPA.

Careers Guidance

3.46. All schools in England have now been placed under a new legal duty to secure access to independent and impartial careers guidance. This must include information on all post-16 options, including Apprenticeships. The Government has consulted on extending the duty down to pupils in year 8 and to young people up to the age of 18 studying in school and Further Education settings and will publish a consultation report this autumn.

3.47. In parallel with the changes to the duty on schools, the National Careers Service was launched in April 2012. The Service provides young people with access to high quality information and professional advice on learning and work; online, via the telephone and webchat. Unemployed young people aged 18 years and over can also receive up to three, free in-depth face-to-face careers sessions with a Service adviser. Under the Youth Contract, the Service will offer a face-to-face session to anyone aged 18-24 within the first three months of them registering as unemployed.

SECTION 4 OTHER REMIT ISSUES

Summary

The Government is supporting lower and middle income earners by raising the personal tax allowance to £10,000, with real progress towards this goal every year. The increases announced so far will benefit 25 million workers – 2.2 million workers will be taken out of tax altogether from April 2013.

Universal credit will support people both in and out of work, replacing Working Tax Credit, Child Tax Credit, Housing Benefit, Income Support, income-based Jobseeker's Allowance and income-related Employment and Support Allowance. The first new claims to Universal Credit are expected to begin from October 2013.

These are important policy changes that the LPC will need to consider when recommending changes to the NMW rates.

Apprenticeships in England

4.1. Apprenticeships – paid jobs that incorporate on and off the job training leading to nationally recognised qualifications - are at the heart of the Government's drive to equip people of all ages with the skills employers need to prosper and compete, often in a global market.

4.2. We want Advanced and Higher Level Apprenticeships to become the level to which learners and employers aspire. Therefore, we are ensuring there are clear routes into higher-level skills training including, but not exclusively, Higher Apprenticeships (level 4 and above).

Volumes

4.3. There are now over 100,000 employers offering apprenticeships in more than 160,000 locations; there are nearly 250 frameworks and over 1,200 job roles available to apprentices, covering an extensive range of skills levels and occupations.

4.4. We are investing £1.5 billion in apprenticeships in the 2012-13 financial year, of which £833,000 is for 16-18 year olds. In addition to wider efforts to create more apprenticeship opportunities, and to grow the programme amongst SMEs, we have introduced incentive payments of £1,500 for small employers taking on their first new apprentice aged 16-24 years old. We also fully fund apprenticeship training for 16-18 year olds, to provide an additional incentive to employers to take on a younger person and reflect their relative inexperience in the workplace.

4.5. There were 457,200 Apprenticeship starts (16+) in the 2010/11 academic year - an increase of 63.5 per cent compared to 2009/10. There were 153,900 Advanced Apprenticeship starts - a 75.5 per cent increase on 2009/10; and 2,200 Higher Level Apprenticeship (Level 4+) starts - an increase of 47.8 per cent on 2009/10.

Pay

4.6. Evidence shows that employers often pay more than the relevant minimum wage rate. Median apprentice pay in the UK and GB is £200 per week. The median rate of hourly pay in the UK was £5.87 and the mean was £5.83 per hour.

4.7. Analysis in the LPC's 2012 report finds that for 16-17 year old apprentices in Great Britain, median hourly pay was £2.71, and the bite of the Apprentice Rate at the median was 92 per cent. This is higher than the bite of the minimum wage for their non-apprenticeship equivalents (73 per cent). For the next age bracket (18-20 year olds) this trend is reversed, the median hourly pay for apprentices was £4.62, and the bite at the median was 54 per cent. This is significantly lower than the bite of the minimum wage for their non-apprenticeship equivalents (80 per cent).

4.8. The median gross hourly pay for apprentices aged 21 or higher was £6.67, and the bite at the median was 37 per cent. This is also significantly lower than the bite for their non-apprenticeship equivalents (53 per cent). In considering these findings, we need to consider that these survey results are based on a comparatively small sample size, with a base size of 922 for the 16-17 year group, compared to 3,436 for the 18-20 year old group. We will therefore look closely at the findings of the next apprenticeship pay survey in order to assess trends in apprenticeship bites for the various age groups. The LPC will need to carefully consider the interaction of raising the (learning) participation age in England with the apprentice NMW rate as well as the youth NMW rates.

4.9. The Apprenticeship Pay Survey 2011 found that median gross hourly pay varied considerable between sectors. In Customer Services the median hourly pay is £6.74 per hour with only 5% earning less than the Apprenticeships NMW while in hairdressing the median hourly wage is £2.64 with 48% earning less than the Apprenticeships NMW.

4.10. The survey also found some concerning results. For example, it indicated that 20 per cent of UK apprentices said they received no training, 5 per cent worked fewer than 16 hours per week and 5 per cent said they received no pay. We are looking into this and have commissioned a qualitative research project to probe these findings further. In the meantime, we are working closely with HMRC to enforce the NMW for apprentices and target communications to raise awareness of the NMW rules, as applied to apprentices.

Simplification of NMW rules

NMW regulations

4.11. The NMW rules for salaried hours' workers who are paid an annual salary in weekly or monthly instalments have never been reviewed. This is why the Government has asked the LPC to evaluate these regulations and consider whether there are measures that the Government could take to ensure that it is as simple and easy as possible for employers to make sure they are paying at least the NMW and for individuals to be confident that they are being paid at least the NMW.

4.12. In addition, we plan to produce a single set of consolidated NMW regulations, merging the current 17 regulations, to make it simpler for businesses to understand their obligations. We intend to produce draft consolidated regulations by April 2013.

Agricultural Wages Board

4.13. The Government retains its commitment to bring forward proposals to abolish the Agricultural Wages Board and bring workers within scope of the NMW framework. The Government will ensure that agricultural workers and employers are made aware of what this will mean for employment within the agricultural sector and the timing of when changes will be introduced.

4.14. Until such time as the Board is abolished, the Agricultural Wages Order remains in force and employers will need to remunerate agricultural workers in accordance with the provisions of the Order.

Workplace Pension Reforms

4.15. An ageing population, combined with millions of people under-saving, is one of the biggest long-term challenges the UK faces, with approximately 11 million people currently not saving enough to deliver the pension income they want or expect in retirement.

4.16. To address this, the Government is introducing automatic enrolment, which places new duties on employers to automatically enrol their eligible employees into a workplace pension scheme. Details of these reforms were provided in the Government's evidence to the Low Pay Commission in 2011[22].

4.17. Since then, there are the following updates:

- We estimate that between six and nine million people will be newly saving in a workplace pension scheme as a result of the reforms.
- In July 2012 the Government announced its response to its consultation on changes to the automatic enrolment timetable to help small businesses (1-49 employees), who will not begin automatically enrolling their staff until June 2015, instead of the previous timing of April 2014. The response can be viewed at:

  http://www.dwp.gov.uk/consultations/2012/wpr-rev-implementation.shtml
- The minimum level of contributions will be phased in during implementation to help both employers and individuals adjust gradually to the additional costs of the reforms. This has been extended by 12 months:
  - during the staging period the total contribution level (including tax relief) will be two per cent (on a band of earnings) with a minimum of one per cent coming from the employer;
  - following the end of staging (October 2017), the total contribution level will be five per cent with a minimum of two per cent coming from the employer; and
  - once fully phased in (October 2018), the total contribution level will be eight per cent with a minimum of three per cent coming from the employer.
- Our analysis shows that in 2010 between 2.1 and 2.3 per cent of those eligible for automatic enrolment earned within 5 pence of the NMW. Figures were slightly higher for women than men (2.5-2.9 per cent and 1.7-2.0 per cent respectively).

[22] www.bis.gov.uk/assets/biscore/employment-matters/docs/n/12-513-national-minimum-wage-evidence-2011.pdf

Benefit reform

4.18. The Government's aim is to reform the benefits system to help people to move into and progress in work, while supporting the most vulnerable. We want a benefit system that is fairer, more affordable and better able to tackle poverty, worklessness and welfare dependency.

4.19. In November 2010 the Government set out plans to introduce legislation to reform the welfare system by creating a new Universal Credit - an integrated working-age credit that will provide a basic allowance with additional elements for children, disability, housing and caring.

4.20. Universal credit will support people both in and out of work, replacing Working Tax Credit, Child Tax Credit, Housing Benefit, Income Support (IS), income-based Jobseeker's Allowance (JSA) and income-related Employment and Support Allowance (ESA). The legislation to enact this reform was passed in the Welfare Reform Act 2012.

4.21. Universal Credit represents a fundamental change for the welfare system, which will radically restructure the way benefits are calculated and is designed to remove the financial and administrative barriers to work that are inherent in the current system. Universal Credit aims to ensure that work always pays (in particular, low-hours work); by reducing the complexity of the system, and removing the current distinction between in-work and out-of-work support. This will make clear the potential gains to work and reduce the risks associated with moves into employment.

4.22. The first new claims to Universal Credit are expected to begin from October 2013. The transition to the new system will take around five years to complete.

Impact on Work Incentives

4.23. Universal Credit will replace the current multiplicity of tapers for in-work support with a single taper of around 65 per cent on net income. In addition, there will be increases in earnings disregards for many households. As a result, Universal Credit will increase the proportion of earnings that people keep when they move into work – measured through changes in the participation tax rate (PTR). Generally it will also mean that as people increase their hours they get to keep more of their income – reflected in reductions in the marginal deduction rate (MDR).

4.24. Under the current system, many households have poor incentives to increase the hours they work due to high MDRs – particularly for people working while in receipt of IS/ESA/JSA and whose earnings are above the disregard level (where the MDR is 100 per cent) and people who have exhausted their ESA/JSA, but are simultaneously in receipt of Housing Benefit and Tax Credits (who can have MDRs of over 90 per cent).

4.25. The current system mainly rewards those working 16 or 30 hours, whereas under Universal Credit all hours of work will be rewarded. The change means that many households will be able to keep a higher proportion of their earnings, providing greater incentives for workless households to take up work for a few hours per week.

4.26. By bringing in a single, consistent taper for working households of around 65 per cent, and removing the current 100 per cent taper for out-of-work benefits, Universal Credit will reduce the highest MDRs and so increase the incentive to work more for many households.

Income tax - changes to personal allowance

4.27. The Government continues to support people on low and middle incomes, rewarding the efforts of those who choose to work, by taking real steps to make the first £10,000 of income free from tax.

4.28. Since 2010, the Government has announced successive increases in the personal allowance totalling £2,965. This includes a further £235 increase announced at Autumn Statement 2012, in addition to £1,100 announced at Budget 2012. This means that the personal allowance will rise by £1,335 to £9,440 from April 2013. Taken together, these changes will benefit 25m individuals and 2.2m individuals, with low incomes, will be taken out of income tax altogether.

4.29. These changes mean that a person working full-time (35 hours per week) at the adult NMW rate will have their income tax bill cut in half. Someone on the NMW working 29 hours a week will no longer pay income tax from April 2013.

ANNEX A GOVERNMENT RESPONSE TO LPC's 2012 RECOMMENDATIONS

2012 rate recommendations

The Government published the Low Pay Commission's 2012 report in March this year. The Commission's recommendations and the Government Response are below:

LPC RECOMMENDATION	GOVERNMENT RESPONSE
National Minimum Wage Rates The adult minimum wage rate should increase from £6.08 to £6.19 an hour from 1 October 2012. The Youth Development Rate should remain at £4.98 an hour and that the rate for 16-17 year olds should remain at £3.68 an hour from 1 October 2012. The Apprentice Rate should increase from £2.60 to £2.65 an hour from 1 October 2012. The accommodation offset should increase from £4.73 to £4.82 a day from 1 October 2012.	Accept.

LPC RECOMMENDATION	**GOVERNMENT RESPONSE**
Simplification/Guidance In order to make operating the National Minimum Wage as simple as possible for all users, the Government should put in place, and maintain, effective, clear and accessible guidance on all aspects of the minimum wage particularly where there is significant evidence of ignorance or infringing practice. As a first step, the Government should undertake a review of all existing guidance.	Accept.
Compliance The Government should not only have a process for naming infringers but should also make frequent use of it. The Government should also actively seek other publicity opportunities which will help to signal that those who infringe the National Minimum Wage get caught and punished. The Government should more actively communicate both the rates themselves and rights and obligations under the National Minimum Wage. Communication activities about the minimum wage should not be subject to the Government's marketing freeze.	Note. The Government recognises the importance of effectively publicising National Minimum Wage compliance activities and communicating rates, rights and obligations and we will carefully consider how best to achieve this. We will continue to look for cost effective ways of communicating within the controls on government spending announced last year.

The National Minimum Wage (Amendment) Regulations 2012 implemented the increases in the adult and apprentice minimum wages and the accommodation offset, as set out above. They also made consequential changes to the names of the apprenticeship programmes in England and to clarify that deductions or payments for accommodation that is exempt from the minimum wage accommodation rules because it is provided by Higher or Further Education institutions do not affect pay for minimum wage purposes. These Regulations were debated in the House of Lords on 18 July and in the House of Commons on 5 September. They will come into force on 1 October 2012.

ANNEX B REMIT FOR THE LOW PAY COMMISSION 2013 REPORT

The Government supports the National Minimum Wage (NMW) because of the protection it provides to low paid workers and the incentives to work it provides. Our aim is to have NMW rates that help as many low-paid workers as possible, while making sure that we do not damage their employment prospects.

The Low Pay Commission (LPC) is asked to:

Monitor, evaluate and review the levels of each of the different NMW rates and make recommendations on the levels it believes should apply from October 2013.

Review the contribution the NMW could make to the employment prospects of young people, including those in apprenticeships. As part of this review, the LPC is asked to consider the implications of the introduction of the Raising of the Participation Age in England on the youth rates and the apprentice rate.

Review the accommodation offset.

Evaluate the regulations for salaried hours workers and consider whether there are any measures that the Government could take to ensure that it is as simple and easy as possible for employers to make sure they are paying at least the NMW and for individuals to be confident that they are being paid at least the NMW.

In evaluating and making recommendations in the areas set out above, the LPC is asked to take account of the state of the economy and employment and unemployment levels. There is also the wider policy context to consider, including pensions' reform, the introduction of universal credit, the raising of the personal tax allowance, any implications of the proposed abolition of the Agricultural Wages Board for England and Wales (pending the outcome of the legislative process), and other Government reforms that may affect the NMW.

TIMING

The LPC is asked to report to the Prime Minister, Deputy Prime Minister, and the Secretary of State for Business, Innovation and Skills by the end of February 2013.

ANNEX C UPDATE ON NON-REMIT ISSUES

Compliance and enforcement

Summary

The Government is committed to increasing compliance with the national minimum wage (NMW) and effectively enforcing it. Our vision is clear – everyone who is entitled to the NMW should receive it. In 2011/12 we identified £3.6 million in arrears of wages for 17,000 workers.

Non-compliant employers need to believe that there is a real risk that they will be investigated – and workers need to believe that it is better to work within the system. This year we therefore, collaborated with a range of enforcement bodies and stakeholders to maximise impact and tackle systemic abuse in 'at risk' sectors. Following concerns about the lack of visible NMW enforcement, we prioritised high-visibility operations (identified through risk assessment), to raise the profile of NMW enforcement whilst continuing to investigate every single complaint made to the Pay and Work Rights Helpline.

We have made significant progress in implementing the NMW Compliance Strategy 2010. We have improved our understanding of non-compliance risks and are tailoring available compliance tools to the different customer types. We have also named our first employer under the scheme to name employers who flout NMW law (Naming Scheme) and secured media coverage for a range of other initiatives, such as the interns targeted enforcement campaign in the fashion sector and publicising the decisions of employment tribunals and civil courts.

Going forward we will build on this year's success, prioritising work that focuses on 'rule-breakers' whilst ensuring that those who want to comply have effective enabling tools. We will review the Naming Scheme to improve its effectiveness, work with our criminal investigators to drive up the number of cases referred for prosecution, continue to review NMW guidance to improve its effectiveness, and implement a new communications plan to increase awareness of the NMW, including its enforcement. We will also start our work to review the NMW Compliance Strategy and will publish the outcome in 2014.

National Minimum Wage Compliance Strategy

The NMW Compliance Strategy 2010[23], which covers five years, describes the tools that we are using to achieve our vision that everyone who is entitled to the NMW should receive it. We are pleased with the progress that has been made since 2010, particularly in increasing our understanding of risk and the needs of different types of customers. This has led to a more efficient and effective use of resources – we are now better placed to select the right tool for the job. For instance, we only need to carry out a full-scale compliance visit when there is good evidence that an employer is at risk of being non-compliant with the NMW.

Tailoring our approach to the needs of customers facilitates:

- widespread understanding of what the Government is trying to achieve;
- a compliance regime that is visible, flexible and responsive to emerging needs;
- delivery of a swift response to tackle emerging risks;
- collaboration with other enforcement agencies and stakeholders to take a 'joined–up' approach to compliance and enforcement, and
- getting the best value for money from the NMW enforcement budget (c. £8.3m) and the 150 full-time equivalent members of staff that this pays for.

Measuring the impact of our strategy

Feedback from independent research conducted by Ipsos MORI, on behalf of BIS in 2010/11, highlighted that we could do better in some areas. In particular it found that there is a pressing need to increase awareness of the NMW compliance and enforcement regime and the NMW generally. We have, therefore, prioritised high-profile initiatives that are likely to generate publicity.

We are keen to understand the impact of the different tools that we have at our disposal and will start to evaluate the NMW Compliance Strategy and report on this in 2014. We acknowledge that it is extremely difficult to test whether we are achieving some of the desired outcomes. For example, it is difficult to determine whether prosecutions and other sanctions have a deterrent effect. However, we do know that publicity raises the profile of NMW

[23] NMW Compliance Strategy 2010: http://www.bis.gov.uk/assets/biscore/employment-matters/docs/10-678-nmw-compliance-strategy

enforcement and it follows that potentially non-compliant employers are more likely to comply with the law if they are aware of the consequences of breaking it. In the interim, we will continue to use key performance indicators as a proxy to assess our performance.

Performance indicators include:

- total arrears identified
- number of workers who have been helped
- percentage of cases where non-compliance has been identified, and
- various qualitative measures, such as customer waiting time.

We will continue to consider performance across the piece as the individual indicators, when viewed in isolation, can be misleading. For example, the presence or absence of a particularly large case in any year can completely distort the figures for arrears and the number of workers helped.

Working with others to achieve our vision

Non-compliant employers need to believe that there is a real risk that they will be investigated and workers need to believe that it is better to work within the system, (rather than colluding with employers to be paid less than the NMW) and have confidence that they will be supported if they make a complaint. With the specific objective of maximising visibility and impact, we teamed up with a range of enforcement agencies in a number of cross-government operations this year. The following are some examples:

Operation Serbal – Rag Trade

In response to a Channel 4 documentary 'Fashion’s Dirty Secrets’, we joined forces with the UK Borders Agency (UKBA), Trading Standards, the police and others to tackle illegal practices in the clothing and textile industry in Leicester. This included unannounced visits and interviews with employers and workers. Six cases were taken up for further enquiry and arrears have been identified. This operation uncovered non-compliance with NMW, immigration and tax laws and is a good example of effective collaboration with others to tackle systemic abuse in high risk sectors.

Operation Brubeck – Retail sector

Based on intelligence gathered through our risk analysis process, we joined forces with UKBA and local police to target a large retail business in the East Midlands. Nine arrests were made by UKBA, unpaid tax and national insurance totalling £20,000 was collected and arrears of wages totalling £5,000 were identified for 3 workers. Whilst the vast majority of workers in this case were not entitled to the NMW because they were in the country illegally this type of operation is a good example of how collaboration with others can be an effective tool for disrupting illegal activity.

Street Sweeps – Employment agencies/businesses

We worked with Employment Agency Standards (EAS) on a number of 'street sweeps' in different locations. An operation in Leicester, involving 22 joint visits with EAS, identified 124 breaches' of employment agency or business regulations and £385,000 in arrears of wages for 3,800 workers. Whilst the vast majority of the agencies visited were compliant with NMW law, this provided a good opportunity to educate and raise awareness of NMW enforcement.

Operation Vermont – Joint operation with the London Borough of Newham

We collaborated with council enforcement officers in the London Borough of Newham to share intelligence and clamp down on known 'rule –breakers'. In a six-week multi-agency operation that targeted market traders, butchers, fast food outlets, mobile phone shops and mini cab offices in Newham, 70 businesses were visited, 31 of which were found to be 'at risk' of not paying the NMW. Investigations are ongoing, but interim findings suggest that around 100 workers could be owed £30,000 in total. We will evaluate the operation with a view to developing an enforcement model that can be rolled out to other Local Authorities.

Interns targeted enforcement campaign

In response to concerns about unpaid interns and with a view to securing maximum publicity for NMW enforcement, the first interns' targeted enforcement campaign deliberately coincided with a high-profile event – London Fashion Week. We worked collaboratively with the British Fashion Council to promote the campaign and raise awareness of NMW issues with employers contributing to London Fashion week.

During this campaign, we piloted a new approach to targeted enforcement, which involved carrying out 'health checks' on a number of employers identified through our risk assessment process of being 'at risk' of not paying the NMW. The aim was to highlight specific aspects of each employers' business and payroll practices, which make them 'at risk', with a view to giving them an opportunity to put systems in place to ensure compliance with the NMW. We will carry out a compliance visit on these employers within 6 to 9 months after the 'health check', to ensure that employers are fully compliant.

In tandem with this campaign, we worked with interns' awareness-raising groups to promote the Pay and Work Rights Helpline and ensure that their guidance on when interns are entitled to the NMW was fit-for-purpose. The Helpline were asked to 'fast-track' calls from individuals who appeared to be interns, volunteers or otherwise working for no pay or 'expenses only' to ensure that calls from individuals who contacted the helpline as a result of the publicity generated by the targeted enforcement campaign were prioritised. At 31 August 2012, 61 employers have been investigated following complaints to the Helpline and other cases have been generated as a result of our risk assessment process. Investigations are continuing and, to date, arrears totalling £137,000 have been identified for 138 workers. This excludes the cases that were selected for a 'health check'.

Social Care

Risk-based work has been undertaken to review NMW compliance at residential homes and with domiciliary care providers. In total, **133 care providers have been identified for investigation**. This project is ongoing, however early indications are promising and in 16 cases closed since April 2012, one NMW compliance team has identified £50,110 in arrears for 1,048 workers.

We have met with the Resolution Foundation and the Social Care Workforce Research Unit at Kings College, London, to better understand the risks around working practices in this sector. The specific issues highlighted in these meetings were used to help identify employers for investigation and the areas to focus on.

We are also working with the UK Home Care association and Care Quality Commission (CQC) to better understand the specific issues for care workers and collaborate on advice to raise awareness of best practice. CQC Inspectors have been given material to help them identify potential issues and report suspected non-compliance. We have also assisted Unison with drafting guidance on NMW issues in the care sector for circulation to Union officials and members.

Understanding what drives employers and workers' behaviour

Understanding our customers enables us to select the right compliance and enforcement tool for the job and focus resources where they will have the most impact.

Research into what drives employer behaviour with regard to compliance with the NMW[24] highlighted improvements that could be made to increase NMW compliance. Employers who participated in this research were unaware of some NMW rules and so made mistakes even though they wanted to be compliant. The research findings have fed into the work that we are doing on developing a communications plan for the NMW.

Ipsos MORI research into the informal economy[25], suggested that employers who deliberately operate outside of the system do not believe they will be caught. In response to this, we have collaborated with other enforcement bodies in a number of highly-visible campaigns, ranging from the interns' targeted enforcement campaign in the fashion industry that attracted significant media attention to 'street sweeps'.

We are working with a range of stakeholders to better understand what drives worker behaviour. Research commissioned by the London Borough of Newham into why Newham workers will agree to work for less than the minimum wage[26] has fed into our risk assessment process and was used to inform the joint operation with Newham early this year.

Raising the profile of NMW enforcement

A priority this year has been raising the profile of NMW enforcement to ensure that workers and employers are aware of their rights and obligations under NMW legislation.

We are producing a communication plan to increase compliance with NMW law through raising awareness of the NMW and the enforcement of it. The plan highlights that we need to:

- identify opportunities to educate and inform employers and workers about NMW issues;
- identify opportunities to raise awareness of enforcement;
- set out how we will maximise these opportunities and measure success.

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[24] http://www.bis.gov.uk/assets/biscore/employment-matters/docs/r/11-1335-research-employers-attitude-national-minimum-wage.pdf

[25] http://www.lowpay.gov.uk/lowpay/research/pdf/Ipsos_Mori_Non-compliance_of_the_NMW_020212_FINAL.pdf

[26] http://www.newham.gov.uk/NR/rdonlyres/9B787830-7B65-4647-8780-24F08B98790D/0/NoncomplianceoftheNMW_FINALv1_290212pdfAdobeAcrobat.pdf

We have already started to implement some elements of the draft plan and have drawn on our experience of enforcement, and information provided by stakeholders, to prioritise our communications activity. For instance, around 30 per cent of NMW cases investigated involve apprentices, so we are working with stakeholders such as the National Apprenticeship Service to tackle non-compliance issues that relate specifically to apprentices.

Employment Tribunal Cases

We have a 90 per cent success rate at defending cases that are taken to an employment tribunal by employers appealing against Notices of Underpayment. In March, we started to publicise these tribunal outcomes and are receiving significant coverage for this in the local and trade press.

Civil Court Judgments

To further raise awareness we have started to publicise instances where we have obtained a judgment or decree against an employer who has failed to pay their workers on receipt of a Notice of Underpayment.

Targeting Common Errors

Ipsos MORI's research into employer behaviour suggested that many employers look to their own trade bodies and associations first for advice. We have therefore spoken to a range of organisations, such as CBI, British Chambers of Commerce and the Institute of Chartered Accountants in England and Wales, and are working with sector-level trade organisations such as the National Federation of Hairdressers and the National Day Nurseries Association, to disseminate information on the most common mistakes employers make that take pay below NMW.

We have also met MPs, who have expressed concern about NMW enforcement, to explain how and when the NMW is enforced and enable them to help tackle non-compliance in their constituencies, for example, by promoting the Pay and Work Rights Helpline to their constituents.

Guidance

The LPC's 2012 report recommended that the Government should put in place effective, clear and accessible advice in order to make operating the National Minimum Wage as simple as possible for all users. It said that as a first step, the Government should undertake a review of all existing guidance.

We agree with the LPC's view that there should be effective, clear and accessible guidance. We are currently reviewing our guidance as part of our work on the new single Government website, which will go live later this year. We are working with the LPC secretariat and others on this review, in particular the specific areas highlighted by the LPC in its 2012 report.

Transforming the way we work

We continue to refine the way we work: moving away from resource-intensive face-to-face interventions to a more focussed and targeted suite of interventions that better fit the customer and perceived level of risk.

The use of 'health checks' in the fashion industry is helping would-be compliant employers to get it right. The development of phone interventions has enabled us to rapidly resolve complaints where the perceived level of risk is low. In more than 50 per cent of the cases that we investigate there are no arrears of the NMW or there are other reasons why it would not be a good use of resources to carry out a full-scale compliance visit e.g. where the employer has ceased trading or cannot be traced.

Looking ahead, we will move to a more targeted, project–based approach to compliance and enforcement. Projects will be identified through our risk assessment process and prioritised through the Risk Governance Board.

Naming

In September 2012 we named our first employer under the BIS scheme to name employers who flout NMW law. It is disappointing that we have not named more employers under the scheme. We are therefore reviewing the scheme to ensure that we have the right criteria for naming in place to deliver our policy objectives – raising the profile of NMW enforcement and deterring employers who would otherwise be tempted to break the law. Our initial conclusions are that we have set the bench mark for naming too high, particularly where the employer is a 'repeat offender'.

We are using other channels to implement the policy objectives of the scheme. In particular, we have recently started to publicise the decisions of employment tribunals who hear NMW appeals and civil court judgments. We are also proactively seeking publicity for targeted enforcement campaigns and has had some success with this.

Prosecutions

Prosecutions have a role to play in a balanced compliance and enforcement regime and we will always prosecute where there is robust evidence that an offence has been committed.

We are working with criminal investigators to drive up the number of referrals for prosecution and criminal investigators accompanied compliance officers on Operation Vermont with a view to providing advice on progressing potential prosecution cases at the early stages of the investigation. The main issue is that employers who set out to break the law are likely to ‘disappear’ before we can begin prosecution proceedings. Workers in these cases are also reluctant to come forward because they are afraid of the repercussions of giving evidence against their employer. These are difficult issues to address, and we always have to be mindful of getting value for money, however, we are planning over 20 task force operations for 2013/14 that will target ‘rule breakers’. We will also carry out unannounced visits on employers who have previously been considered for prosecution.

Understanding the risks of non-compliance

We continue to refine their approach to risk assessment. All risk assessed projects are considered by our Risk Governance Board, which takes account of a range of factors including the Government’s priorities for NMW enforcement, as well as the intelligence provided in support of the project.

Multi-criteria decision making techniques are used to assess proposals put to the Board. This enables reconciliation of diverse stakeholder interests and risk factors; an audit trail for decisions on tactical resource deployment; and the means to assess opportunity costs in the event of competing priorities.

Intelligence provided by tax and other teams in HMRC plays a crucial role in this process as experience suggests that, for example, employers who fail to pay their taxes are at greater risk of not paying the NMW.

We will continue to investigate all complaints made to the Pay and Work Rights Helpline (using a triage approach to investigation that tailors the intervention to the perceived risk of non-compliance). In 2011/12 we reviewed around 1500 worker complaints which accounts for around 60 per cent of their total caseload for the year.

Value for Money

In 2011/12 we streamlined NMW operations to focus more resources into front-line compliance work. 13 new Compliance Officers were recruited and there are plans to take on another 12 officers in 2012/13. Whilst there is a lead-in period of around 12 months before compliance officers are fully effective this will increase NMW coverage and improve effectiveness in the longer-term.

Following the introduction of Pacesetter (a set of principles supported by tools and techniques designed to improve the way HMRC works) in 2011/12, **customer waiting time[27] has been reduced by 33 days**. This not only benefits employers and workers but frees up resources to take on new cases; ‘up-skill’ colleagues and participate in risk based operations.

The introduction of Caseflow (an HMRC-wide case management system) has facilitated new ways of working, such as the triage approach to investigating complaints from workers, because NMW cases can be more easily transferred between NMW compliance offices and worked from any location.

Miscellaneous

Review of Fair arrears and penalties

As part of the review of the Employment Act 2008, we are looking at the changes that were made to the NMW regime in 2009, which included the introduction of a new financial penalty; a requirement to pay workers arrears of wages at current NMW rates; and new powers for NMW compliance officers. The review is due to be completed by September 2013.

Workplace Rights, Compliance and Enforcement Review

The conclusions of the review of workplace rights, compliance and enforcement were announced in a Ministerial Statement on 10 July 2012. Notably the review concluded that a single enforcement agency would not provide significant benefits to workers or employers. The NMW will, therefore, continue to be enforced by HMRC on behalf of BIS.

[27] The time between when a case is given to a compliance officer and when it is resolved

Statistics on NMW Enforcement

We delivered £3.6 million of arrears for 17,000 workers for 2011/12.

Table C1: Enforcement Statistics 2011/12

Arrears	£3.6m
Workers	17,000
Completed investigations	2,534
Total number of complaints from workers	1,653
Notices of Underpayment	879
Uplift to current rates	£321,918
Penalties Imposed	837
Penalty charges	£724,383
Employers that receive 50% discount on penalties	546
Resolved Worker Complaints	1,461
Average arrears per worker	£206
Incidence of non-compliance (strike rate)	35%

Table C2: Reasons for Non-Compliance

Reason for Non-Compliance	% total of non-compliant cases
Rates below NMW	54%
Apprentices	25%
Limited or no time records	12%
Non-allowable deductions	12%
Failure to implement annual rate rise	8%
Other	7%
Accommodation	5%
Missed birthdays	4%
Young Workers – under 18	3%
Status	2%
Non-allowable bonus or payment	Less than 1%
Commission	Less than 1%
Fair Piece Rates	Less than 1%
Sleeping Time	Less than 1%

Table C3: Regional Analysis of Number of Complaints through Pay and Work Right Helpline*

Region	Cases	%
Not Answered	812	33.62
East Midlands	133	5.51
East Of England	157	6.50
London	237	9.81
North East	53	2.19
North West	202	8.36
South East	178	7.37
South West	102	4.22
Unknown	254	10.52
West Midlands	149	6.17
Yorkshire and the Humber	138	5.71
Total	**2415**	**100.00**

* Note that these are all calls to the PWRH of which 70% are on NMW

Table C4: Breakdown of Cases by Standard Industry Sector

Standard Industry Sector	Total Number of Cases	Complaint Cases	Risk Assessed Cases
Agriculture, Forestry And Fishing	5 or fewer	5 or fewer	5 or fewer
Mining And Quarrying	5 or fewer	5 or fewer	5 or fewer
Manufacturing	141	81	60
Electricity, Gas, Steam And Air Conditioning Supply	5 or fewer	5 or fewer	5 or fewer
Water Supply; Sewerage, Waste Management And Remediation Activities	13	5 or fewer	9
Construction	137	103	34
Wholesale And Retail Trade; Repair Of Motor Vehicles And Motorcycles	396	231	165
Transportation And Storage	52	31	21
Accommodation And Food Service Activities	674	353	321
Information And Communication	47	33	14
Financial And Insurance Activities	17	14	5 or fewer
Real Estate Activities	32	28	5 or fewer
Professional, Scientific And Technical Activities	75	48	27
Administrative And Support Service Activities	309	188	121
Public Administration And Defence; Compulsory Social Security	5 or fewer	5 or fewer	5 or fewer
Education	85	53	32
Human Health And Social Work Activities	145	63	82
Arts, Entertainment And Recreation	96	55	41
Other Service Activities	345	194	151
Activities Of Households As Employers; Undifferentiated Goods-And Services-Producing Activities Of Households For Own Use	5 or fewer	5 or fewer	5 or fewer
Activities Of Extraterritorial Organisations And Bodies	5 or fewer	5 or fewer	5 or fewer

Social care

The social care workforce plays a vital role in helping to put people who use social care services in control of their lives. We are aware that low pay can be a concern for some working in the sector. However, it is the responsibility of employers to ensure that staff are paid at least the NMW.

Funding for social care comes from individuals who purchase their own care, the NHS and local authorities. Whilst the Government does not directly employ care workers, the Government does allocate resources to local authorities who make decisions about what proportion of their budget to spend on adult social care. Both local authorities and the NHS have to ensure that they, and the service providers from whom they commission, offer a quality service.

Analysis of recent available data from the National Minimum Data Set for Social Care (July 2012)[28] shows that average hourly rates of pay for care workers ranged from £6.48 in the North East of England to £7.12 in London, average pay for senior care workers ranged from £6.96 in the North East and North West to £7.97 in London. Furthermore, because of the greater take-up of personal budgets, people who use services are increasingly employing Personal Assistants. Wages paid to Personal Assistants tend to be higher than the average for care workers (private sector) with a 2008 survey undertaken by Skills for Care for the Department of Health showing an average hourly pay rate of £7.60 for Personal Assistants who participated in the research. These rates are all above the adult NMW rate at the time, of £6.08. However, if workers are not paid for travel time for example, they may find their actual pay falls below these levels.

The LPC's 2012 report highlighted a possible relationship between 15-minute home care appointments and some care workers being paid below the national minimum wage. A recent survey by the UK Home Care association found almost three quarters (73 per cent) of homecare visits being commissioned by councils in England are reported as being for periods of 30 minutes or shorter, with one in ten (10 per cent) visits commissioned for 15 minutes or shorter.[29] In the *Caring for our Future* White Paper[30], the

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[28] Skills for Care National Minimum Data Set available at https://www.nmds-sc-online.org.uk

[29] United Kingdom Homecare Association (UKHCA) report "Care is not a Commodity" July 2012 http://www.ukhca.co.uk/pdfs/UKHCACommissioningSurvey2012.pdf

[30] 'Caring for our future: reforming care and support' Department of Health, July 2012 available at http://www.dh.gov.uk/health/files/2012/07/2900021-CaringForFuture_ACCESSIBLE-10.07.2012.pdf

Government set out the aim to rule out such crude contracting practices and to move to a system of commissioning for outcomes.

The Government intends to work with the LPC and local authorities to understand and challenge the reasons behind cases of non-payment of the national minimum wage by employers to care workers.

Employment Law Review

BIS is undertaking a package of measures to reform employment law so that it provides the labour flexibility that business needs without undermining important protections for individuals. We have increased the qualifying period for unfair dismissal from one year to two, published an Employer's Charter to raise awareness amongst employers about what they can already do to manage their staff effectively, issued a consultation on collective redundancies and called for evidence on TUPE.

The Enterprise and Regulatory Reform Bill will deliver a robust package of reforms to the employment tribunal system and build on legislative changes implemented earlier this year. The introduction of early conciliation and measures to facilitate settlement agreements will encourage the earliest possible resolution of disputes and our commitment to develop and consult on options for a new Rapid Resolution scheme will help to deliver a more efficient employment tribunal system for all users. The implementation of this entire package of measures will deliver benefits of more than £40 million per annum to business, generating more confidence amongst employers to take on new staff and support growth.

ANNEX D TECHNICAL NOTE

The Labour Force Survey data presented in this paper has been reweighted for the 2011 population estimates. This has meant that some of the figures reported in this document have changed since the December 2011 report to reflect the most up-to-date knowledge of the UK population. The changes only affect data between Quarter 3 of 2009 and Quarter 2 of 2012. On aggregate the revisions have been very small, but some of the smaller population breakdowns are more greatly affected.

ANNEX E REVISIONS TO FINAL EVIDENCE

Several minor changes have been made to this report since our submission to the Low Pay Commission in December 2012. These are primarily for clarification and due to new data becoming available. The changes are listed below for ease of reference.

1. 2012 Q3 GDP estimates updated based on the ONS final estimate. This produced changes in paragraphs 2.5 and 2.58 and to the GDP series in chart 2.3.

2. Chart 2.5 has been updated to include an additional data point for the 3 months to October 2012 for AWE, RPI and CPI.

3. Difference between NMW ‘bite’ over time has been revised to correct rounding errors. Also there has been a clarification as to which age group the adult bite refers to, given that this changed from 22+ to 21+ in October 2010. This has affected the following paragraphs: 1.9, 1.10, 2.32, 2.33 the ‘evidence on pay’ summary box and chart 2.8.

This publication is also available on our website at www.gov.uk/bis

Any enquiries regarding this publication should be sent to:

Department for Business, Innovation and Skills
1 Victoria Street
London SW1H 0ET
Tel: 020 7215 5000

If you require this publication in an alternative format, email enquiries@bis.gsi.gov.uk, or call 020 7215 5000.

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