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An examination of the trend in earnings growth for young workers

A report for the

Low Pay Commission

from

Incomes Data Services (IDS)

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1. Introduction

Since the introduction of the National Minimum Wage in April 1999 the Low Pay Commission has had an ongoing remit to monitor its impact. In its 2011 report the Commission notes that median earnings for young workers increased more slowly in the period 2007 to 2010 than those for adults, compared to the previous period (i.e. from 1999 to 2007) when the earnings of 16-17, 18-20 and 21+ year old employees had grown more or less in line with each other[1].

This report from Incomes Data Services (IDS) explores the possible reasons behind the recent trend in earnings growth by providing examples of company practice from our monitoring of pay across the retail and hospitality sectors. It aims to provide details of pay approaches adopted by employers for young workers over the last few years.

1.1. Key points

- Typically employers have youth rates higher than the statutory minima for younger workers. This "headroom" means that there is some scope for employers to slow pay growth for these employees, while continuing to comply with the NMW
- IDS research shows a clear distinction between pay strategies adopted by the supermarkets and non-food retailers during recession and recovery and there is a clear link between company performance during recession and recovery and approaches to pay
- In the last few years IDS research has picked up on a trend of differentiated rises for younger workers which provides evidence of two different and somewhat contradictory trends: those that have paid younger people lower rises than for adult workers and those that have paid higher rises
- In some instances organisations have only raised pay rates for workers directly affected by the NMW, resulting in no increases for younger workers who are paid above the statutory minimum wage for the age category. In other cases organisations have paid smaller increases to staff not on the NMW
- IDS has monitored a handful of instances where companies have introduced youth rates over the last few years. However there have also been examples of movements in the opposite direction, with some retailers (mainly food retailers) continuing to move away from youth rates by either reducing the number of rates or by removing them altogether
- Analysis of movements in the gap between company rates for 16 and 17 year olds and the statutory minimum rate shows a significant narrowing between 2007 and 2011 in our sample of non-food retailers and a significant increase in our sample of food retailers.

[1] Low Pay Commission Report 2011, paragraphs 3.26 and 3.27, pp.75-76.

2. Employer practice

There is a range of employer practice that might explain why the earnings data collected by ASHE shows slower growth for 16 and 17 year olds compared both to workers aged 18 to 20 and those aged 21 and over. This section of the report lists examples of company practice that provide insights to explain the trend in earnings growth for younger workers.

2.1. Differentiated rises for young workers

IDS research has picked up on a trend of differentiated rises for younger workers which provides evidence of two different and somewhat contradictory trends: those that have paid younger people lower rises than for adult workers and those that have paid higher rises.

IDS monitoring of pay reviews in the last few years provides a number of examples of employers paying lower increases to younger workers than to their older colleagues. For example, Argos has paid lower rises to workers aged under 18 compared to older employees in the last two annual salary reviews. In 2011 the company agreed a basic pay rise of 1.5% for adults and 1% for employees aged under 18 from 1 April 2011, plus a further 4 pence an hour for employees on the adult NMW from October 2011. In their 2010 pay review Argos applied a 15 pence an hour increase for those on the adult NMW, 13 pence an hour for those above the NMW, and a pay freeze for under 18s. The reason given by the company is that the rates Argos pays for this age group are already some way above the NMW rate for under 18s.

Similarly Poundland implemented different increases for younger and adult workers in both 2010 and 2011, with no rises for workers aged 16 and 17 in either year. Pay rate 1 for 18 to 20 year-olds increased by 1% and adult rates increased by 1.9%, effective from 1 October 2010. In 2011 the company agreed increases of 2.3% for adults, rate 1 for 18-20s increased by 2.3%, rate 2 for 18-20s increased by 0.6%.

IDS has monitored a further example of this practice at Peacocks. In both 2010 and 2011 Peacocks paid its 7,000 retail staff increases averaging 2%, however actual pay bands increased by different amounts. In 2010 the starter rate for employees aged 18 and over increased by 2.5%, while the starter rate for employees aged 16 and 17 rose by 1.9%. Established rates of pay were increased by the same percentage for both age groups. The company adopted a similar strategy in its 2011 review (see table 2.1).

Table 2.1: Pay rates for Peacock's sales colleagues[2], 1 October 2009 to 1 October 2011

Category	Level	2009		2010		2011	
		£ph	Increase %	£ph	Increase %	£ph	Increase %
Aged 16/17	Starter	4.15	1.2	4.23	1.9	4.31	1.9
	Established	4.37	1.2	4.46	2.0	4.55	2.0
Aged 18+	Starter	5.80	1.2	5.93	2.5	6.08	2.5
	Established	5.92	1.2	6.04	2.0	6.16	2.0

Another approach (although not necessarily new) is to differentiate between employees who must receive basic pay increases in order to comply with the National Minimum Wage uplift and other employees. In this scenario not only do younger workers receive different basic pay rises but those already above the statutory minimum level do too. This has been the case at Mothercare plc, which comprises two major high street retailers, Mothercare and the Early Learning Centre, where employees on the National Minimum Wage have received marginally larger increases than other employees in the last few years. The 2009 reviews at Mothercare and the Early Learning Centre resulted in a pay freeze for the majority of staff, with increases only being paid to employees directly affected by the NMW uplift. In 2010 and 2011 both companies applied basic pay increases of 2% to the bulk of staff, while those on the NMW, which covers starter sales assistants aged over 18 in national locations, received 2.2% in 2010 and 2.5% in 2011 in line with the NMW uplift. Rates of pay for workers aged under 18 and those aged 18 and over further up the pay structure, have risen by less than those directly on the NMW for the last three years.

Another example of this from 2011 is at Comet. In its 2011 review sales and support staff on the NMW received increases of 13 pence to bring them into line with the statutory minimum for workers aged 21 and over of £6.08 an hour. All other sales and support staff, including workers aged under 18, received an increase of 8 pence an hour.

Table 2.2: Movements in Comet pay rates for sales and support staff following the 2011 review

Grade	Old rate £ph	New rate £ph	Increase %
Under 18	4.80	4.88	1.7
Level 1	5.93	6.08	2.5
Level 2	6.18	6.26	1.3
Level 3	6.69	6.77	1.2
Level 4	7.31	7.39	1.1
Sales supervisor	7.31	7.39	1.1

However, over the same period IDS research also shows a number of retailers working on reducing the differential between rates of pay for adult and younger workers by awarding

[2] The rates detailed apply to provincial stores and established rates are payable after six months' service.

larger basic pay rises to younger workers than to older colleagues - a continuation of the trend away from youth rates, where companies pay adult rates from age 18 or 16, which has been witnessed by IDS since around 2001[3], coinciding with a period of relatively large increases in the NMW between 2001 and 2006. Examples here include Morrisons, Waitrose, Boots the Chemist and Comet.

From 1 October 2011 Morrisons increased basic rates of pay for retail staff and managers by 2.5%. However, as part of last year's review the company agreed to increase the established rate for staff aged under 18 from 82% of the adult rate to 88%, effective from 7 February 2011.

In 2009, for example, Waitrose awarded a larger budget for increases for staff aged under 18 than it did for staff paid at the adult rate, with Boots doing the same as part of its 2007 and 2008 reviews. The 2009 review at Waitrose awarded an additional 0.1% for employees aged under 18, mostly in pay zone 2 to reduce the differential between their rates and those aged 18+. This resulted in increases ranging from 3.1% to 6.2% in minimum rates for under 18's, compared with 3% for all other employees. The company subsequently removed age-related pay with effect from 1 October 2010 (see section 3).

In 2007 Boots the Chemist conducted a review of its youth rates, where it was recognised that the gap between pay levels for staff aged over and under 18 was too wide and should be reduced. Pay rates for retail staff aged under 18 were subsequently increased by 10% in both 2007 and 2008, compared with increases of around 3% for all other staff. The starter rate for sales assistants aged under 18 in provincial stores rose from £4.37 an hour in 2006 to £4.81 an hour in 2007, and then to £5.29 an hour in 2008. The experienced rate rose from £4.47 an hour in 2006 to £4.92 an hour in 2007, and then to £5.41 an hour in 2008.

2.2. Introduction of youth rates

Another possible explanation for slower earnings growth for younger workers could be the introduction of separate lower rates of pay and IDS has monitored a handful of instances where companies have introduced youth rates over the last few years. These include both Halfords and Marston's.

In 2009 Halfords revised its pay structure, introducing a separate youth rate for workers aged under 18, resulting in separate rates for sales staff aged 21 and over, 18 to 20, and under 18,

[3] See '*Age-related pay since 1999*' a report by Incomes Data Services, December 2004, for examples of changes to youth rates following the introduction, and subsequent upratings, of the National Minimum Wage.

mirroring the structure of the NMW. However, age rates for duty managers have subsequently been removed, since there was just one person in this grade. The company also varies pay by location, with separate pay bands for stores in inner London, outer London and provincial locations.

Table 2.3: Minimum rates for sales advisors in provincial stores at Halfords, 1 October 2011

Age	Minimum £ph	Statutory minimum £ph	Differential over NMW %
21+	6.08	6.08	0.0
18 to 20	5.45	4.98	9.4
Under 18	5.01	3.68	36.1

Pub group Marston's, which employs around 10,000 hourly-paid pub and restaurant staff, introduced a new rate for under 21s in 2008. Previously the company paid all staff the adult start rate regardless of age. In 2010 the company restructured its youth rates, introducing separate rates for workers aged 16 and 17 and 18 to 20. The current pay structure mirrors the National Minimum Wage in terms of both the age categories used and minimum pay rates.

Table 2.4: Minimum rates for pub and restaurant staff at Marston's, 1 October 2011

Grade	£ph	NMW £ph	Differential over NMW %
16 and 17-year-olds	3.68	3.68	0.0
18 to 20-year-olds	4.98	4.98	0.0
Adult start rate (21+)	6.08	6.08	0.0
Keyholder	6.23	6.08	2.5
Keyholder supervisor	6.48	6.08	6.6
Keyholder assistant*	7.55	6.08	24.2

***Highest of three keyholder grades.**

In much the same vein as there being two distinct and opposite trends in basic rises for younger workers, IDS has also monitored a number of retailers moving away from youth rates by either reducing the number of rates or by removing them altogether. The most recent examples are at Retail Co-operative Societies and Iceland.

The Retail Co-operative Societies abolished youth rates with effect from 1 October 2011. This it estimates resulted in a pay increase of 28% for 1,000 staff aged under 18. In a similar move, as part of their 2011 pay review Iceland made a series of changes to its pay structure which included removal of under-18 rates, effective from 1 October.

Both Tesco and Waitrose have abolished youth rates. Supermarket chain Tesco moved to paying a single adult rate for customer assistants from 29 August 2010, when the company abolished its under-18 rate. As a result of this change the starter rate of pay for workers in Grades B and C aged under 18 increased from £5.40 an hour to £6.47 an hour. Following an increase of 2.5% from this year's review, the lowest rate of pay is £6.65 an hour regardless of age, which also includes an additional increase of 2 pence an hour on the bottom grade.

Table 2.5: Pay structure for retail staff at Tesco, 3 July 2011

Grade	Job examples	Starter rate £ph	Established rate £ph
B&C	Customer assistants	6.65	7.00
D	Fishmonger, semi-skilled baker	6.99	7.36
E	Skilled baker	7.41	7.80
F	Lead baker	7.89	8.31

Youth rates at Waitrose were abolished following the previous year's pay review, with all employees moving to the full adult rate from 1 October 2010. Prior to this, employees aged under 18 received lower rates than those aged 18 or over. These moves follow similar decisions from a number of both food and non-food retailers over recent years. Marks and Spencer, for example, ended age-related pay in 2005, followed by Asda in 2006 and TK Maxx in 2008.

2.3. Pay cuts and changes to progression arrangements

In respect of other changes which might explain why earnings growth for under 21s is slower than that for adult workers, the incidence of pay cuts or changes to progression arrangements could have an impact, as could reductions in starter rates for young workers. However, IDS has not monitored any pay cuts in the retail sector, whether for young workers or adults, and only has limited evidence of underlying changes to progression.

IDS research provides just two examples of an organisation making changes to progression for younger workers. As part of its 2011 pay review, Sainsbury's decided to abolish the separate competent rate for young workers, while a separate starter rate remains. This means that the company pays a single competent rate to all colleagues who have completed 26 weeks' service, regardless of age, and effectively increases the value of the progression step for young workers. The rate for counter assistants, general assistants and warehouse assistants aged under 18 is currently £4.89 an hour on recruitment, rising to £6.54 an hour after 26 weeks' service. In 2010 the competent rate for junior staff was £5.08 an hour, compared with £6.37 an hour for workers aged 18 and over. The starter rates were £4.76 an hour and £6.21 an hour respectively.

Table 2.6: Recruitment and competent pay rates at Sainsbury's, 4 September 2011

Band	Job examples	Recruitment rate £ph	Competent rate £ph	Value of step %
2 – under 18s	Counter assistant, general assistant, warehouse assistants	4.89	6.54	33.7
2 - adults	Counter assistant, general assistant, warehouse assistants	6.38	6.54	2.5
3	Stock controller, team leader	6.89	7.26	5.4

The introductory pay rate for sales assistants was removed as part of the 2011 agreement at Homebase. Previously sales assistants in pay zones 1 to 3 started on an introductory rate of £5.93 an hour, rising to £6.03 an hour after the probationary period. All sales assistants now start on the standard grade B sales assistant rate, which in pay zones 1 to 3 rose to £6.13 an hour under the latest pay review.

2.4. The Influence of company performance on pay strategy

IDS research shows a clear distinction between pay strategies adopted by the supermarkets and non-food retailers during recession and recovery and there is a clear link between company performance during recession and recovery and approaches to pay. The supermarkets have, comparatively speaking, weathered the recession reasonably well. None of the largest six supermarkets – Tesco, Sainsbury's, Asda, Morrisons, Retail Co-operative and Waitrose – have applied pay freezes, and bonuses have continued at similar to pre-recession levels. The 'big six' supermarkets have also continued to move away from paying lower rates to younger workers, with only Sainsbury's and Morrisons retaining youth rates. However, both have made moves to reduce the gap between youth and adult rates recently.

Table 2.7: Headline increases for retail staff at the largest six supermarkets, 2007 to 2011

	Increase %				
Company	2007	2008	2009	2010	2011
Asda	3.0	2.5 plus 1.5*	2.0	2.0	2.1
Co-operative	n/a	4.25	2.0	2.25	2.5
Morrisons	3.0	4.2	2.0	2.3	2.5
Sainsbury's	3.0 plus 2.6*	3.8	2.5	2.3	2.7
Tesco	4.0	3.8	2.5	2.3	2.5
Waitrose	5.0 on paybill	3.2 plus merit	3.0 plus merit	2.0 plus merit	2.0 plus merit

*Staged deals.

On the other hand, those retailers who have performed less well over the recent period have adopted a more restrained view towards pay and IDS has monitored pay freezes, redundancies and store closures among several non-food retailers. Argos, Homebase, Early Learning Centre, Mothercare, Waterstone's, Monsoon Accessorize, Comet and Ladbrokes have all implemented pay freezes for some, if not all, staff at some stage in the last three years, with some implementing double-year freezes. On redundancies, Mothercare, for example, closed 47 Early Learning Centre and 8 Mothercare stores in the UK over the last year and has announced plans for further reductions by 2013. As a result employee numbers at Early Learning Centre have fallen from 1,540 in June 2010 to 1,324 in September 2011, at Mothercare store staff numbers are down from 5,220 in 2010 to 4,470 in 2011.

3. Youth rates and the National Minimum Wage

Youth rates in the retail sector tend to be much less influenced by the level of the NMW applicable to the age group covered than adult rates. This means there is more 'headroom' between actual company pay rates and the statutory minimums for young workers, providing employers with the scope to slow down pay growth for younger workers if they wish, while continuing to comply with the NMW regulations.

3.1. Youth rates in the retail sector

On the whole, youth rates tend to be less influenced by the NMW than do adult starter rates tend to be. Recent IDS research covering pay in the retail sector shows 12 of 38 organisations setting starter rates for adult workers at the level of the NMW, compared to just two of 20 organisations with youth rates that follow either the NMW rate for 16 and 17 year olds or NMW development rate.

Table 3.1: Examples of company youth rates at 1 October 2011

Company	Minimum rate £ph (age paid)	Age adult rate is paid
Retail (non-food)		
Argos	5.18 (16 & 17)	18
Booker	5.07 (16 & 17)	18
Boots the Chemists	5.67 (16 & 17)	18
C&J Clarks	4.90 (16 & 17)	18
Comet	4.88 (16 & 17)	18
Early Learning Centre	4.68 (16 & 17)	18
Halfords	5.01 (16 & 17) 5.45 (18 to 20)	21
Homebase	4.81 (16 & 17)	18
Mothercare	4.51 (16 & 17)	18
Peacocks	4.31 (16 & 17)	18
Poundland	3.84 (16 & 17) 5.05 (18 to 20)	21
Screwfix	5.30 (16 & 17)	18
Food retail		
Morrisons	5.54 (16 & 17)	18
Sainsbury's	4.89 (16 & 17)	18
Fast food, pubs and restaurants		
Greggs	5.37 (16 & 17)	18
KFC	4.00 (16 & 17) 4.98 (18 to 20)	21
Marston's	3.68 (16 & 17) 4.98 (18 to 20)	21
McDonald's	4.35 (16 & 17) 5.00 (18 to 20)	21
Mitchells & Butlers	4.40 (16 & 17) 5.30 (18 to 20)	21

Table 3.1 provides examples of company youth rates and illustrates that very few adopt either the statutory minimum rate for 16 and 17 year olds of £3.68 an hour or the development rate for workers aged 18 to 20 of £4.98 an hour under the NMW regulations. Whether this will change in future remains to be seen, but a small number of retailers held back youth rates compared to increases in other rates in 2011, telling IDS that the youth rates at their organisation were 'already some way above' the NMW rates for the age groups concerned.

3.2. Gap between company rates and NMW

Table 3.2 details rates of pay paid to different aged workers at a sample of 15 retailers and hospitality firms. In some instances the rate paid to workers aged 18 to 20 and that paid to workers aged 21 and over is the same. This is due to the fact that different organisations pay adult rates from different ages, with the most common approaches to pay adult rates from age 18 or from age 21 in line with the NMW regulations. For example, Mothercare pays adult rates from age 18, while the pay structure at KFC follows the NMW age structure.

Table 3.2: Rates paid to different aged workers compared to the NMW

	Minimum rate £ph			Differential over NMW for age[4] %		
	Workers aged 16/17	Workers aged 18 to 20	Workers aged 21 and over	Rate paid to 16&17/ NMW	Rate paid to 18-20/ NMW	Rate paid to 21+/ NMW
Argos	5.18	6.08	6.08	40.8	22.1	0.0
Boots	5.67	6.26	6.26	54.1	25.2	3.0
C&J Clarks	4.90	6.22	6.22	33.2	24.9	2.3
Greggs	5.37	6.33	6.33	45.9	27.1	4.1
Halfords	5.01	5.45	6.08	36.1	9.4	0.0
Homebase	4.81	6.13	6.13	30.7	23.1	0.8
KFC	4.00	4.98	6.08	8.7	0.0	0.0
McDonald's	4.35	5.00	6.10	18.2	0.4	0.3
Marstons	3.68	4.98	6.08	0.0	0.0	0.0
Mitchells & Butlers	4.40	5.30	6.08	19.6	6.4	0.0
Mothercare	4.51	6.08	6.08	22.6	22.1	0.0
Peacocks	4.31	6.08	6.08	17.1	22.1	0.0
Sainsbury's	4.89	6.38	6.38	32.9	28.1	4.9
Tesco	6.65	6.65	6.65	80.7	33.5	9.4
Waitrose	6.20	6.20	6.20	68.5	24.5	2.0
Mean	**4.93**	**5.87**	**6.19**	**33.1**	**17.9**	**2.7**
Median	**4.89**	**6.08**	**6.10**	**32.9**	**22.1**	**0.3**

[4] National Minimum Wage rates from 1 October 2011: 16-17 year olds rate, £3.68 an hour; development rate for workers aged 18-20, £4.98 an hour; adult rate for workers aged 21+, £6.08 an hour.

Table 3.2 also details the gap or 'differential' between actual company rates and the statutory minimum rates and shows that the differential is much larger for younger workers than it is for adult workers. The median percentage difference between the rate paid to workers aged 16 and 17 and the statutory minimum for 16 and 17 year olds in our sample of organisations is 32.9%. This compares to a median differential of just 0.3% between adult starter rates and the adult NMW.

3.3. Movements in differentials between 2007 and 2011

An analysis of the differential between minimum company rates and the NMW over the four year period from 2007 shows a varied picture, with some organisations increasing their differential over statutory minimum rates and others decreasing this gap, particularly in the case of 16 and 17 year olds.

A look at the average movements in the gap between the statutory minimum rates and those paid by the organisations in our sample shows a mixed picture for the 16 and 17 and 18 to 20 age groups.

The median differential between the minimum statutory rate for 16 and 17 year old and the rate actually paid by the organisations in our sample to workers in that age group shows an increase of 0.3 percentage points – a marginal increase in the differential. The mean change, however, shows a decline in the differential of 0.4 percentage points – indicating a marginal narrowing of the gap between company rates paid to 16 and 17 year olds and the statutory minimum for these workers.

For 18 to 20 year olds a similar picture emerges, with an increase of 2.1 percentage points at the median – indicating an increase in the gap over the statutory rate – and a decline of 0.8 percentage points at the mean – indicating a marginal decrease in the differential. This discrepancy can be explained by some organisations introducing youth rates and so reducing the differential between pay rates for 18 to 20 years olds and the statutory rate. For example, Halfords introduced an additional pay range for employees aged 18 to 21 from October 2009 and Marston's introduced youth rates for employees aged under 21 with effect from 1 October 2008.

Table 3.3: Percentage point change in differential between the company rate and statutory minimum for age group over the period 2007 to 2011

	Percentage point change in differential over period 2007 to 2011		
Organisation	**16/17 rate/NMW**	**18-20 rate/NMW**	**21+ rate/NMW**
Argos	-3.1	2.1	0.0
Boots The Chemists	0.3	-1.4	-1.5
C&J Clark	4.3	4.0	1.6
Greggs	6.6	6.0	3.2
Halfords	0.8	-11.0	-0.4
Homebase	-0.8	3.1	0.8
KFC	-9.0	0.0	0.0
McDonald's	-6.8	-0.7	-0.2
Marstons*	-62.4	-20.0	0.0
Mitchells & Butlers	-5.4	-2.3	0.0
Mothercare	-6.9	-4.7	-5.6
Peacocks	0.4	2.1	0.0
Sainsbury's	4.4	4.2	1.7
Tesco**	34.7	4.3	1.7
Waitrose**	37.0	2.8	0.5
Mean	**-0.4**	**-0.8**	**0.1**
Median	**0.3**	**2.1**	**0.0**

*16/17 year old rate and 18/20 year old rate introduced from 2008

**16/17 year old rates abolished at both Tesco and Waitrose in 2010.

A closer look at the change in differentials by sub-sector is more insightful and reflects IDS findings on company practice outlined in section 2, whereby those retailers performing well, such as the supermarkets, have continued a trend away from paying different rates to younger workers, while on the other hand, organisations performing less well have adopted a more restrained view towards equalisation.

Table 3.3 shows that the largest gap between the NMW youth rate and the normal starting rate paid to employees aged 16 and 17 can be found at Tesco and Waitrose. This was as a result of the removal of youth rates completely from both companies' pay structures in 2010. At Tesco, pay rates for sales assistants aged under 18 had been paid at around 84 per cent of the rates paid to adult sales assistants. This differentiation was removed as part of the company's July 2010 pay review, with all sales assistants, regardless of age, being paid adult rates. Waitrose abolished youth rates in its 2010 pay agreement, with all employees moving to the full adult rate from 1 October 2010. The supermarket had been reducing the differential between youth and adult rates for a number of years prior to 2010.

Table 3.4 shows that the differential between the rate paid to workers aged 16 and 17 and the statutory minimum for 16 and 17 year olds in our sample of food retailers has increased significantly over the period from 2007 as a result of organisations reducing the gap between their adult and youth rates or by abolishing youth rates altogether.

In contrast, the differential between the rate paid to workers aged 16 and 17 and the statutory minimum for 16 and 17 year olds in our sample of organisations in the fast food, pubs and restaurants sector has narrowed significantly over the same period as a result of organisations either introducing youth rates – as at Marstons – or by increasing this rate by less than the increase in the rates paid to older workers.

The differential between adult rates and the adult NWM over the period 2007 to 2011 is broadly static across all three sub-sectors and the interaction between company changes to adult and youth rates could explain the slower trend in earnings growth for young workers.

Table 3.4: Percentage point change in differential between the company rate and statutory minimum for age group over the period 2007 to 2011 by sub-sector

	Percentage point change in company rate/NMW differential over the period 2007 to 2011		
	16/17 rate/NMW	**18-20 rate/NMW**	**21+ rate/NMW**
Retail (non-food)			
Argos	-3.1	2.1	0.0
Boots The Chemists	0.3	-1.4	-1.5
C&J Clark	4.3	4.0	1.6
Halfords	0.8	-11.0	-0.4
Homebase	-0.8	3.1	0.8
Mothercare	-6.9	-4.7	-5.6
Peacocks	0.4	2.1	0.0
Mean	**-0.7**	**-0.8**	**-0.7**
Median	**0.3**	**2.1**	**0.0**
Food retail			
Sainsbury's	4.4	4.2	1.7
Tesco	34.7	4.3	1.7
Waitrose	37.0	2.8	0.5
Mean	**25.4**	**3.8**	**1.3**
Median	**34.7**	**4.2**	**1.7**
Fast food, pubs and restaurants			
Greggs	6.6	6.0	3.2
KFC	-9.0	0.0	0.0
Marstons	-62.4	-20.0	0.0
McDonald's	-6.8	-0.7	-0.2
Mitchells & Butlers	-5.4	-2.3	0.0
Mean	**-15.4**	**-3.4**	**0.6**
Median	**-6.8**	**-0.7**	**0.0**

4. Conclusion

This report provides the Commission with examples of the various approaches adopted towards pay rates and pay increases for young workers in recent years. It shows that there is a range of complex issues to do with the interplay between the youth labour market in the recession and pay policy decisions by firms. In all probability the recession has led to both upward and downward pressures on pay for young workers acting simultaneously.

This report provides some evidence of organisational practice to explain the trend of lower earnings growth for young workers witnessed in the ASHE dataset, mainly through the application of differentiated (lower) basic pay increases or the introduction of separate pay rates for younger workers. However, it also provides examples of moves in the opposite direction – particularly at the large supermarkets – where businesses have applied larger basic pay increases to younger workers and have either reduced the differential between adult and youth rates or removed the use of youth rates altogether. These opposite trends we believe are a reflection of the varied impact of recession on different sectors of the economy.

On the one hand the supermarkets have continued the long-standing trend away from paying different rates of pay to younger workers. These organisations have also continued to pay basic salary increases and bonuses, as they have been less adversely affected by the recession. On the other hand retailers doing less well during recession and recovery have taken the opportunity to award lower rises to young people, and in some instances introduce separate rates for younger workers. This is possible as pay rates for workers aged under 18 tend to be higher that the statutory minimums specified by the NMW regulations.

The report also points towards another possible explanation for slower earnings growth for young workers, which is related to the fact that many employers with separate rates of pay for younger workers pay above the statutory minimums for these age workers. During recession the incidence of pay freezes increased and some retailers have only awarded basic pay increases to staff directly on the NMW in order to comply with the regulations. Since the majority of companies with youth rates already pay above the statutory minimums, young workers may have been covered by a freeze, while older workers on (or very close to) the adult NMW may have received small increases in line with the adult NMW uplift. This could result in lower growth for younger workers as well as those paid above the statutory level.

Appendix A –Differential between company rates and the NMW 2007 to 2011

Table 1: Differential between rate paid to 16/17 year olds and the NMW rate

	2007	2008	2009	2010	2011
Retail (non-food)					
Argos	43.8	43.3	43.7	40.9	40.8
Boots the Chemist	41.6	42.5	41.9	41.5	41.9
C&J Clarks	28.8	27.8	29.1	30.5	33.2
Halfords	35.3	35.7	34.7	32.1	36.1
Homebase	31.5	30.0	28.6	28.8	30.7
Mothercare	29.4	28.3	26.9	21.4	22.6
Peacocks	16.8	16.1	16.2	16.2	17.1
Mean	**32.5**	**32.0**	**31.6**	**30.2**	**31.8**
Median	**31.5**	**30.0**	**29.1**	**30.5**	**33.2**
Food retail					
Sainsbury's	28.5	28.6	30.3	30.8	32.9
Tesco	46.0	46.0	47.9	77.7	80.7
Waitrose	31.5	37.7	40.3	67.0	68.5
Mean	**35.3**	**37.4**	**39.5**	**58.5**	**60.7**
Median	**31.5**	**37.7**	**40.3**	**67.0**	**68.5**
Fast food, pubs and restaurants					
Greggs	39.4	42.0	44.6	44.5	45.9
KFC	17.6	13.3	12.0	9.9	8.7
Marstons	62.4	62.3	35.3	36.3	0.0
McDonalds	25.0	23.2	21.8	19.5	18.2
Mitchells & Butlers	25.0	20.4	0.0	18.1	19.6
Mean	**33.9**	**32.3**	**22.8**	**25.7**	**18.5**
Median	**25.0**	**23.2**	**21.8**	**19.5**	**18.2**

Table 2: Differential between rate paid to 18-20 year olds and the NMW rate

	2007	2008	2009	2010	2011
Retail (non-food)					
Argos	20.0	20.1	20.1	20.9	22.1
Boots the Chemist	26.6	25.7	25.3	25.1	25.2
C&J Clarks	20.9	20.1	21.1	22.6	24.9
Halfords	20.4	20.5	8.3	6.3	9.4
Homebase	20.0	20.8	20.1	20.5	23.1
Mothercare	26.7	26.0	24.4	20.5	22.1
Peacocks	20.0	20.1	20.1	20.5	22.1
Mean	**22.1**	**21.9**	**19.9**	**19.5**	**21.3**
Median	**20.7**	**20.7**	**20.1**	**20.5**	**22.1**
Food retail					
Sainsbury's	23.9	24.1	25.7	26.2	28.1
Tesco	29.2	29.4	31.0	31.5	33.5
Waitrose	21.7	21.2	23.4	23.6	24.5
Mean	**25.0**	**24.9**	**26.7**	**27.1**	**28.7**
Median	**23.9**	**24.1**	**25.7**	**26.2**	**28.1**
Fast food, pubs and restaurants					
Greggs	21.2	23.6	25.7	25.8	27.1
KFC	0.0	0.0	0.0	0.0	0.0
Marstons	20.0	20.1	0.0	0.8	0.0
McDonalds	1.1	1.7	0.8	0.4	0.4
Mitchells & Butlers	8.7	6.9	0.0	5.7	6.4
Mean	**10.2**	**10.5**	**5.3**	**6.5**	**6.8**
Median	**8.7**	**6.9**	**0.0**	**0.8**	**0.4**

Table 3: Differential between rate paid 21+ year olds and the NMW rate

	2007	2008	2009	2010	2011
Retail (non-food)					
Argos	0.0	0.0	0.0	0.3	0.0
Boots the Chemist	18.5	17.8	17.5	17.3	16.9
C&J Clarks	0.7	0.0	0.9	1.7	2.3
Halfords	0.4	0.3	0.3	0.0	0.0
Homebase	0.0	0.0	0.0	0.0	0.8
Mothercare	5.6	4.9	3.6	0.0	0.0
Peacocks	0.0	0.0	0.0	0.0	0.0
Mean	**3.6**	**3.3**	**3.2**	**2.8**	**2.9**
Median	**0.4**	**0.0**	**0.3**	**0.0**	**0.0**
Food retail					
Sainsbury's	3.3	3.3	4.7	4.7	4.9
Tesco	7.7	7.7	9.1	9.1	9.4
Waitrose	1.4	0.9	2.8	2.5	2.0
Mean	**4.1**	**4.0**	**5.5**	**5.5**	**5.4**
Median	**3.3**	**3.3**	**4.7**	**4.7**	**4.9**
Fast food, pubs and restaurants					
Greggs	1.0	2.9	4.7	4.4	4.1
KFC	0.0	0.0	0.0	0.0	0.0
Marstons	0.0	0.0	0.0	0.0	0.0
McDonalds	0.5	0.3	0.3	0.3	0.3
Mitchells & Butlers	0.0	0.0	0.0	0.0	0.0
Mean	**0.3**	**0.6**	**1.0**	**0.9**	**0.9**
Median	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**