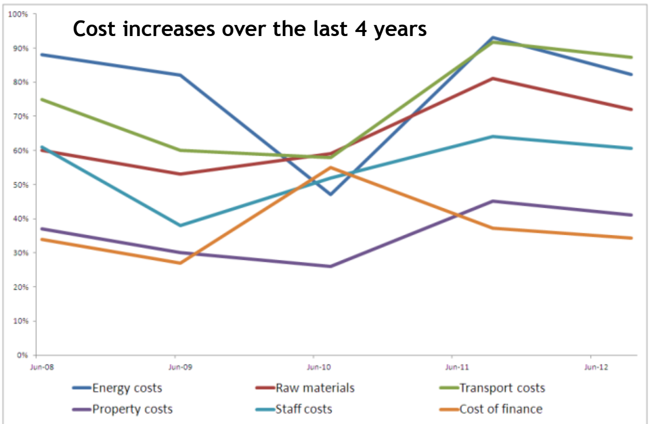
National Minimum Wage rates in 2013: Forum of Private Business submission

Overall position

The Government must ensure new business entry remains an attractive proposition. Therefore, keeping employment costs down for business continues to be paramount. The National Minimum Wage (NMW) is one of many costs for business but as annual inflation drops, staff cost inflation becomes more noticeable. The Forum of Private Business calls for a freeze on NMW in 2013. The Government is raising the earnings threshold to £10,000, to already allow workers more take home pay and in addition, with auto-enrolment now being rolled out across businesses, increases in the NMW must be recognised to have a multiplied impact in the future. For businesses to be able to adopt and afford auto-enrolment the LPC and Government must recognise it can impact on that affordability right now.

The NMW in context of rising prices



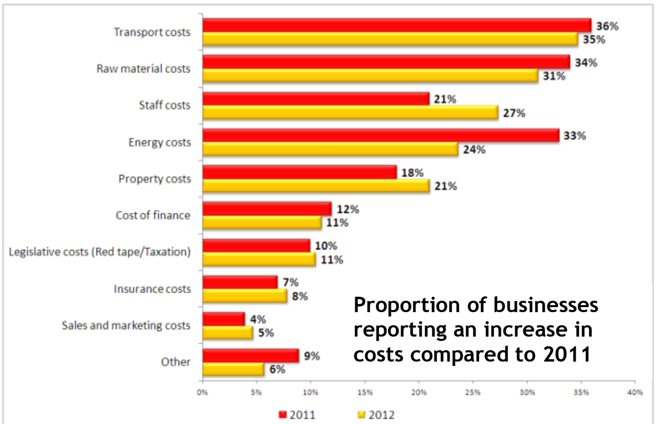
This year 95% of our members have seen an overall increase in their costs. 85% of businesses reported an increase in energy costs, 88% in transport costs, 82% a rise in marketing costs and 73% a rise in the cost of raw materials/stock. Around 1 in 3 of those businesses have not been able to pass costs onto customers and have had to cut their own costs simply to keep prices at the same level.

The major reasons for increases are predominantly down to VAT and energy prices rising, as well as the weakness of sterling for importers.

81% of businesses have reported that changes in cost have been detrimental to their business. 66% have reported cash flow issues as a result whilst 56% reported it has been detrimental to employment levels. Worryingly, 69% feel that it has inhibited growth ambitions. 4 in 5 expect prices to continue to increase next year, with 14% expecting a significant increase.

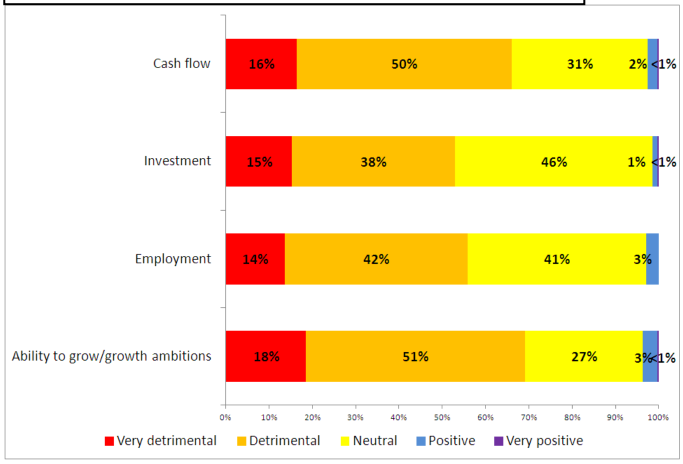
At 6.7%, prices have risen far faster for micro, small and medium-sized employers than for the rest of UK society. Staff costs have become more apparent compared to last year as wage inflation has remained at 2.5% while annual inflation has dropped from around 5% to 3%.

Increasing impact of wage inflation



Wage inflation is around the level of underlying inflation as reducing staff costs (after reducing their own take home pay) has been the only way for some businesses to continue trading. 27% reported increased staff costs were a significant cost pressure in 2012, rising from 21% in 2011. Some businesses reported that there was increased expectation of salary increases after a number of years of wage restraint. The latest wage survey from the IDS Pay Report puts wages rising at 2.5%, a similar level to last year. In contrast to last year, wage inflation is broadly in line with underlying inflation as opposed to being around half the level of inflation last year.

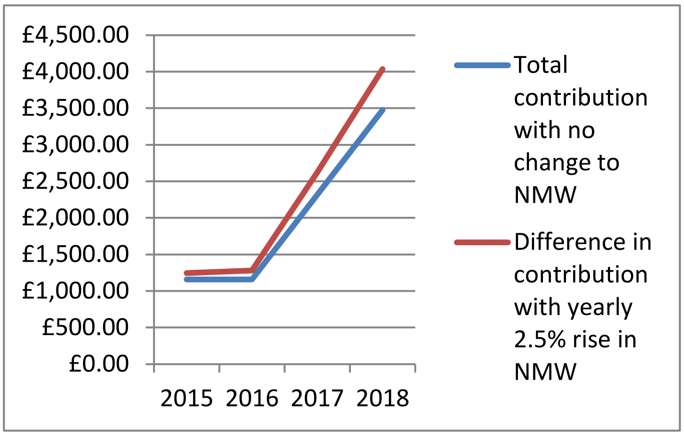
Impact of change in cost on key business indicators



With most businesses unable to pass on these costs - let alone in full - the cumulative effect is to have a negative impact on employment. The graph to the left shows the overall impact on businesses perception of cash flow, investment, employment and growth. With growth comes employment so it is particularly worrying that nearly 1 in 5 members see the increase in costs as ‘very detrimental’ to their growth ambitions.

Interestingly, when asked what support they want to help mitigate against cost pressures, just 10% mention the cost of employment and 1% highlight more realistic salary expectations. In fact, the most popular suggestions are to cut red tape (19%), or to reduce the costs of fuel (18%) or business rates (17%). These are closely followed by VAT (16%). However, this should not be read as endorsement for further NMW increases. In fact, with significant employment law changes not far down the line, now more than ever it is important to lessen the costs of doing business.

Interaction with auto-enrolment



The main and imminent increase to business costs of employment is auto-enrolment. The Forum of Private Business has supported the roll out of auto-enrolment, recognising that at a time of public sector pension restraint, the private sector should ensure it is doing its bit to prevent a pension crisis. However, we have been clear to state that in implementing staff pensions and taking on the sizeable cost increase that will create, government should show more understanding in mitigating against other costs. Already a typical micro business employing 9 staff on NMW will be due to pay an additional £3476 towards pensions. Taking into account a yearly 2.5% increase in NMW that would rise a further £556[i]. In other words, by 2018 each 2.5% increase in NMW will cause a further 0.075% increase in pension contribution. Whilst the increase may not seem outrageous, the fact that businesses are being mandated to take on these extra costs should count in trying to keep further government implemented costs down.

Apprentice Rate

With current youth employment figures so high, there is a real opportunity for low cost jobs to provide vital work experience for young people. Whilst the Youth Contract and AGE provide financial incentives for small businesses, increases to the apprentice rate act as a deterrent, albeit a weak one. Presently, small businesses provide 10% of apprenticeships, despite representing over 90% of all businesses in the country. If we want to see these figures improve then ensuring NMW rates remain static, or rise slowly, is very important. Since its introduction in 1999 the NMW has risen by nearly 69%, from an initial rate of £3.60 for those aged 22 and over. This increase is greater than inflation over the same period, as shown by Figure 1, taken from the LPC’s own April 2011 report. As with last year, we feel the historical increase of the NMW above inflation should be taken into account in decisions on its future levels.

---

[i] A micro business employing 9 people at minimum wage has a payroll of £115,877. As a micro business it enters auto-enrolment in 2015. The initial 1% contribution increases that payroll by £1158.87 a year. By 2018 the company will be asked to contribute 3%, increasing the additional amount in pension money to approximately £3476. If average wage inflation of 2.5% is applied to the NMW over each of the next 6 years that produces a total payroll of £134409.60. By 2018 when the business is due to pay a 3% pension contribution, that amounts to £4032.3, or £556.3 more.