National Minimum Wage

Low Pay Commission Report

National Minimum Wage

Low Pay Commission Report 2010

Presented to Parliament by the Secretary of State
for Business, Innovation & Skills
by Command of Her Majesty
March 2010

Cm 7823 £34.55

ISBN: 9780101782326

Printed in the UK for The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office

ID 2337088 03/10

Printed on paper containing 75% recycled fibre content minimum.

Contents

The Commissioners

From left to right standing:

Neil Goulden
Stephen Machin
Bob Elliott
David Norgrove
John Hannett
Ian Hay

From left to right seated:

Susan Anderson
Heather Wakefield
Frances O'Grady
Katy Cornish (Secretary)

David Norgrove (Chair)
Chair of the Pensions Regulator

Susan Anderson
Director of Public Services and Skills,
CBI

Professor Bob Elliott
Professor of Economics and Director of the Health Economics Research Unit,
University of Aberdeen

Neil Goulden
Chairman,
The Gala Coral Group

John Hannett
General Secretary,
Usdaw

Ian Hay OBE
Chairman,
Charterhall Finance Ltd

Professor Stephen Machin FBA
Professor of Economics at University College London and Research Director, Centre for Economic Performance, London School of Economics

Frances O'Grady
Deputy General Secretary,
TUC

Heather Wakefield
National Secretary for UNISON's
Local Government Service Group

The Secretariat

Katy Cornish (Secretary)
Kelly Adams
Jay Arjan
Kim Brinkworth
Tim Butcher
Jessie Evans
Gerry Franks
Victoria Mullan
Steve Palmer
Tony Studd

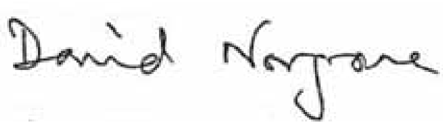
Chair's Foreword

During the first decade of the National Minimum Wage the UK enjoyed a period of continuous economic growth. That period came to an abrupt end in 2008, when we entered what we now know to be the longest and deepest recession since World War II, with a total loss of output of around 6 per cent. In the face of that recession, the Low Pay Commission, ably steered by my predecessor Professor Sir George Bain, recommended a cautious increase to the minimum wage from October 2009, which sought to protect both the real earnings of low-paid workers and their jobs.

Over the last year, the labour market in general has proved more resilient than forecast, but we have still seen large falls in employment and increases in unemployment. The low-paying sectors have held up better than the economy as a whole, but the impact has varied significantly. Social care, childcare and hairdressing have all seen an increase in employment, but the majority of job losses in the low-paying sectors fell in the two largest sectors: retail and hospitality. The last year has also seen major changes in the compliance and enforcement regime, with the introduction of a new system of penalties and fair arrears.

As we look ahead, the outlook for the economy seems more than usually uncertain. It seems the UK economy is on track for recovery, but the speed and strength of that recovery are unclear. I believe that our recommendations are appropriate in these uncertain times, balancing as they do the needs of low-paid workers against the challenges that remain for businesses. This year, the Commission has paid particular attention to the vulnerability of young people in the labour market. This group has been affected more than any other in the recession, continuing a long-term downward trend in their labour market prospects. Our recommendations reflect that vulnerability and we are commissioning new research to better understand the forces at play. Also with a focus on young people, we have, for the first time, made recommendations for an apprentice rate within the National Minimum Wage framework.

My first year at the Low Pay Commission has been eventful and interesting. I am grateful to all of the organisations, individuals and businesses who have taken time to send us their views or to meet us on our programme of visits. This real-life evidence on the impact of the minimum wage is a core part of our work. I look forward to continuing the Commission's work next year.



David Norgrove
February 2010

Executive Summary

Chapter 1: Introduction

1 Last year, we presented our report during some of the most turbulent economic times the UK had seen for decades. The recession has proven to be the most severe since World War II, with a steep decline in gross domestic product growth. Employment, although adversely affected, held up better than expected, particularly in the low-paying sectors and for the lowest paid. Looking ahead, it seems the UK economy is now on track for recovery and it is in this light that the Commission presents its report this year.

2 In our remit, the Government again asked us to monitor and evaluate the impact of the minimum wage and to consider its effect on different groups of workers. In addition, following the recommendation in our last report, we were asked to consider the detailed arrangements for an apprentice minimum wage under the National Minimum Wage framework. We were asked to do this with reference to particular issues and groups.

3 As ever, we relied heavily on consultation and the evidence presented to us by employers, workers and their representatives. Our wide-ranging consultation provided an invaluable source of information and we took written evidence from over 100 organisations, heard oral evidence over a two-day period and undertook a series of visits throughout the UK. This, along with our analysis of a wealth of data and commissioned research, has provided a sound evidence base for our deliberations.

Chapter 2: Aggregate Impact of the National Minimum Wage

4 The UK has suffered its longest and deepest recession since at least the 1930s with a total loss of output of around 6 per cent between the first quarter of 2008 and the third quarter of 2009. However, the labour market has been remarkably resilient with employment and hours falling by less than output. This is in stark contrast to the 1980s and 1990s recessions when employment and hours fell by more than output. The latest data suggest that the labour market has already begun to recover: the falls in employment, hours and vacancies, and increases in unemployment and redundancies appear to have stopped. Firms seem to have retained labour and have financed this by restricting wage growth, running down inventories and cutting investment. Nominal wage growth had been weak leading up to the recession and remains so. Compared with previous recessions, private sector firms' financial balances are much healthier; profits, albeit lower than at the start of this recession, are higher; and there have been fewer insolvencies. However, productivity has fallen and unit wage costs have risen so there may be further reductions in employment to come. In addition, the reductions in investment may have a downward impact on the future rate of output growth.

5 The economic growth outturn was worse than we had anticipated in our 2009 Report when recommending the minimum wage increases for October 2009. However, employment falls and unemployment increases were less than expected. As we anticipated in our last report, average earnings growth was not as strong as forecast. The 1.2 per cent increase in the minimum wage was in line with median pay settlements, private sector and whole economy average earnings growth (including and excluding bonuses) and it was between the increase in the two main measures of inflation (Consumer Prices Index and Retail Prices Index).

6 Data limitations prevented us from assessing fully the impact of the latest minimum wage upratings, but we have investigated the impact of the 2008 minimum wage upratings on the economy and found that they continue to exert a significant influence on wages at the bottom of the earnings distribution. The numbers paid at the adult minimum wage rose to a record high of nearly 750,000 (3.2 per cent of all jobs held by adults) in April 2009, as a result of the 3.8 per cent increase in the minimum wage in October 2008. The bite (the value of the minimum wage relative to the median) remained just under 51 per cent.

Chapter 3: Low-paying Sectors and Small Firms

7 We have again assessed the impact of the minimum wage on sectors with either a large number or high proportion of jobs paying at or around the National Minimum Wage. In doing this we have drawn on a variety of material, including multiple data sources, our commissioned research, other independent research, surveys of the market and employers, and our consultation.

8 This year it has proven difficult to separate out any potential impact of the minimum wage from that of the recession more generally. Between September 2008 and September 2009, the low-paying industries experienced a smaller proportional fall in jobs than across the economy as a whole. The majority of these job losses fell in the two largest industries, retail and hospitality, which are sensitive to falling consumer spending. Other sectors have also experienced a decline in jobs, including agriculture, textiles and cleaning. Not all of the low-paying sectors have seen a reduction in jobs over the same period, though. Social care has seen the largest increase, with childcare and hairdressing also experiencing increases.

9 Small firms remain of interest as workers on the minimum wage are disproportionately likely to be employed by them. Between the third quarter of 2008 and the third quarter of 2009, small firms saw a reduction in employment that was greater than in medium-sized or large firms.

10 Data continue to show that the minimum wage has had a different impact on earnings in each of the low-paying sectors. Overall, the proportion of jobs paid at the minimum wage has increased slightly between April 2008 and April 2009. Cleaning and hospitality continue to have the highest proportions of jobs paid at the minimum wage, with hospitality and hairdressing having the highest proportions paid below the minimum wage. Research has shown that the relatively higher increase in the minimum wage in October 2008 compared with 2007, coupled with the impact of the recession, has affected firms' ability to maintain, or increase, differentials.

Chapter 4: Particular Groups of Workers

11 Our remit asked us to review the impact of the National Minimum Wage on certain groups of workers. Again, it proved difficult to separate out any effect of the minimum wage from that of the recession. All the groups we looked at remain vulnerable, but not all of them have been adversely affected by the recession to the same degree. In terms of job loss, this recession has particularly affected men. Women, older workers and disabled people have seen less of an impact on their earnings and labour market prospects than the working age population. Overall, ethnic minorities and migrant workers have also been less affected by the recession, although the impact varies within these groups. It is young people and those without qualifications who have experienced the largest adverse impact from the recession.

12 Some workers are vulnerable not because of who they are, but because of the nature of their work or where they conduct it. We have heard again this year about the problems faced by those in the entertainment sector and this has led us to recommend that sector specific guidance be produced for that sector. In addition, we received evidence of alleged misuse of the Fair Piece Rate system by contractors and agencies operating in the hotel cleaning sector. We are concerned about the treatment of these workers and the apparent widespread nature of the problem. We have recommended that HM Revenue & Customs (HMRC) investigates whether contract and agency cleaners in the hotel sector are receiving their entitlement under the National Minimum Wage for their hours worked.

13 There have been widespread media reports of misuse of the exemptions under the National Minimum Wage Act in relation to volunteers and interns. Submissions to our consultation supported the view that internships are being used as a price of entry into certain professions and that interns are often workers in these instances. We encourage the Department for Business, Innovation and Skills to engage directly with those sectors in which lengthy unpaid internships are prevalent and HMRC to tackle abuse through effective enforcement.

14 Last year, we requested more detailed evidence on the operation of the accommodation offset but received little. On the basis of information available to us, we have concluded substantial change is not necessary. We will continue to review the operation of the offset each year.

Chapter 5: Young People

15 Since the Commission's establishment, we have made the case that young people should be treated differently to their older counterparts. The relative position of young people aged 16–20 in the labour market has been worsening for a number of years. Median pay levels have not increased at the same rate as those of older workers, so while the bite of the minimum wage for older workers has stabilised over the last four years, the bite for young people has continued to rise. Over and above the overall longer-term decline, the position of young people in the labour market has been adversely affected by the recession. Employment of young people has fallen significantly faster than that of their older counterparts, and employers are making increased use of the youth rates for those aged under 21. Whereas the employment prospects for adults appear to be improving, those of young people do not.

16 Last year, the Government accepted the Commission's recommendation that the adult rate should begin at age 21, but delayed implementation until October 2010. In light of this, the Commission has again reviewed the position of 21 year olds in the labour market, looking at those in employment and those seeking work. Taking account of both long-term trends and the latest evidence on earnings and employment, the Commission continues to believe that the adult rate should start at age 21.

Chapter 6: Apprentice Minimum Wage Rate

17 The Government asked us to recommend the rate and arrangements for a statutory apprentice wage that would replace the existing apprentice exemptions from the National Minimum Wage, and its date of introduction. Our remit asked us to take into account a number of factors, including the need to ensure that a sufficient volume, quality and sectoral variety of apprenticeship places was available in order to meet government targets. This was particularly in the context of the education and training participation age increasing in England from 16 to 18 between 2013 and 2015.

18 We gathered and considered a range of evidence, including available data, research and submissions from stakeholders through formal written consultation, meetings and Commission visits. Our recommendations are for a prudent structure for apprentice pay within the National Minimum Wage framework. We have recommended that the new rate should apply to all employed apprentices who are currently exempt from the National Minimum Wage. It should be a single hourly rate of £2.50 covering all hours of work and training (both on- and off-the-job) in an apprenticeship.

19 We believe that this will be a framework for the apprentice minimum wage that is simple, robust and straightforward to administer. The wage marks an important extension of minimum wage protection across the UK, and we will wish to monitor its impact, including on the provision, take-up and completion of apprenticeships. We have therefore also recommended that the Government includes the review of the apprentice minimum wage rate and arrangements in our annual terms of reference.

Chapter 7: Compliance and Enforcement

20 We continue to believe that a rigorous compliance and enforcement strategy is essential to the success of the minimum wage. Those who are dependent on work paid at or around the National Minimum Wage will be some of the lowest earners in the UK.

21 We recognise that some positive developments have taken place in relation to enforcement, in particular the work being done to increase awareness. We are concerned, though, about a number of issues that have arisen this year in light of the evidence we have gathered. Some of these relate to how HMRC is perceived to be operating, rather than specific functions it is carrying out.

22 The Commission very much supports the Government's decision to establish and publicise a new compliance strategy. To be effective, we believe the strategy should clearly set out how the Government will use its resources to ensure all workers receive their entitlement to the National Minimum Wage. In future years, as a result of the strategy, the Commission believes there should be: a more flexible enforcement regime which can tackle systemic and sectoral issues; wider publicity of enforcement success; and a measurable reduction in non-compliance through Government action.

23 It is important that the strategy is publicised, along with an annual report of actions taken by HMRC, to increase the transparency of the enforcement regime. We believe it should be possible to provide more information on what is being done, and that greater openness and transparency could be achieved without compromising confidentiality. To underpin this, it will be necessary for sufficient funding to be in place. This is why we have recommended that funding for enforcement is maintained at its current level in real terms until at least March 2014.

Chapter 8: Setting the Rates

24 At our meeting in January 2010, the economy had been in recession for six consecutive quarters and the outlook remained uncertain. The UK economy is thought to have shrunk by nearly 5 per cent in 2009. However, most indicators suggested that the economy was likely to have come out of recession in the fourth quarter of 2009 and the consensus outlook for 2010 was much brighter. Despite rising optimism about the outlook for growth in 2010, it is still expected to be modest and may be volatile quarter-on-quarter.

25 The position for employment and unemployment is similarly uncertain. With a weak return to growth, recovery may not be accompanied by a pick up in employment or reduction in unemployment in the short-run. Employment, as measured by workforce jobs, fell by 2.1 per cent in 2009 and the median forecast is for a further 0.7 per cent fall in 2010, despite the expected upturn in growth. This fall of around 215,000 jobs is in line with the anticipated increase in unemployment from 1.62 million to 1.82 million. However, the median forecasts for 2010 have been revised downwards over the year and no longer predict claimant count unemployment rising above 2 million. Further, the latest forecasts diverge widely and may not reflect the improvement of the labour market towards the end of 2009.

26 Inflation is expected to rise in the first half of 2010 but then to fall back later in the year. Where private sector employers were able to give an indication of their 2010 award, they expected some pick up in settlement levels, and that the proportion implementing pay freezes would be lower than that registered late last year for the economy as a whole. This, and the anticipated restoration of bonuses, is likely to lead to faster average earnings growth in 2010 than in 2009. In the light of all the evidence before us, we recommend that the adult minimum wage should increase from £5.80 to £5.93 from October 2010.

27 Recognising the vulnerability of young people in the labour market, we recommend that the Youth Development Rate should increase from £4.83 to £4.92 and that the 16–17 Year Old Rate should increase from £3.57 to £3.64 from October 2010.

28 Historically, the relationship between the adult rate and youth rates has varied, but in the last two years the youth rates have increased in line with the National Minimum Wage. It has become increasingly evident that the employment prospects for younger workers have deteriorated consistently over a period of years, with a more substantial decline during the recession. The reasons for this long-term decline are complex and doubtless multi-faceted. The position of young people will be affected not only by their skill level and relative productivity, but also by the success of government programmes and social policy changes. The extent to which the minimum wage may have been a contributory factor remains unclear. However, coverage of young people within the youth rates has almost doubled in the last five years and young people's rates of pay have increased more slowly than those of adults. We are commissioning new research for our 2011 Report to enable us to understand better what is happening in these youth labour markets. The results of this research will importantly inform our recommendations in the future. At this time, without clearer evidence, we concluded that a larger change in the relationship between the youth and adult rates was not to be recommended.

29 In the absence of more detailed information on the operation of the accommodation offset, we believe that the offset should increase in line with the adult rate. We recommend that the accommodation offset should increase from £4.51 to £4.61 per day from October 2010.

30 In addition to recommendations for 2010, our remit this year asked us to make provisional rate recommendations as appropriate for 2011. In consultation, of those who expressed a view on whether a recommendation should be made for 2011, the overwhelming majority believed it was not appropriate at this time. When the Commission met in January there was emerging evidence that the economy was moving out of recession. The outlook remains uncertain but the consensus forecasts are that the rate of growth will increase in 2010 and 2011 and the labour market will improve. We do not yet believe that the trajectory is clear enough that we can confidently recommend the rates for 2011 and ask that we be given a new remit to consider those rates. In making those recommendations, the Commission's judgement will, as ever, be driven by the prevailing economic evidence.

Recommendations

National Minimum Wage Rates

We recommend that the adult minimum wage rate should increase from £5.80 to £5.93 from October 2010 (paragraph 8.55).

We recommend that the Youth Development Rate should increase from £4.83 to £4.92 and that the 16–17 Year Old Rate should increase from £3.57 to £3.64 from October 2010 (paragraph 8.56).

Accommodation Offset

We recommend that the accommodation offset should increase from £4.51 to £4.61 per day from October 2010 (paragraph 8.58).

Apprentice Minimum Wage Rate

We recommend that non-employed apprentices are excluded from the apprentice minimum wage and continue to be exempt from the National Minimum Wage (paragraph 6.19).

We recommend that the apprentice minimum wage be applied as a single rate to those apprentices currently exempt from the National Minimum Wage. That is all those under the age of 19 and those aged 19 and over in the first 12 months of their apprenticeship. The wage should cover both those employed on traditional contracts of apprenticeship and employed apprentices on government-supported Level 2 and 3 schemes (paragraph 6.50).

We recommend that all hours of work and training (relating to both on-the-job and off-the-job) under an apprenticeship should be counted as hours for which the apprentice minimum wage must be paid. All hours should be paid at the same wage rate (paragraph 6.59).

We recommend that the apprentice minimum wage be set at an hourly rate (paragraph 6.65).

We recommend the apprentice minimum wage is set at a rate of £2.50 per hour and is introduced from October 2010 (paragraph 6.88).

We recommend that in England transitional arrangements are put in place so that current apprentices retain a contractual entitlement to a minimum of £95 a week for the remainder of their apprenticeship or until they are entitled to the National Minimum Wage (paragraph 6.92).

We recommend that the Government includes the review of the apprentice minimum wage rate and arrangements in our annual terms of reference (paragraph 6.96).

Particular Groups of Workers

We recommend that the Government produces, in conjunction with interested parties, sector specific guidance on the National Minimum Wage for the entertainment sector (paragraph 4.50).

We recommend that HMRC investigates whether contract and agency cleaners in the hotel sector are receiving their entitlement under the National Minimum Wage for their hours worked (paragraph 4.88).

Compliance and Enforcement

We recommend that the Government commits, as a minimum, to maintaining current funding in real terms for monitoring and enforcement of the National Minimum Wage until at least March 2014 (paragraph 7.40).

List of Figures

List of Tables

Chapter 1
Introduction

1.1 This is the eleventh report by the Low Pay Commission since the introduction of the National Minimum Wage in 1999. The Commission's last report was published in May 2009, at which time the National Minimum Wage was facing up to its first recession. The recession has been the longest and deepest since World War II, with a steep decline in gross domestic product growth. Employment, although adversely affected, has held up better than expected, particularly in the low-paying sectors and for the lowest paid. As we look ahead, it seems the UK economy is now on track for recovery and it is in this light that the Commission presents its report this year.

1.2 In this chapter, we specify the remit given to us by the Government for this year, and give an overview of the work we have undertaken to meet it.

Terms of Reference 2010

1.3 Our terms of reference for the 2010 Report asked that we carry out the following work and report to the Prime Minister and the Secretary of State for Business, Innovation and Skills by the end of February 2010.

- Monitor, evaluate and review the National Minimum Wage and its impact, with particular reference to the effect on pay, employment and competitiveness in the low-paying sectors and small firms; the effect on different groups of workers, including different age groups, ethnic minorities, women and people with disabilities and migrant workers and the effect on pay structures.

- Review the levels of each of the different minimum wage rates and make recommendations for October 2010. The Commission is also asked to make provisional rate recommendations as appropriate for October 2011.

- Consider the detailed arrangements for an apprentice minimum wage under the National Minimum Wage framework (as set out in the National Minimum Wage Act 1998), and to recommend the rate and arrangements that should replace the existing exemptions, together with the timing for its introduction. The Commission is asked to do this with reference to:
  - the issues and groups to which it has particular regard when reviewing the established rates, as laid out above;
  - the need to ensure that sufficient volume, quality and sectoral variety of apprentice places are available to meet government targets, in particular when the education participation age is raised in England in 2013 and 2015; and
  - the effective functioning of the education market and young people's choices with reference to the level of financial payment available on other education and training routes.

1.4 On receipt of its remit, the Commission began gathering and analysing data to inform its recommendations. The remainder of the chapter provides a short review of the programme of work we undertook to fulfil the remit.

Consultation

1.5 We have again consulted widely in preparing this report. The consultation involved individuals, trade unions, businesses and groups representing each of the low-paying sectors. As always, the process provided useful information, which enhanced our understanding and consideration of the issues involved.

1.6 Between June and September, we undertook a two-part formal written consultation, consisting of a general consultation and an apprentice consultation. The general consultation sought views on the impact of the minimum wage and related issues, to which we received 59 responses. The apprentice consultation asked for views on the rate of an apprentice minimum wage and related issues, to which we received 52 responses. Responses were received from trade unions, employer organisations, trade associations, individuals, voluntary organisations and the Government. The written information was considered alongside the other evidence we gathered during the year. Our Secretariat also met over 50 individuals and organisations during the summer and autumn to discuss their views and concerns on the minimum wage in more detail.

1.7 We held oral evidence sessions over two days in late October and heard from a number of organisations, including the Trades Union Congress, CBI and groups representing the care, hairdressing, hospitality, and retail sectors, as well as those working with young people. The oral evidence sessions gave the organisations the opportunity to update and further their arguments made in response to the written consultation and gave Commissioners the opportunity to explore the options on rates and related issues.

1.8 We would like to record our thanks to all those individuals and organisations who took the time to respond to our consultation and to those who gave oral evidence. A list of those who did so can be found in Appendix 1.

Research

1.9 For the 2010 Report, we commissioned through an open tender process 9 new research projects covering various aspects of our remit. The research programme focused on young people by looking at apprenticeships, the impact of the introduction of the 16–17 Year Old Rate and the age-related aspects of the minimum wage. The programme also looked at the impact of the latest increases in the minimum wage; the interaction of the minimum wage with the tax and benefit system; the impact of the minimum wage on wage growth, relativities and differentials; and the potential use of alternative modelling strategies to identify the impact of the minimum wage.

1.10 As ever, our research programme provided invaluable evidence underpinning our recommendations. Details of the research projects and a summary of the findings are set out in Appendix 2.

Statistics

1.11 Our recommendations are strongly rooted in economic evidence. To this end, we have worked closely with the Office for National Statistics (ONS) to obtain a comprehensive and consistent database on earnings and employment. We welcome the restoration of the full 1 per cent sample of the Annual Survey of Hours and Earnings, the ONS annual earnings survey, and we note that it continues to provide a reliable and crucial source of information. We have also worked closely with ONS to enable us to take account of the introduction of a new standard industrial classification system, SIC 2007, to mitigate any detrimental impact on our analyses of the low-paying sectors.

Visits

1.12 As in previous years, we undertook a programme of visits around the country, which gave Commissioners the opportunity to talk directly to those affected by the minimum wage. We once again focused on groups in the low-paying sectors as well as, this year, on those with an interest in an apprentice minimum wage, and on groups of young people. We held meetings with apprentices and their employers, training providers, business managers and workers, and organisations representing the low-paying sectors or groups of workers. For instance, we met with participants on Prince's Trust programmes, representatives from London Citizens, and groups of workers in the care and retail sectors. During these visits we also met directly with some of HM Revenue & Customs' Compliance Officers to discuss issues around the current enforcement regime. Visits took place in Belfast, Bristol, Cambridge, Inverness, Leicester, Liverpool, Llandudno, and London.

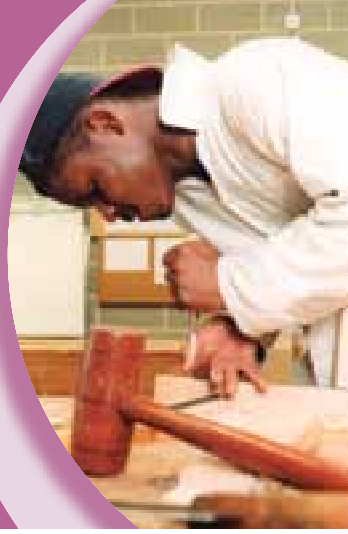
Timing

1.13 As well as meetings with stakeholders, oral evidence sessions, research workshops and visits, the Commission met eight times during the year. These culminated in a meeting that took place over two days in late January 2010 to review and assess the stakeholder evidence, research outcomes and economic data, and to agree the recommendations contained in this report.

Conclusion

1.14 In fulfilling its remit from Government, the Commission once again undertook a full programme of work. We were asked to monitor and evaluate the impact of the minimum wage, make recommendations on the minimum wage rates for October 2010 and, as appropriate 2011, and to make a recommendation on the apprentice minimum wage rate. We have commissioned research, analysed data, consulted widely and travelled across the UK to build an evidence base to inform our recommendations. We are grateful to, and would like to thank, the many organisations and individuals who shared their views with the Commission. Their input has been invaluable in helping to inform the content and recommendations of this report. The chapters that follow give a thorough breakdown of our findings and the recommendations that flow from them.

Chapter 2
National Minimum Wage in a Recession



Introduction

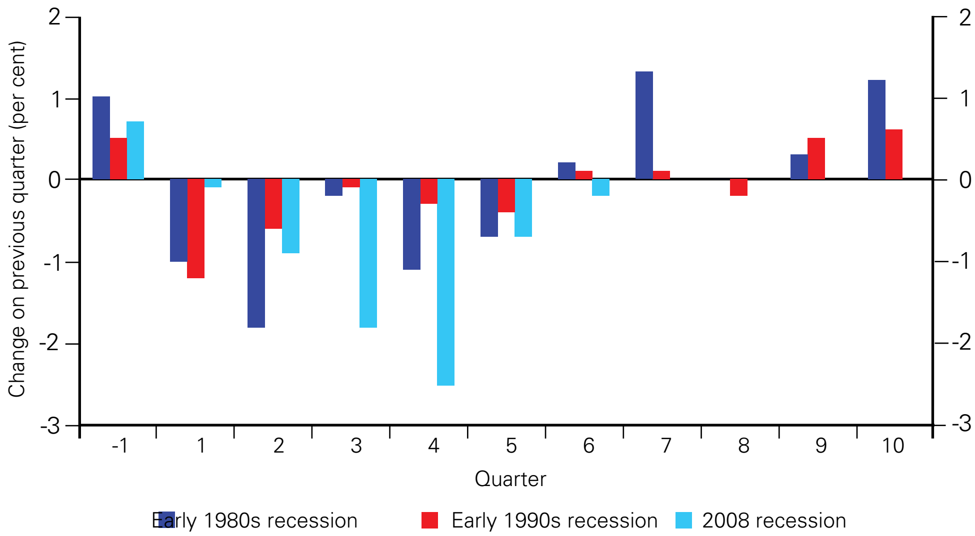
2.1 At the time of writing this report, latest data from the third quarter of 2009 showed that the UK was still in the midst of an unprecedented six consecutive quarterly decline in output. The current recession has lasted longer and been deeper than any recession since the 1930s. Unlike the recessions of the early 1990s and, to a lesser extent, the early 1980s, which were mainly confined to the UK, the current downturn has been global, affecting developed and developing countries alike. It is in this context that we monitor and assess the impact on the economy of the most recent increases in the National Minimum Wage.

2.2 We start by considering the recession and the relationship between output and employment before going on to discuss possible reasons for the relative resilience of the labour market. The chapter then looks at the recommendations we made in our 2009 Report in light of the subsequent economic outturn and concludes by assessing the impact of the National Minimum Wage on earnings and employment. We go on to consider other aspects of its effects on the economy in subsequent chapters.

Economic Background: the UK in Recession

2.3 This recession has affected most of the world's economies, with world trade falling for the first time since World War II. In the UK, the cumulative loss in output, as measured by gross domestic product (GDP), has been greater than both the Organisation for Economic Co-operation and Development and European Union averages, and significantly worse than in the United States and France. The loss has, however, been less than in some other major economies such as Japan and Germany. In terms of length of recession, practically all the other leading developed economies returned to positive output growth by the second quarter of 2009, even those that suffered a deeper cumulative loss than the UK. In contrast, the UK was still in recession in the third quarter of 2009. In relation to the two most recent recessions in the UK, those of the 1980s and 1990s, Figure 2.1 shows that not only has the latest recession been deeper than either but it has also been longer. This recession has lasted for six quarters and output has fallen by 6.0 per cent, whereas the previous recessions lasted only five quarters with output loss of 4.7 per cent in the 1980s and 2.5 per cent in the 1990s.

Figure 2.1: Comparison of Output Growth in Previous Recessions, UK, 1979–2009



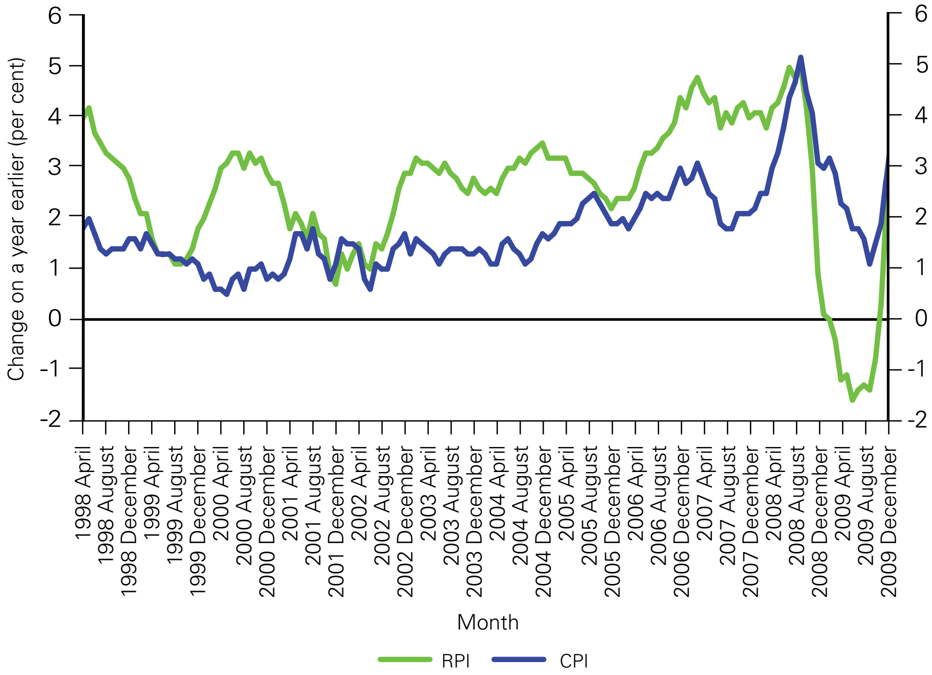
Source: ONS, GDP quarter-on-quarter growth (IHYQ), constant prices, quarterly, seasonally adjusted, UK, 1979–2009.
Note: Quarter 1 is the first quarter of the recession (Q1 1980 for the 1980s, Q3 1990 for the 1990s, and Q2 2008 for the 2008 recession).

2.4 Consumer spending fell for five consecutive quarters, but seemed to have bottomed out in the third quarter of 2009. In total, it has fallen by around 3.9 per cent, less than the 6.0 per cent fall in output. Last year we said that households were using savings and equity withdrawal to fund spending – the savings ratio was negative in the first quarter of 2008 – but that this was not sustainable in the long run. In contrast to the two previous recessions, when the growth in real disposable income followed the trend in output and consumer spending growth (falling sharply and declining), real disposable household income has actually risen in this recession. We note that the savings ratio is now positive and at relatively high levels (8.6 per cent in the third quarter of 2009, its highest since the first quarter of 1998 and above its long-term trend since 1955 of 6.6 per cent). The cutback in consumer spending has, however, particularly affected the hospitality sector where output was 7.7 per cent lower in the third quarter of 2009 compared with a year earlier. The wholesale and retail trade also suffered large losses, but had returned to positive growth in the third quarter of 2009.

Prices, Settlements and Earnings

2.5 Economic contraction clearly has implications for inflation, earnings and employment. Inflation rates fell rapidly from the autumn of 2008, as shown in Figure 2.2. This reflected a number of technical and direct price effects. Technical factors influencing both the Consumer Prices Index (CPI) and Retail Prices Index (RPI) included the impact of previous large increases in energy, food and fuel prices dropping out of the indices. These effects were compounded by actual price falls, notably the prices of oil and domestic gas, and by the reduction in the rate of Value Added Tax (VAT) effective from 1 December 2008. In the case of the RPI there were additional large downward pressures from the mortgage interest rate component, which fell sharply in response to a 4.5 percentage point reduction in the bank base rate. This component is not included in the CPI. Consequently, RPI fell both faster and further than CPI.

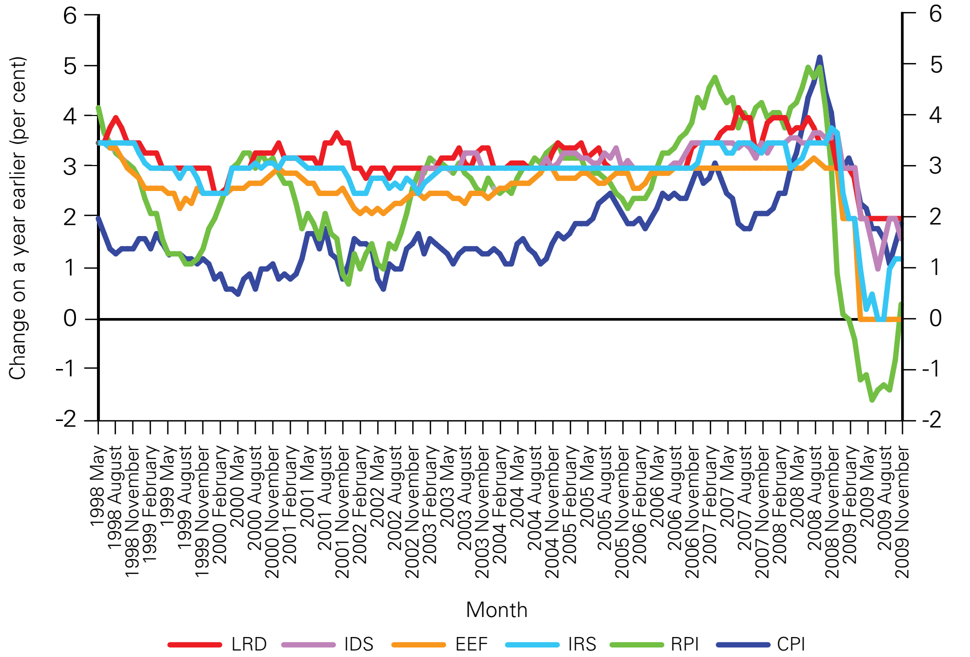
Figure 2.2: Price Inflation, UK, 1998–2009



Source: ONS, CPI (D7G7) and RPI (CZBH), monthly, not seasonally adjusted, UK, 1998–2009.

2.6 The falls in inflation rates had implications for the real rate of pay growth. At the start of 2009 the median of pay settlements, which measures changes in basic pay rates at the 50th percentile of the distribution, lay at or between 2 and 3 per cent, depending on the data source. By April it lay at or between zero and 2 per cent and remained within this range for the rest of 2009. As shown in Figure 2.3, over the year to November 2009 median settlement increases were higher than RPI and occasioned some historically large increases in real base pay rates on this measure. However, on other measures of inflation, such as the CPI, median settlements have shown little or no real pay growth in 2009, or even some decline.

Figure 2.3: Median Pay Settlements, GB, and Price Inflation, UK, 1998–2009



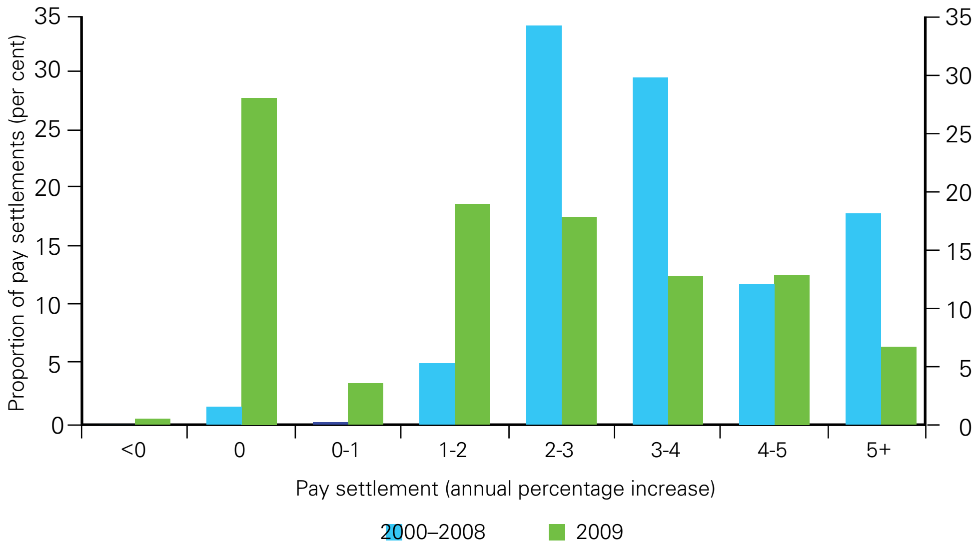
Sources: ONS, RPI (CZBH) and CPI (D7G7), and LRD, IDS, EEF and IRS pay databank records, monthly, not seasonally adjusted, UK, 1998–2009.
Notes:

a. Pay settlements in the three months to end of month shown.
b. The IDS monthly series began in 2002.

2.7 Looking at the range of pay awards, rather than just the median, a striking feature in 2009 was the steady rise in the number of pay freezes. For the three months to October 2009, pay researchers were reporting freezes for the economy as a whole at around a quarter to a third of all settlements and even higher in sectors such as manufacturing. This has resulted in an unusual settlement distribution. Figure 2.4 shows the marked contrast between the average distribution of private sector pay settlements, weighted by employee numbers, for the period 2000–2008 and the distribution of those pay awards up to August 2009. It also explains the volatility in settlement medians in 2009 as they were often determined by a very small number of settlements around 1 per cent.

2.8 This distribution of awards provides little support for any idea of a 'going rate' of awards. Even during the current recession, some settlements were higher than 4 per cent. To some extent these might be long-term deals with stages linked to the much higher inflation rates in the latter months of 2008, but they also reflect the particular economic and labour market factors affecting different organisations and industries.

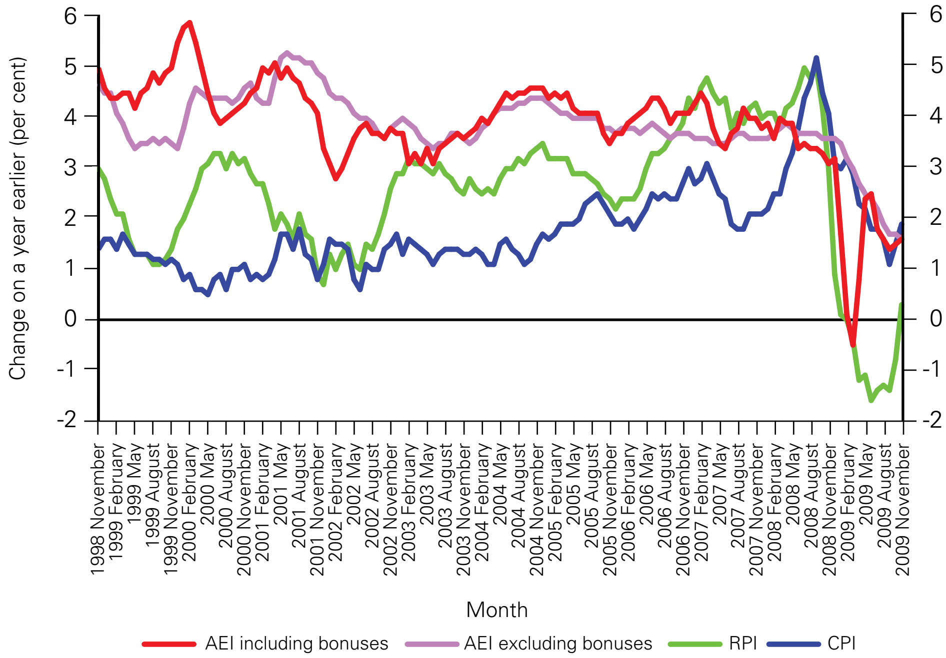
Figure 2.4: Distribution of Pay Settlements, UK, 2000–2009



Source: Bank of England estimates based on pay settlement data from IDS, IRS and LRD, UK, 2000–2009.
Notes:
a. 2009 data based on settlements effective between 1 January and 5 August 2009.
b. Weighted by employees.

2.9 Average earnings indices are a wider measure of pay movements than settlements as they cover changes in other factors that influence pay levels such as overtime, shiftworking, performance etc. Figure 2.5 shows that whole economy average earnings growth in 2009 was much slower than in previous years. The public sector rate was higher than the whole economy for most of 2009, but had slowed in the three months to November. Growth in the private sector was much lower than in the public sector. If bonus effects are included, earnings growth temporarily fell below zero in early 2009. Bonus payments, particularly in the finance sector, were lower than a year earlier. Although it picked up once these effects dropped out of the index, earnings growth in the private sector was only 1.3 per cent in the three months to November 2009. Private sector earnings growth excluding bonus effects was slightly lower at 1.2 per cent. Across the economy as a whole, earnings growth in November was 1.6 per cent irrespective of bonus effects. Although these were low rates of increase by historic standards, they again represented substantial real increases in pay when compared with RPI inflation, but were more or less in line or slightly below CPI.

Figure 2.5: Average Earnings Growth, GB, and Price Inflation, UK, 1998–2009



Sources: ONS, AEI including bonuses (LNNC), AEI excluding bonuses (JQDY), CPI (D7G7) and RPI (CZBH), monthly, seasonally adjusted (AEI only), UK (GB for AEI), 1998–2009.

Output and Employment

2.10 The downturn in output has affected employment and hours. In the recessions of the early 1980s and early 1990s, the cumulative percentage falls in employment and jobs were about twice the fall in GDP, as shown in Table 2.1. Even in the initial stages, the losses in employment and jobs were greater than the fall in output. So far, in this latest recession, jobs and employment levels have fallen, but neither has adjusted downwards as much as might have been expected based on previous experience. The change in unemployment, however, has been more ambiguous. The claimant count has not risen as fast or as high in this recession as in the two previous recessions. While ILO unemployment has not risen as fast as in the 1980s, it has increased by more than in the 1990s at the equivalent stage. However, it fell in November 2009, suggesting that it may not rise by as much overall in this recession as it did in the 1990s.

Table 2.1: Changes in Output, Employment and Unemployment in Recent Recessions, UK, 1980–2009

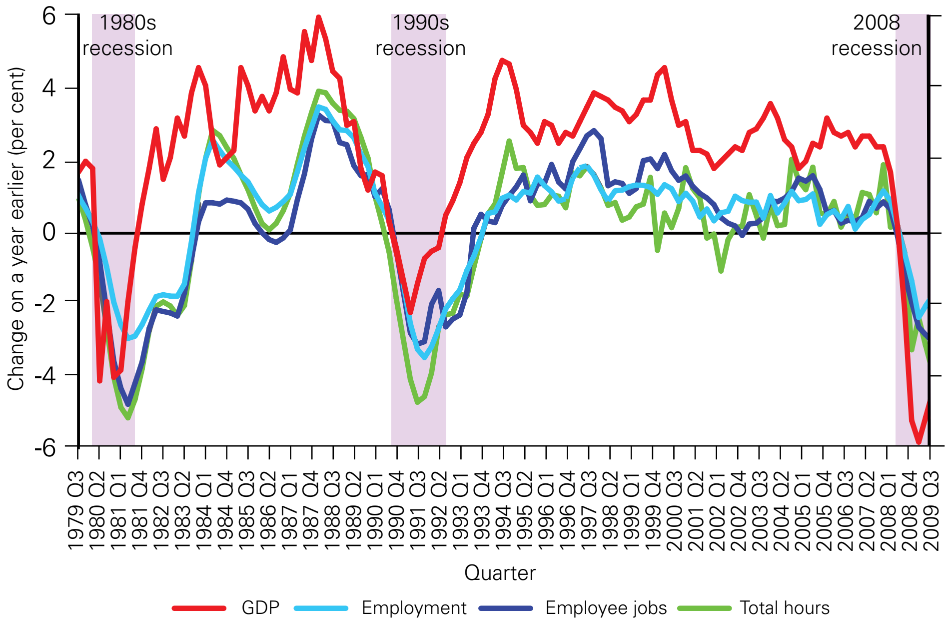
	GDP (Quarterly)	Workforce jobs (Quarterly)	Employee jobs (Quarterly)	Employment (Monthly)	ILO unemployment (Monthly)	Claimant count (Monthly)
	Total loss (%)	Total loss (%)	Total loss (%)	Total loss (000s and %)	Total gain (000s)	Total gain (000s)
Early 1980s recession[a]	4.7	7.3	9.4	1,650 (6.5%)	1,755	2,029
Early 1990s recession[b]	2.5	6.7	6.7	1,685 (6.3%)	1,022	1,353
	Loss in first 6 quarters (%)[c]	**Loss in first 6 quarters (%)**	**Loss in first 6 quarters (%)**	**Loss in first 18 months (000s and %)**	**Gain in first 18 months (000s)**	**Gain in first 19 months (000s)**
Early 1980s recession[a]	4.5	4.3	5.7	785 (3.2%)	1,099	1,143
Early 1990s recession[b]	2.4	4.2	3.8	1,125 (4.3%)	688	957
2008 recession[d]	6.0	2.5	3.2	642 (2.2%)[e]	832[f]	788[g]

Source: ONS, GDP (ABMI), workforce jobs (DYDC), employee jobs (BCAJ), total employment (MGRZ), ILO unemployment (YBSH) and claimant count unemployment (BCJD), seasonally adjusted, UK, 1980–2009.
Notes:
a. The early 1980s recession is judged to begin in Q1 1980 (January 1980 for monthly data).
b. The early 1990s recession is judged to begin in Q3 1990 (July 1990 for monthly data).
c. The 1980s and 1990s recessions only lasted 5 quarters. The peak loss is thus given in the top half of the table.
d. The 2008 recession is judged to begin in Q2 2008 (May 2008 for monthly data).
e. The employment loss was greatest in July 2009 at 689,000 (2.3%).
f. The ILO unemployment increase was greatest in October 2009 at 863,000.
g. The claimant count peaked in October 2009 with the increase at 814,000.

2.11 It has been argued that the UK has a much more flexible labour market than in previous recessions and that firms have adjusted hours rather than made people redundant. One would expect firms to adjust hours, by reducing overtime and making use of short-time working arrangements, before reducing the size of the workforce. Indeed, employers have taken various measures in this recession such as temporarily closing factories, introducing shorter working weeks, giving unpaid sabbaticals and asking employees to work some shifts for free.

2.12 However, Figure 2.6 suggests that hours may not in fact have adjusted as much as in previous recessions. In the 1980s and 1990s recessions, the fall in hours was considerably greater than the fall in output and employment. Although hours have again adjusted more than employment and jobs in this recession, they have not adjusted as much as might have been expected given the fall in output.

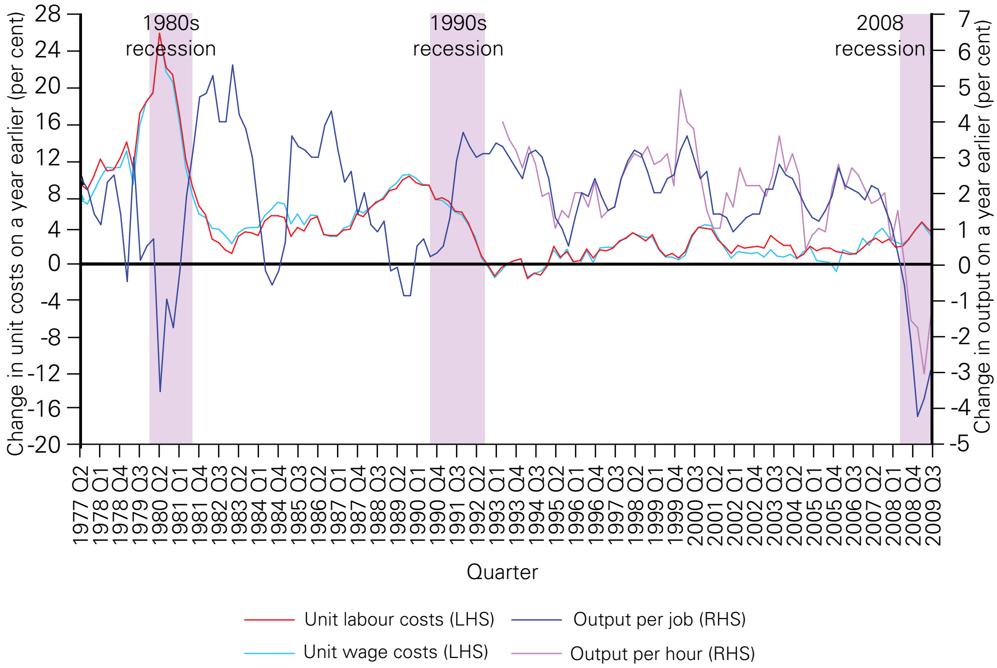
Figure 2.6: Annual Change in Output, Employment, Jobs and Hours, UK, 1979–2009



Source: LPC estimates based on ONS data, GDP (ABMI), total hours worked (YBUS), total employment (MGRZ) and employee jobs (BCAJ), quarterly, seasonally adjusted, UK, 1978–2009.

2.13 As hours and employment have adjusted less quickly than output, the level of productivity, whether measured per job or per hour, has declined sharply since the middle of 2008, resulting in negative productivity growth. Figure 2.7 shows that the negative productivity growth this recession has been far greater than in the 1990s recession, and slightly greater than the decline in the 1980s recession. As a consequence of the sharp fall in productivity, unit wage and labour costs have risen by over 4 per cent. This increase was similar for wage and non-wage costs of labour and occurred in a period when pay settlements and average earnings growth were subdued. As we have noted, around a quarter to a third of all pay awards in the private sector in 2009 were freezes and private sector average earnings growth was around 1.0–1.5 per cent (including or excluding bonuses) since the middle of 2009. Although these increases in unit wage and labour costs have been much lower than in earlier recessions, growth in labour costs at this level is unsustainable and, without a sharp upturn in productivity, could mean that further reductions in labour input may be necessary.

Figure 2.7: Growth in Productivity and Unit Labour Costs, UK, 1977–2009



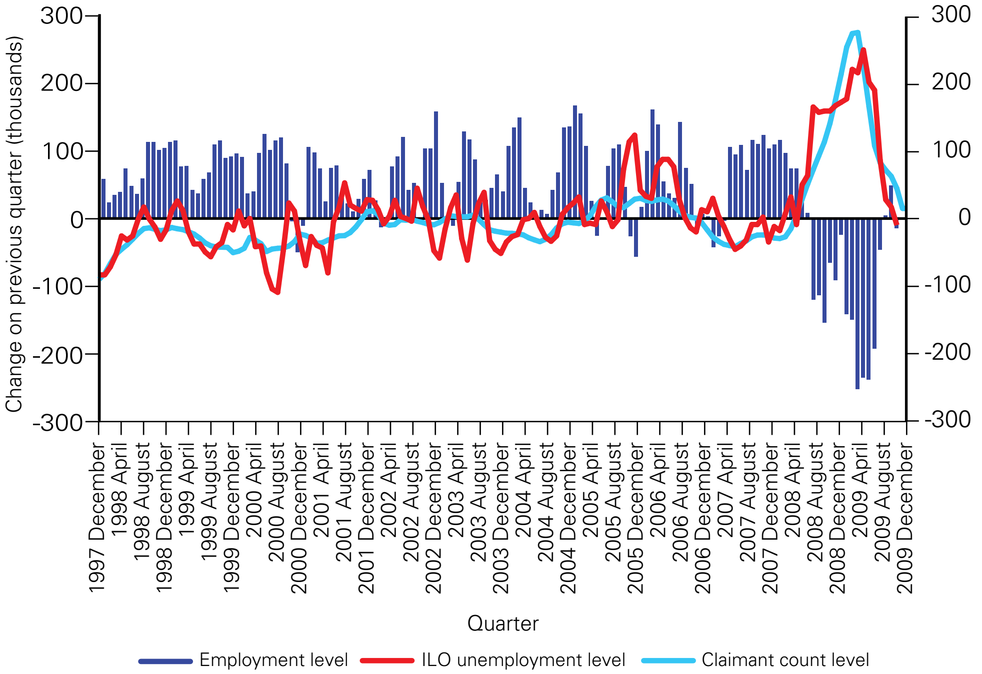
Source: ONS, unit labour costs (DMWN), unit wage costs (LOJE), output per job (LNNP) and output per hour (LZVD), quarterly, seasonally adjusted, UK, 1977–2009.
Note: The output per hour series began in Q2 1992.

Labour Market Adjustment

2.14 The recent modest improvements in employment and unemployment are particularly unusual as, based on past experience, both would be expected to deteriorate through a recessionary period and for many months afterwards. As it stands, however, recent data suggest that the deterioration in the labour market has halted, and that there have even been some recent signs of improvement. Total employment, the number of employees and total hours worked per week all now appear to be increasing after sharp falls throughout 2008 and most of 2009. The number of vacancies is no longer falling and redundancies have decreased.

2.15 The labour market, usually regarded as a lagging indicator, appears to have responded more or less immediately to the recession. Total employment peaked at 29.56 million in May 2008 but then fell sharply throughout the rest of 2008 and much of 2009, falling to a low of 28.87 million in July 2009 before picking up to just above 28.92 million since then. Figure 2.8 confirms that employment started to deteriorate after May 2008 (the first quarterly fall in employment is in the three months to August 2008) and that this deterioration was particularly severe between April and July 2009. There has since been a rapid improvement with employment actually growing in September and October 2009. Although not shown, a similar picture can be drawn for working age employment and the number of employees (that is, numbers peaking in May 2008 and reaching a nadir in July 2009). Looking at hours reveals a similar story. Total hours worked reached a high in March 2008 before falling sharply throughout 2008 and into 2009. Since August 2009, the number of hours worked has increased, reflecting the start of a recovery in the labour market.

Figure 2.8: Employment[a], ILO Unemployment[a] and Standardised Claimant Count[b], UK, 1997–2009



Source: LPC estimates based on ONS data, total employment (MGRZ), ILO unemployment (YBSH) and claimant count unemployment (BCJD), monthly, seasonally adjusted, UK, 1997–2009.
Notes:

a. Employment and ILO unemployment are measured for the three months to the end of the month shown.
b. The monthly claimant count has been averaged over three months and is contrasted with the previous three months to make it comparable with the ILO unemployment measure.

2.16 The number of unfilled vacancies also peaked in March 2008 (at just under 700,000) and then fell sharply to just over 430,000 in June 2009, where it remained for the rest of 2009 until it rose to 448,000 in December 2009. Redundancies mirrored this path. The number of redundancies fell to a low in December 2007 (110,000) before picking up sharply as the recession affected the economy, peaking at 310,000 in April 2009. They then fell to 182,000 in November 2009, but remained considerably higher than before the onset of recession.

2.17 Despite this reasonably rosy picture, it should be noted that the recent pick-up in the labour market has been largely restricted to temporary and part-time jobs (up 38,000 and 143,000 respectively on the year to November 2009). The number of full-time jobs is still declining (down 113,000 in the three months to November 2009 and down 594,000 on the year). The number of permanent jobs has increased, but these are mainly part-time positions. There has also been a large increase in the number of temporary workers who could not find permanent work and the number of part-time workers who could not find full-time posts.

2.18 Changes in unemployment levels mirror those of employment, as shown in Figure 2.8. ILO unemployment and the standardised measure of the claimant count (averaged over three months and compared with the previous three months) both began to rise in early 2008 (from lows of 1.596 million in December 2007 and 793,000 in March 2008 respectively). They increased particularly sharply in the first and second quarters of 2009, before showing a marked slowdown since the summer of 2009 (the standardised claimant count rose by only 15,000 in December 2009 and ILO unemployment actually fell by 10,000 in November 2009).

2.19 Flows onto the claimant count began increasing slightly before the recession started. The monthly inflow increased sharply from 205,000 in March 2008 to 362,000 in February 2009 and remained at an elevated level of 350–360,000 between February and October 2009. Over the same period, outflows from the claimant count also increased, but at a slower rate, from 203,000 in March 2008 to 335,000 in October 2009. Since then, inflows have fallen back to around 330,000 while outflows have risen above 350,000, resulting in falls in the monthly claimant count in both November and December 2009.

2.20 Economic inactivity has been little affected by the current recession, unlike in the early 1980s and early 1990s recessions when there was a marked increase. In both previous recessions inactivity rose by around 10 per cent (from 7.1 million to 7.8 million between the end of 1980 and middle of 1983, and from 6.7 million to 7.4 million between the middle of 1990 and end of 1992). In the current recession, inactivity has increased by less than 2 per cent from 7.9 million to 8.0 million but this may merely reflect the fact that it is already high, driven by the record level of student numbers.

Explaining Employment and Hours Adjustments

2.21 Relative to the extent of output loss, firms do not seem to have sufficiently adjusted quantities (employment and hours) in line with the experience of previous recessions. They must, therefore, be adjusting along different margins to cope with the severity of this recession. We now investigate a few of these margins – wages, business investment, inventories, financial balances, and profits. We then consider the level of insolvencies and whether government policies have enabled firms to retain their workforce.

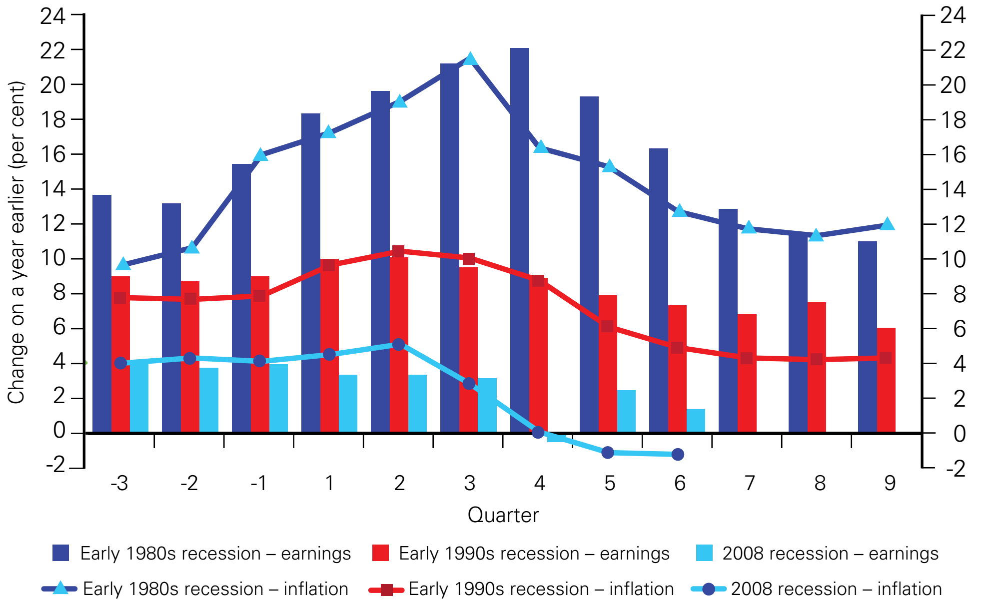
Real Wage Flexibility

2.22 Falling or static real earnings growth may help employers retain labour in a downturn. Figure 2.9 shows that in the period before the start of the 1980s and 1990s recessions, real earnings were growing. Once the recessions began, in 1980 real earnings continued to grow, whereas in 1990 earnings were more or less static in real terms. With the exception of the third quarter of the 1990s recession, real earnings did not fall.

2.23 In contrast, real earnings were static for some time before the 2008 recession began, and actually fell quite sharply early in the recessionary period. However, as we noted above, plummeting inflation in late 2008 and into 2009 resulted in a prolonged period of deflation on the RPI measure, which is most commonly used by pay setters. This meant that, in the latter quarters of this recession and even at historically low levels of output growth, average earnings compared to this measure increased in real terms – sometimes substantially so. Any beneficial effects on the labour market from static or falling real earnings growth therefore disappeared before early 2009 when RPI inflation became negative.

2.24 For some employees, however, real pay will have fallen even with very low inflation. The main downward pressure on RPI in 2009 came from reductions in bank base rates and the resulting falls in mortgage interest payments. Measures that exclude this component, for example, CPI and RPIX (RPI excluding mortgage interest payments), have shown higher rates of inflation than RPI. Consequently the low paid, many of whom are without mortgages, may have seen either no increase in real pay or a modest fall.

Figure 2.9: Average Earnings Growth, GB, and Price Inflation, UK, in Previous Recessions, 1979–2009



Source: ONS, AEI (LNNC) and RPI (CZBH), quarterly, seasonally adjusted (AEI only), UK (GB for AEI), 1979–2009.
Note: Quarter 1 is the first quarter of the recession (Q1 1980 for the 1980s, Q3 1990 for the 1990s, and Q2 2008 for the 2008 recession).

Reduced Investment and Destocking

2.25 In the short term, firms might try to cope with the contraction in demand by reducing or delaying business investment and making greater use of inventories. Table 2.2 shows that this is indeed what many firms have been doing. Business investment has fallen by almost 22 per cent from peak to trough. This is considerably greater than the equivalent falls in the early 1980s and early 1990s recessions (around 13 per cent and 18 per cent respectively).

2.26 In December 2009 the Bank of England Agents' survey of business investment found that although business investment had been reduced across all firms, small and medium-sized firms had on average cut investment expenditure by far more than large firms. Over a quarter of small and medium-sized firms claimed to have cut investment by more than half in the preceding 12 months. Although demand was cited as the most important factor in cutting investment, finance was also a key factor. A quarter of small and medium-sized firms and a fifth of large firms regarded internal financing as a problem, possibly reflecting a reluctance to draw down on cash balances when future demand was very uncertain and working capital tight.

2.27 While the availability of external finance appeared less important across all firms, there was a notable difference between small and medium-sized firms, and large firms. Nearly a third of small and medium-sized firms cited external finance as a constraint on investment. This supports evidence from stakeholders that access and the high cost of credit were particularly difficult for small firms.

Table 2.2: Change in Business Investment and Inventories, UK, 1979–2009

Per cent	Business investment Total loss peak to trough[a]	Inventories Total loss peak to trough[b]
Early 1980s recession	-13.0	-10.8
Early 1990s recession	-17.8	-10.8
2008 recession	-21.7	-9.5
	Start of recession to trough[ac]	**Start of recession to trough[bc]**
Early 1980s recession	-11.5	-10.8
Early 1990s recession	-17.3	-10.8
2008 recession	-19.3	-8.5
	First six quarters of recession[c]	**First six quarters of recession[c]**
Early 1980s recession	-11.5	-7.6
Early 1990s recession	-11.0	-7.7
2008 recession	-19.3	-8.5

Source: LPC estimates based on ONS data, business investment for the whole economy (NPEL) and changes in inventories (CAFU), chained volume measures, quarterly, seasonally adjusted, UK, 1979–2009.
Notes:

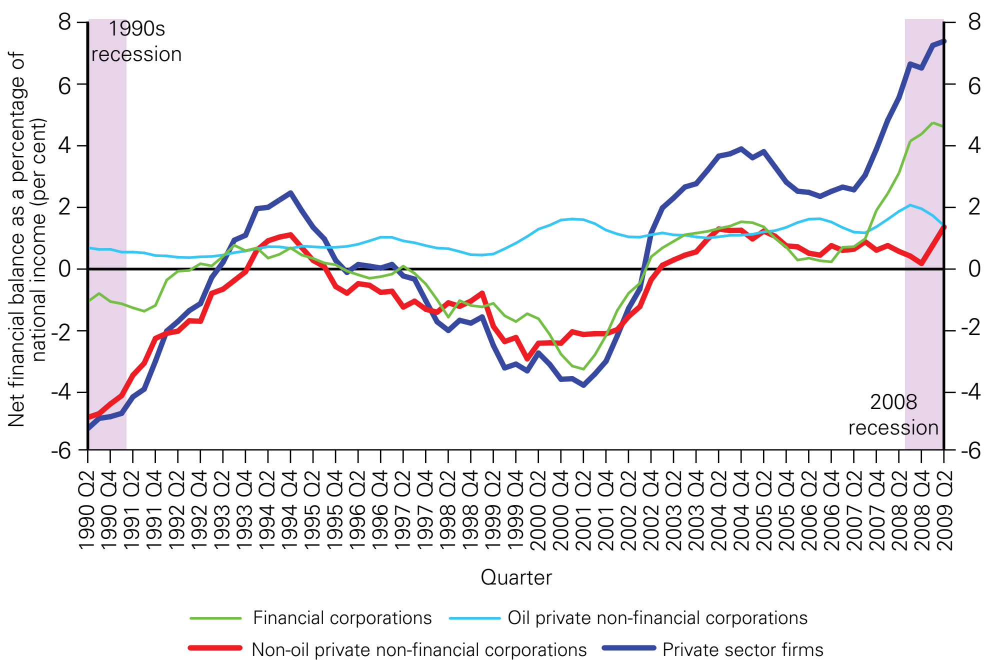
a. Peak to trough for business investment was Q3 1979 to Q2 1981 for the early 1980s, Q3 1989 to Q3 1993 for the early 1990s, and Q1 2008 to Q3 2009 (so far) for the 2008 recession.
b. Peak to trough for inventories was Q4 1979 to Q1 1983 for the early 1980s, Q2 1990 to Q1 1994 for the early 1990s, and Q3 2008 to Q3 2009 (so far) for the 2008 recession.
c. The first quarter of the recession was Q1 1980 for the early 1980s, Q3 1990 for the early 1990s, and Q2 2008 for the 2008 recession.

2.28 In previous recessions, firms also reduced their inventories and adopted processes that enabled them to run with lower stock levels. In the two previous recessions, firms began running down their stock levels before the onset of the downturn and continued to reduce inventories for some time after the recovery started. At the start of this recession, the increase in stocks slowed but did not start to fall until the third quarter of 2008. Since then inventories have fallen sharply. Table 2.2 shows that this fall has been steeper than at the equivalent stage of previous recessions, but that the total fall so far has been less. Firms might therefore be using reductions in investment and running down stocks to cope with the downturn in the economy.

Healthier Financial Balances and Profits

2.29 As a consequence of delaying or reducing investment, firms in general have built up their financial balances throughout this recession. Figure 2.10 shows that private sector firms have been net 'savers' since the end of 2002 and that, since the start of the recent economic uncertainty, they have improved their financial position. Their net 'saving' rose from 2.6 per cent of national income in the middle of 2007 to 7.4 per cent in the second quarter of 2009.

Figure 2.10: Private Sector Financial Balances, UK, 1990–2009



Source: Bank of England estimates based on ONS data, UK financial corporations net borrowing (NHCQ) and UK private non-financial corporations net borrowing (DTAL), as percentage of gross national income (ABMZ), current prices, quarterly, four-quarter moving average, UK, 1989–2009.

Notes:

a. Bank estimates of net borrowing for oil private non-financial corporations are deducted from UK private non-financial corporations' net borrowing to get non-oil private non-financial corporations.

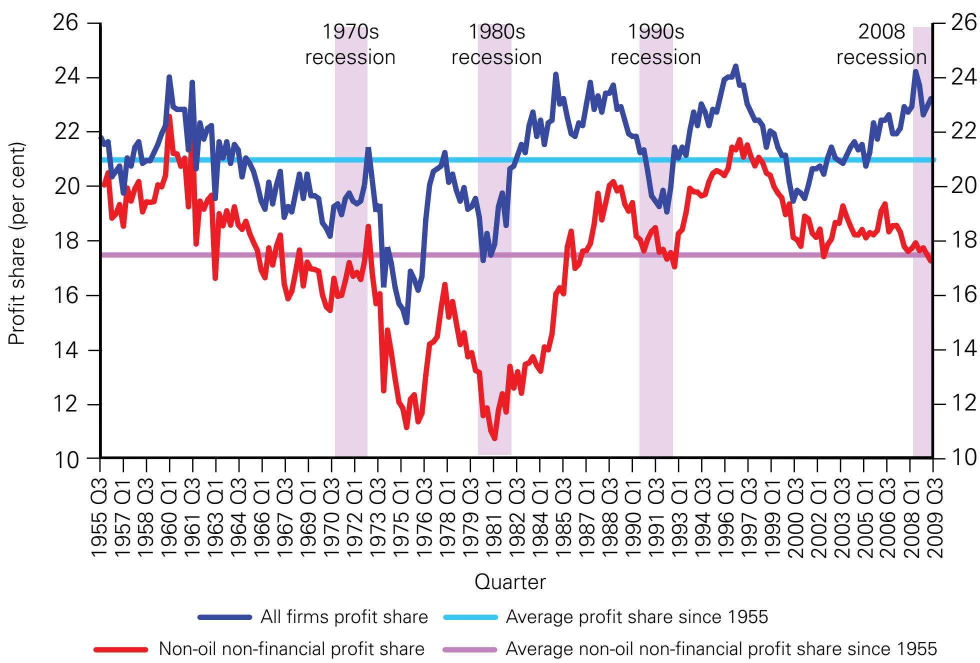
b. Private sector firms are defined as private non-financial corporations and private financial corporations.

2.30 Although much of this improvement has been among the financial institutions, the financial balances of non-oil private non-financial corporations have also been positive since the beginning of 2003. This is in marked contrast to the financial position of these private sector firms during the 1990s recession, when firms borrowed heavily.

2.31 Firms subject to adverse demand conditions may be forced to accept a squeeze on profits. However, there is little evidence that the current recession has had as much impact on profits at the whole economy level as previous recessions.

2.32 One measure of profitability is profit share, defined here as corporate surplus as a percentage of GDP. We have examined this measure both for all firms and for non-oil private non-financial corporations only. Figure 2.11 shows that these two measures of profit share have tended to move together since 1955 although their paths have diverged since 2006.

Figure 2.11: Total Profit Share and Non-oil Non-financial Profit Share, UK, 1955–2009



Source: ONS, corporate surplus as percentage of GDP (IHXM), and Bank of England estimates of non-oil private non-financial corporations profit based on ONS data, current prices, quarterly, seasonally adjusted, UK, 1955–2009.

2.33 Taking all firms, profit share fell noticeably below its long-term trend in all three previous post-World War II recessions, particularly in the 1970s and 1980s and to a lesser extent in the 1990s. This recession appears different, as profit share increased to around 23 per cent in the third quarter of 2009. Removing oil and financial corporations from the data changes the picture somewhat. The 1970s and 1980s recessions were clearly periods of low profit share but the 1990s recession was not. Profit share fell from over 20 per cent to 17 per cent during that recession but generally remained above its long-term share. During the current recession, profit share on this basis has fallen by a much smaller margin from 19 per cent to just under 18 per cent and has remained above, but close to, its long-run average.

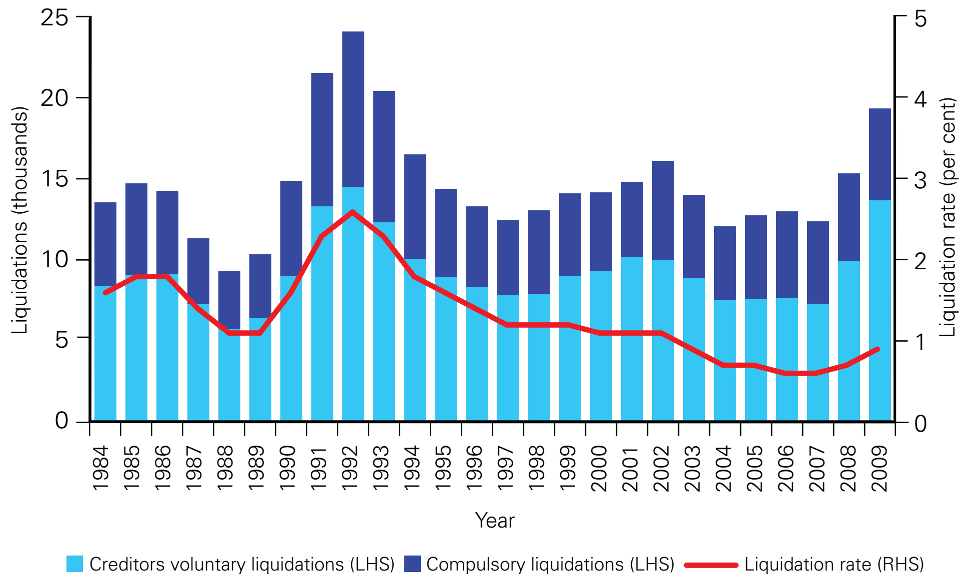
2.34 Another measure of profitability is the rate of return on capital employed. The gross and net rates of return on capital for non-oil private non-financial corporations have fallen since the end of 2006 (from 12.9 per cent and 13.7 per cent respectively) to just under 11 per cent in the third quarter of 2009. However, they remain above the rates of return recorded in the 1990s recession (when gross returns were around 9–10 per cent and net returns were around 8.5–9.5 per cent). Both profit share measures and the rate of return on capital employed suggest that profits are currently holding up much better than in previous recessions.

Lower Insolvency Rate

2.35 A factor in the sharp falls in employment and steep increases in unemployment in the 1990s recession was the large increase in the number of insolvencies. Although the number of insolvencies rose to 14,700 in the first three quarters of 2009 (an annualised level of nearly 20,000) from 12,500 in 2007, Figure 2.12 shows that they have not risen as fast as in the 1990s recession when the number of insolvencies rose from 10,500 in 1989 to 15,000 in 1990 and to 24,500 in 1992. Further, due to a large increase in the number of firms, the liquidation rate remains historically low (records began in 1984).

2.36 The stock of firms in the economy can also be used to assess the impact of the recession. The latest data for 2008 show that the net change in the number of firms in the whole economy was 2.2 per cent, in line with similar increases in recent years. This increase has not been consistent across the economy. There has been a fall in the number of hospitality firms, while the number in retail has remained at roughly 2007 levels. This has been the result of a reduction in the number of new firms in these sectors. The number of firms going out of business in both sectors actually fell in 2008.

Figure 2.12: Insolvency Level and Rate, England and Wales, 1984–2009



Source: LPC estimates based on Insolvency Service data, quarterly, not seasonally adjusted, England and Wales, Q1 1984–Q3 2009.
Note: 2009 estimate is based on three quarters only (Q1–Q3).

Government Policies

2.37 The ability of some firms to cope with the recession has been aided by various government policies. In addition to action that the Government took to stabilise the financial system and stimulate demand in the economy, the Government has provided support for cashflow and investment to help businesses. Among the most important initiatives for small businesses has been the Business Payment Support Service that has enabled firms in temporary financial difficulties to spread their tax payments. In addition, business rates support has been provided, the announced increase in the Small Companies' Rate of corporation tax has been deferred, and VAT was reduced for over a year. The Government has introduced various measures to improve access to finance, such as the Enterprise Finance Guarantee, while European Investment Bank loans have also been made available to small firms.

2.38 Tax credits have provided additional support to families, potentially making it easier for workers to accept reduced hours, small pay rises or pay freezes. The Government and devolved administrations have also introduced measures aimed at maintaining and increasing the number of apprentices as well as giving employers incentives to take on young people.

2.39 In summary, in contrast to previous recessions when the percentage fall in employment and hours was around twice the fall in output, the labour market this time has been remarkably resilient with employment and hours not falling as fast as output. This has led to productivity falling sharply and unit wage costs rising. While this might suggest that firms could still need to make further adjustments, the labour market actually started to show signs of improvement in the second half of 2009. Firms appear to have retained labour by running down inventories and cutting investment. Wage growth had also been weak leading up to the recession and remains so. Compared with previous recessions, private sector firms' financial balances are much healthier; profits higher; and there have been fewer insolvencies. In the context of this economic backdrop we now move on to assess our recommendations for the October 2009 upratings.

October 2009 Upratings

2.40 Last year, given the uncertainties about the state of the UK economy, we considered it prudent to ask the Secretary of State for Business for his agreement to an extension to our reporting deadline. This enabled us to take into account further economic data and the results of in-house analysis of the impact of the economic downturn. The request was agreed and our report was submitted on 1 May 2009. The delay did not, however, affect the implementation date of our recommendations, which remained 1 October 2009.

2.41 The additional data and other research then available confirmed that the UK was firmly in recession, the labour market was softening, and that inflation, pay settlements and average earnings growth were all easing back. We concluded that these data, and the consensus forecasts for the remainder of the year, supported a cautious approach to changes to the National Minimum Wage. Consequently, we recommended an increase in the adult minimum hourly rate from £5.73 to £5.80, a rise of 1.2 per cent. We also concluded that the relative value of the Youth Development Rate and the 16–17 Year Old Rate should be maintained, and therefore recommended similar percentage uplifts to these rates. The Government accepted our recommendations.

2.42 At the time of our 2009 Report, the beginning of this latest recession was taken to be the third quarter of 2008 and, as shown in Table 2.3, the consensus forecast was for a 3.1 per cent decline in GDP over 2009 as a whole followed by a slow recovery in 2010. However, subsequent data showed the recession started earlier and that GDP has declined by more than forecast. GDP is now forecast to have fallen by around 4.7–4.8 per cent in 2009, although the outlook for 2010 has improved.

Table 2.3: Actual Outturn and Revised Forecasts Compared with 2009 Report Forecasts, UK, 2009–2010

Per cent		Forecasts used in 2009 Report (March 2009)		Actual outturn (data for Q4 unless stated otherwise)	Latest forecasts for 2009 and 2010 (January 2010)	
		2009[a]	2010[a]	2009[b]	2009[c]	2010[c]
GDP growth[d]		**-3.1**	0.4	**-4.8[e]**	-4.7	1.3
Employment growth[d]		**-2.6**	-1.6	**-2.1**		-0.7
Claimant unemployment (millions)[f]		**1.98**	2.36	**1.62**		1.82
Average earnings growth (AEI including bonuses, GB)[d]		**2.7**	2.6	**1.3[g]**	1.3	2.2
Price inflation	**RPI[f]**	**-2.1**	2.2	**0.6**		2.9
	CPI[f]	**0.4**	1.5	**2.1**		1.8

Source: HM Treasury (March 2009 and January 2010) and ONS, GDP growth (ABMI); total employment as measured by Workforce Jobs (DYDC); claimant unemployment (BCJD); AEI including bonuses (LNNC), seasonally adjusted; RPI (CZBH); CPI (D7G7), not seasonally adjusted, UK (GB for AEI), 2009–2010.

Notes:

a. Forecasts for 2009 and 2010 were from HM Treasury (March 2009).
b. Data available up to 20 January 2010.
c. Latest forecasts for 2009 and 2010 are from HM Treasury (January 2010). No forecast is given when actual data has been published.
d. Actual data and forecasts are for whole year growth.
e. Estimate of economic growth based on NIESR estimates, current forecasts and LPC extrapolations.
f. Data and forecasts are for Q4.
g. Estimate of average earnings growth based on January to November 2009 compared with the same period a year earlier.

2.43 In contrast, the labour market has fared better. Employment was expected to fall by 2.6 per cent in 2009 with claimant count unemployment rising close to 2 million in the fourth quarter. The number of workforce jobs fell by 649,000 (2.1 per cent) in the year to the third quarter of 2009. Further, in the three months ending November 2009, total employment was 451,000 lower than a year earlier (a fall of just 1.5 per cent). The claimant count in the fourth quarter of 2009 was 1.62 million, 531,000 higher than in the fourth quarter of 2008 but still well below the March 2009 forecast.

2.44 The path of inflation has generally been higher than was forecast at the time we made our 2009 recommendations. Figure 2.2 showed that, as forecast, RPI inflation was negative for most of 2009 but was well above the -2.1 per cent consensus forecast for the fourth quarter. In fact, RPI was positive again in the fourth quarter of 2009. CPI followed a similar downward trajectory but has remained at between 1 and 2 per cent since May 2009. Pay settlements and average earnings growth were also subdued in 2009 with actual average earnings growth including bonuses much lower than the consensus forecast at the time of our last report (2.7 per cent for 2009). In October 2009, average earnings growth including bonuses was 1.5 per cent.

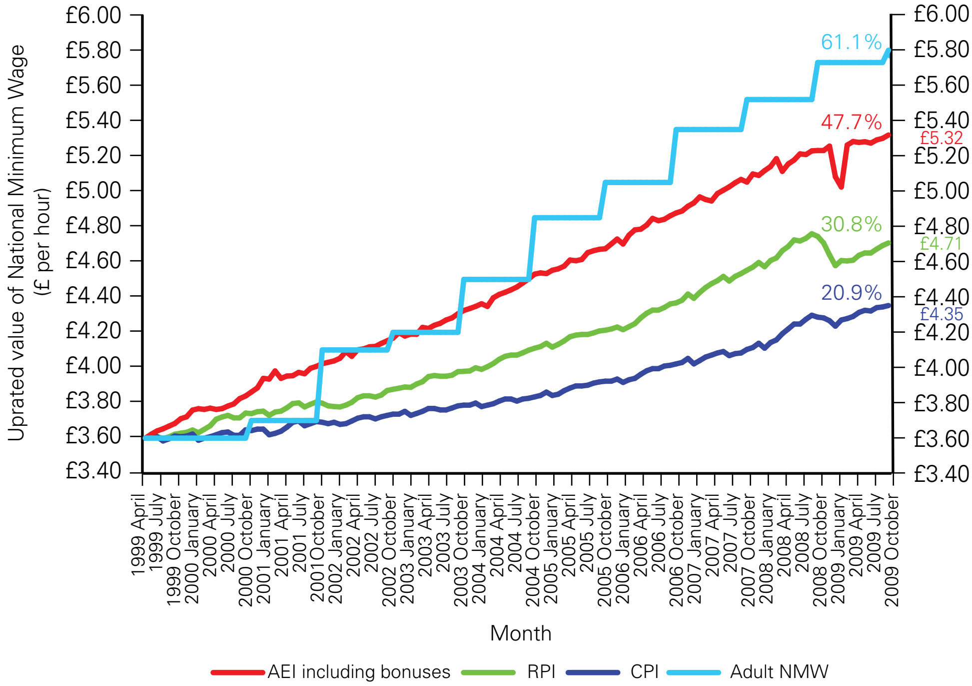
2.45 In summary, the recommended increases of around 1.2 per cent in the three National Minimum Wage rates from October 2009 were expected to be greater than inflation. Published data for October 2009 show the recommended uplift to be well ahead of RPI but around or just below CPI. Although the recommended increases were lower than the forecasts for average earnings, our assumptions at the time were that these forecasts would prove too high. The minimum wage increases were within the median settlement range and close to the rate of average earnings growth for the whole economy and the private sector.

Impact of the National Minimum Wage on Earnings

2.46 We have compared our recommended upratings for October 2009 with the outturn data. Unfortunately, few data are yet available on which to assess the impact of these upratings. Much of the data that has become available since our 2009 Report relates to the 2008 minimum wage upratings. In this section we therefore focus on their impact on the level and distribution of hourly earnings. We also comment on any noticeable trends (or deviations from trends) from the impact of previous minimum wage increases. Our analysis in this chapter will concentrate on those aged 22 and over. Chapter 5 will look in depth at the impact of the minimum wage on younger workers.

2.47 Our 2009 recommendations meant that in October 2009, the adult minimum wage had increased by over 61 per cent since its introduction in April 1999. Figure 2.13 shows that this is much higher than the equivalent increases over that time in average earnings (around 48 per cent) or prices (about 21–31 per cent, depending on whether the CPI or the RPI is used). Had the minimum wage been uprated in line with average earnings from its introduction, it would have risen to £5.32 an hour in October 2009. Uprating in line with prices would have led to a minimum wage of £4.35 or £4.71, depending on the price index used. Thus, there has been an increase in the real and relative value of the adult minimum wage since its introduction.

Figure 2.13: Increases in the Real and Relative Value of the Adult National Minimum Wage, UK, 1999–2009



Source: LPC estimates based on ONS data, AEI including bonuses (LNMQ), CPI (D7BT) and RPI (CHAW), monthly, seasonally adjusted (AEI only), UK (GB for AEI), 1999–2009.

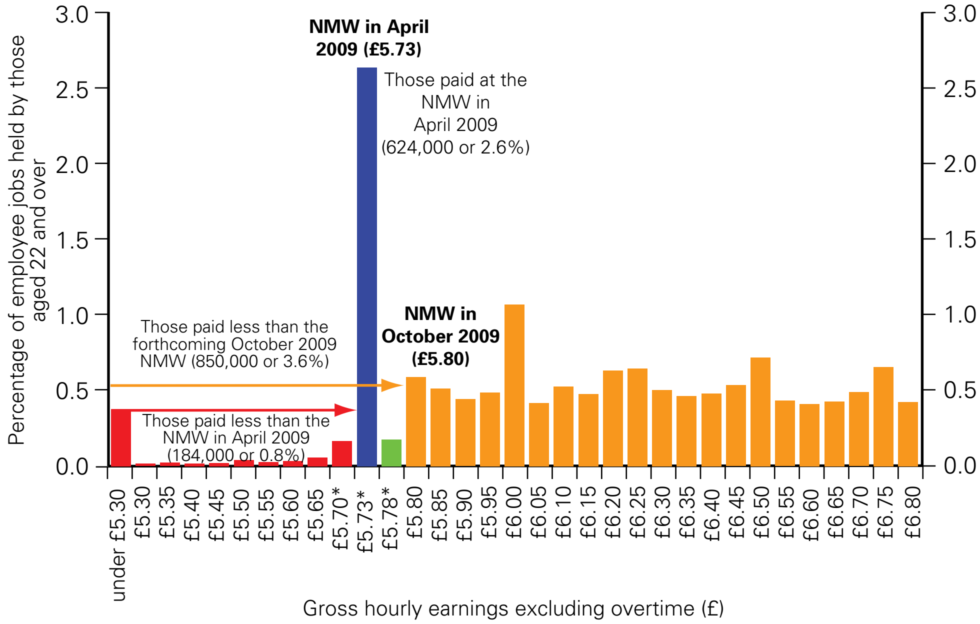
2.48 The Annual Survey of Hours and Earnings (ASHE) is conducted in April of each year and is the main earnings dataset we use to analyse the effect on individual earnings. The latest data are from April 2009, when the minimum wage was £5.73 per hour for adults. This had increased by 3.8 per cent in October 2008.

2.49 This increase occurred at the same time as the UK was in the early stages of the deepest and most protracted recession since World War II and can be compared with median pay settlements at the time of around 3.5 per cent, average earnings growth of 3.3 per cent (including bonuses) to 3.6 per cent (excluding bonuses), and price inflation ranging from 4.2 per cent (RPI) to 4.5 per cent (CPI).

Hourly Earnings Distribution

2.50 In April 2009, as shown in Figure 2.14, about 0.8 per cent of employees aged 22 and over (around 184,000) were paid below the adult minimum wage.[1] Table 2.4 shows that this is slightly lower than in 2008 but in line with the percentages observed since 2000.

Figure 2.14: Hourly Earnings Distribution for Employees Aged 22 and Over, UK, 2009



Source: LPC estimates based on ASHE 2007 methodology, low-pay weights, UK, April 2009.
Note: * Five pence bands except where stated otherwise (bands labelled by minimum pay amount).

2.51 There was, however, a further increase in the number (624,000) and proportion (2.6 per cent) of employees who were paid at the minimum wage rate in April 2009,[2] up from a revised 589,000 (or 2.5 per cent) in April 2008. Indeed, looking at ten pence pay bands for consistency with official data published prior to 2004, Table 2.4 shows that the number of employees paid at the minimum wage (747,000) was highest in April 2009, and the proportion of employees affected (3.2 per cent) was only surpassed when the minimum wage was introduced in 1999 (3.3 per cent). This supports the findings by, among others, Incomes Data Services (IDS, 2007, 2009a and 2009b), Swaffield (2008 and 2009) and Forth, Harris, Rincon-Aznar and Robinson (2009) that the minimum wage was having an impact on an increasing number of firms and workers.

2.52 In April 2009, there were around 850,000 jobs that paid less than £5.80 per hour, the then forthcoming October 2009 uprating. Not surprisingly,

1 This is not necessarily a measure of non-compliance. There are legitimate reasons, such as apprenticeships and piece rates, that enable employers to pay less than the minimum wage.
2 We define the minimum wage rate in Figure 2.14 as the five pence band that lies from £5.73 per hour to strictly less than £5.78 per hour. In Table 2.4 we will refer to the ten pence band that lies from £5.73 per hour to strictly less than £5.83 per hour.

as the increase in October 2009 (1.2 per cent) was the smallest that we have recommended so far, this represented a fall of nearly 400,000 in the numbers paid below the forthcoming uprating. We might, therefore, expect that the impact of the October 2009 uprating would be less than that of the October 2008 uprating. Indeed, Table 2.4 shows that the number and percentage paid below the forthcoming rate in October 2009 were lower than those below any previous uprating since October 2000, when the increase in the minimum wage was ten pence.

Table 2.4: Jobs Held by Those Aged 22 and Over Paid Below the Existing National Minimum Wage and the Forthcoming National Minimum Wage, UK, 1999–2009

	Data year (April)	Adult minimum wage rate in April	Jobs held by adults paying less than the adult rate in April		Jobs held by adults paying the adult rate (ten pence band) in April		Forthcoming October adult minimum wage rate	Jobs held by adults in April paying less than the forthcoming October rate	
		£	000s	%	000s	%	£	000s	%
ASHE without supplementary information	**1999**	3.60	460	2.1	723	3.3	3.60	458	2.1
	2000	3.60	190	0.9	551	2.5	3.70	746	3.3
	2001	3.70	210	0.9	394	1.8	4.10	1,326	5.9
	2002	4.10	290	1.3	630	2.8	4.20	920	4.1
	2003	4.20	210	0.9	445	2.0	4.50	1,022	4.5
	2004	4.50	230	1.0	558	2.5	4.85	1,399	6.2
ASHE with supplementary information	**2004**	4.50	233	1.0	408	1.8	4.85	1,209	5.3
	2005	4.85	233	1.0	484	2.1	5.05	1,147	5.0
	2006	5.05	239	1.0	544	2.4	5.35	1,289	5.6
ASHE 2007 methodology	**2006**	5.05	238	1.0	544	2.4	5.35	1,289	5.6
	2007	5.35	231	1.0	696	2.9	5.52	1,215	5.1
	2008	5.52	212	0.9	731	3.1	5.73	1,245	5.2
	2009	5.73	184	0.8	747	3.2	5.80	850	3.6

Source: ONS central estimates using ASHE without supplementary information and LFS, UK, 1999–2004; LPC estimates using ASHE with supplementary information, low-pay weights, UK, 2004–2006; and ASHE 2007 methodology, low-pay weights, UK, April 2006–2009.

Notes:

a. Prior to 2004, all our analyses were conducted in ten pence pay bands using the ONS central estimate methodology. In contrast to elsewhere in this report, where five pence pay bands are used, we use ten pence pay bands in this table.

b. Direct comparisons before and after 2004 and those before and after 2006, should be made with care due to changes in the data series.

2.53 As explained in our previous reports, not all those paid below the forthcoming rate will have benefited directly from the minimum wage uprating. We would expect some of those workers to have received pay rises that would have taken their pay above £5.80 before October, as employers often anticipate minimum wage upratings and around two-thirds of all pay settlements are implemented in January or early April, prior to the ASHE survey date. The April 2009 ASHE data may therefore already reflect the October 2009 upratings to some extent, however, our recommendations for 2009 were not announced until May (after the ASHE survey date). This contrasts with previous years (2000–2008) when our recommendations have generally been made public in March, at least six months before implementation.

2.54 Estimating the coverage of the minimum wage therefore requires us to make assumptions about how wages would adjust in its absence. If we assume that wages would have increased in line with average earnings, we estimate that about 3.2 per cent of jobs (around 770,000) held by adults will have been covered by the 2009 uprating. Alternatively, if we assume that they would have increased in line with prices, we estimate coverage of between 136,000 and 170,000 jobs (0.6–0.7 per cent), depending on whether RPI or CPI is used.

2.55 As expected, we find that our estimates of coverage are lower for the 2009 uprating than for other recent upratings. Using the wages or CPI price assumption, we estimate that around 3.5 per cent of jobs held by adults (about 0.85 million jobs) were covered by the 2008 minimum wage uprating. Using the RPI assumption, coverage falls from 4.0 per cent in 2008 to 0.6 per cent in 2009. But these estimates are much lower than our estimates of coverage for the October 2006 uprating, around 5 per cent of employees aged 22 and over (about 1.1 million such employees).

Bite of the National Minimum Wage

2.56 The bite of the minimum wage is defined as its value relative to a particular point, such as the mean, median or lowest decile, of the earnings distribution. Given the October 2008 increase (3.8 per cent) was higher than the increase in average earnings, we might have expected the bite to have increased along the whole earnings distribution. Table 2.5 shows that it has, but surprisingly not at the lowest decile where the bite fell marginally from 89.7 to 89.6 per cent. Since 2001, the bite has generally risen across the earnings distribution, but it has not changed much in the last two years.

Table 2.5: National Minimum Wage as a Percentage of Various Points on the Earnings Distribution of Employees Aged 22 and Over, UK, 1999–2009

		Adult NMW (£)	Adult minimum wage as % of					
			Lowest decile	Lowest quartile	Median	Mean	Upper quartile	Upper decile
ASHE without supplementary information	**1999**	3.60	83.9	65.1	45.7	36.6	30.4	21.1
	2000	3.60	81.2	64.2	45.4	35.7	29.8	20.6
	2001	3.70	80.3	63.0	44.2	34.7	29.0	19.9
	2002	4.10	85.2	67.5	47.2	36.5	30.8	21.0
	2003	4.20	82.4	65.8	46.5	35.9	30.5	20.8
	2004	4.50	84.9	67.6	47.5	37.2	31.3	21.4
ASHE with supplementary information	**2004**	4.50	85.6	68.3	48.1	37.7	31.6	21.7
	2005	4.85	88.0	69.9	49.4	38.5	32.3	22.1
	2006	5.05	87.5	69.9	49.4	38.4	32.3	22.1
ASHE 2007 methodology	**2006**	5.05	87.5	70.0	49.7	38.5	32.5	22.3
	2007	5.35	89.2	71.7	51.0	39.6	33.6	22.9
	2008	5.52	89.7	71.6	50.6	39.2	33.2	22.8
	2009	5.73	89.6	71.7	50.7	39.5	33.3	22.9

Source: LPC estimates based on ASHE without supplementary information, standard weights, UK, April 1999–2004; ASHE with supplementary information, standard weights, UK, April 2004–2006; and ASHE 2007 methodology, standard weights, UK, April 2006–2009.
Note: Direct comparisons before and after 2004 and those before and after 2006, should be made with care due to changes in the data series.

2.57 The bite relative to the median was just under 46 per cent when the minimum wage was introduced in April 1999, it then fell to around 44 per cent in April 2001, after the small increase in the minimum wage in October 2000. The bite then rose to reach 51 per cent in April 2007 and has remained at around this level. The bite relative to the mean has followed a similar pattern, rising from 34.7 per cent in 2001 to 39.5 per cent in 2009.

2.58 An alternative way of looking at this is to examine how the value of the minimum wage has changed over time relative to both average earnings and prices. Using £3.60 in April 1999 as the base, we estimate that in October 2008, the adult rate at £5.73 was 50 pence higher than it would have been, had it been indexed to earnings growth (£5.23), 99 pence greater than if it had been indexed to RPI (£4.74) and £1.44 greater than if indexed to CPI (£4.29). On all three of these measures, the relative value of the adult minimum wage was greater in October 2008 than it had previously been.

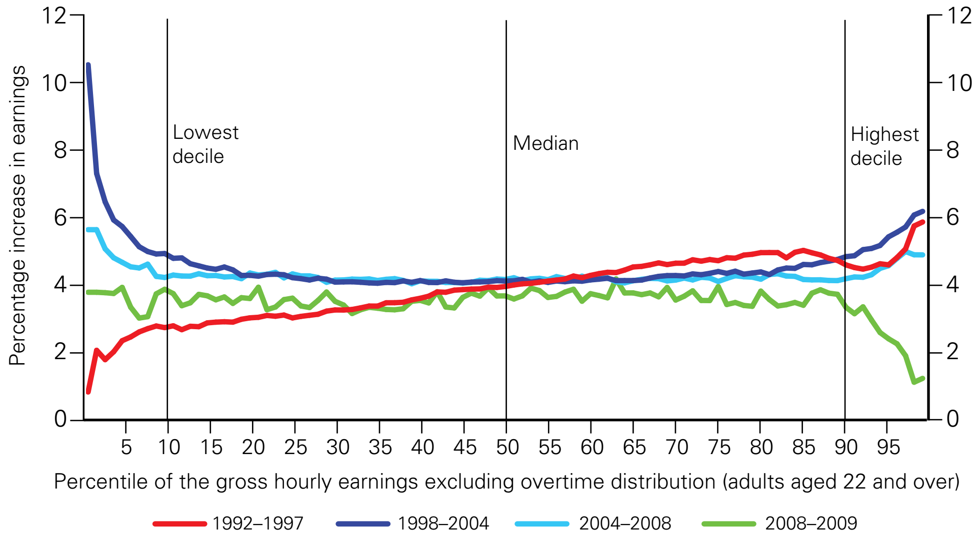
Impact on Differentials

2.59 Our analysis above confirms that the October 2008 upratings maintained the bite of the minimum wage and had a significant impact on those paid at the minimum wage. We now look in more detail at the impact on the distribution of earnings and differentials.

2.60 Dividing employees into 100 equally sized groups (percentiles) and ranking these groups by their hourly earnings from the lowest paid on the left to the highest paid on the right, Figure 2.15 shows how the earnings at each of these percentiles have changed on average each year for four periods: 1992–1997 (prior to the introduction of the minimum wage), 1998–2004 (covering the introduction and early years of the minimum wage), 2004–2008 (covering more recent minimum wage upratings) and 2008–2009 (covering the latest uprating for which we have data). Over the period prior to the introduction of the minimum wage, 1992–1997, the wages of the lowest paid increased by less than those at the median (earners in the middle of the earnings distribution at the 50th percentile), whose wages in turn increased by less than the wages of those at the top of the earnings distribution.

2.61 Following the introduction of the minimum wage, specifically over the period 1998–2004, those at the bottom of the earnings distribution received higher pay rises than those at the middle of the distribution. From 2004–2008, the increases in the minimum wage appear to have had a smaller effect than the increases in the earlier period (1998–2004). But those at the bottom of the earnings distribution still received higher pay rises than those at the middle of the distribution.

Figure 2.15: Annual Increase in Hourly Earnings for Employees Aged 22 and Over, by Percentile, UK, 1992–2009[ab]



Source: LPC estimates based on New Earnings Survey (NES), unweighted, UK, April 1992–1997; ASHE without supplementary information, standard weights, UK, April 1998–2004; ASHE with supplementary information, standard weights, UK, April 2004; and ASHE 2007 methodology, standard weights, UK, April 2008–2009.

Notes:

a. Comparisons have been made here for illustrative purposes only as no consistent earnings time series data are available from 1992 to 2009. To estimate the period 2004–2008 this analysis uses ASHE with supplementary information for 2004 and ASHE new 2007 methodology for 2008. These two series are not strictly comparable although the data for 2006 from the separate series are similar.

b. Those jobs where pay was affected by absence in the reference period were removed before the percentiles were calculated.

2.62 This pattern continued in 2008–2009 but with important differences. The increase in median hourly earnings (3.8 per cent) was a little below the average for the other periods considered (around 4.0 per cent). Those paid just above the minimum wage (the 6th to 9th percentiles) appear to have received a lower pay rise than those paid at the minimum wage, suggesting a squeeze in differentials. Second, the recession appears to have considerably reduced the earnings growth of those in the highest decile relative to those at the median. This is in stark contrast to the relatively higher growth observed throughout the period from 1992–2008.

2.63 Building on her previous work in this area, Swaffield (2009) addressed the issue of what the real wage growth of low-paid employees would have been in the absence of a minimum wage or a minimum wage uprating over the period. She found that low-wage employees experienced significantly higher pay increases in the period since the introduction of the National Minimum Wage than previously. Actual real wage rises depended on the size of the increase in the minimum wage. Wage growth was greater than it would otherwise have been in years in which the minimum wage increase was higher than average earnings. But employers managed to give lower pay rises in years when minimum wage increases were lower, for example, after the minimum wage increases in October 2000 and 2002.

2.64 Stewart (2009) investigated whether increases in the National Minimum Wage had effects on wages beyond the increases required to bring those previously below the new minimum up to it. Using three different methods to identify these spill-over effects, Stewart (2009) found that there was little evidence of any effects when analysing individual wage changes. However, his comparison of wage quantiles before and after an increase in the minimum wage did find evidence of significant but limited spill-overs up to the 11th percentile in 2001. He also found spill-overs up to the 20th percentile for the October 2002 upratings. Although this might seem surprising, as it was the smallest percentage increase there had been until October 2009, it might be explained by employers using the years of low increases to restore differentials.

2.65 Stewart (2009) completed his investigation of the impact on differentials by estimating wage distribution functions before and after an increase in the minimum wage. Using the counterfactual that, in the absence of the minimum wage, all wages would have increased by the growth in median earnings, he again found evidence of significant spill-overs from the October 2002 minimum wage upratings. Spill-over effects for other upratings were either not found or disappeared under robustness checks.

2.66 Butcher, Dickens and Manning (2009), in their analysis of differentials, noted that the direct effect of the minimum wage had not been enough to explain the observed fall in wage inequality. However, allowing for modest spill-over effects, their model fitted the decline in inequality at the bottom of the labour market reasonably well. They also found that areas most affected by the minimum wage had the largest spill-overs, with effects evident up to the 25th percentile. In contrast to the findings of Stewart (2009), they concluded that spill-over effects may be larger than previously thought.

Impact on Household and Take-home Earnings

2.67 So far, we have focused on the impact of the National Minimum Wage on an individual's gross earnings. In this section, we give a brief account of how the minimum wage interacts with the tax and benefit system and show how the distribution of household income might be affected by it.

2.68 An individual's gross earnings are subject to deductions for tax and National Insurance Contributions (NICs). Individuals may, however, be entitled to in-work benefits, such as Working Tax Credit and Child Tax Credit, and a range of other state benefits, such as Housing Benefit, Child Benefit, and Council Tax Benefit. Most of these benefits are means tested, based on household income. An individual's income will therefore depend on their own earnings, the earnings of others in the household and on household circumstances, such as the number and age of children, childcare costs, and whether any household member is entitled to disability payments. It is thus not easy to generalise about the impact of the minimum wage on the net income of individuals and households.

2.69 When the adult minimum wage was £5.73 in September 2009, gross weekly income would have been £200.55 for a 35 hour week. Using HM Treasury estimates, this gross income would have been equivalent to a net income of around £196.57 for a single person working full-time with no children (a net wage of £5.62 an hour for a 35 hour week). The corresponding amount for a couple with one child (one partner working and the other not) was £305.68 (equivalent to a wage of £8.73 an hour for a 35 hour week – slightly higher if housing and council tax benefits are included). Again assuming a 35 hour week, gross weekly income would have increased to £203.00 following the minimum wage increase to £5.80. The net weekly income for a single person would have risen by around 74 pence in October 2009 and then by a further 91 pence to reach £198.21 in April 2010 taking into account the new tax regime. This increase is below the £2.45 increase in gross weekly income. For the one-child family, net income would have increased by around £3.70 to £309.37 a week (equivalent to an hourly wage of £8.84). The effective hourly rate for the single person would have been £5.66. In conclusion, after taking account of changes to taxation, the net take-home pay for a couple with one child increased in line with the minimum wage increase of 1.2 per cent but the net take-home pay for a single person only rose by 0.8 per cent.

2.70 Brewer, May and Phillips (2009) found that families with minimum wage workers were unlikely to be found at the very bottom of the working age income distribution, as it was dominated by workless families. For 60 per cent of families with a minimum wage earner, however, the minimum wage was the main source of earned income and these families were concentrated towards the bottom of the income distribution. The other 40 per cent of minimum wage families, for which the minimum wage was a secondary source of income, were concentrated towards the middle of the income distribution.

2.71 The main focus of their work, however, was on the interaction of the minimum wage with the tax and benefit system. They found that significant numbers of National Minimum Wage recipients were subject to high marginal effective tax rates because, as their incomes increased, not only were they subject to income tax and NICs, but benefits and tax credits were also withdrawn. This meant that they might benefit little in terms of additional income from increases in the minimum wage. This was found to be particularly true for those towards the bottom of the income distribution (roughly the second and third decile groups). On the other hand, the very poorest and second earners in couples much higher up the income distribution often had zero or low marginal effective tax rates and, therefore, kept considerably more of any gains from increases in the minimum wage.

2.72 Changes in the tax and benefit system between 1999 and 2007 increased net incomes more at the lower end of the income distribution. Minimum wage families, particularly if they included children, were thus more likely to have been gainers than other working families. The average gain was £16 a week with lone parents gaining £42 a week and couples with children gaining an extra £30 a week. However, it did mean that more minimum wage families faced the withdrawal of means-tested benefits and tax credits as their incomes rose, leading to higher marginal effective tax rates. Thus, minimum wage families got to keep less of the increase in the minimum wage than in 1999 but they were better off. Changes to the tax system between 2007 and 2011 were expected to have a less noticeable impact although, on average, minimum wage families will gain £7 a week.

2.73 In summary, as with previous minimum wage upratings, the distribution of earnings was affected by the minimum wage increase in October

2008, with the numbers paid at the adult minimum wage rising to a record high of nearly 750,000. The bite (the value of the minimum wage relative to the median) remained at just under 51 per cent. Our commissioned research found that the minimum wage affected the earnings of the lowest paid but that the evidence on differentials was mixed. We next look at the impact on aggregate employment and unemployment.

Impact on the Aggregate Labour Market

2.74 We have demonstrated that the minimum wage has had a significant impact on the bottom of the earnings distribution. We now investigate whether this has affected aggregate employment or unemployment. In Chapter 3 we go on to look more broadly at how firms have coped with the recession and increases in the minimum wage.

2.75 Changes in employment, employee jobs and unemployment do not appear to be sensitive to the change in the minimum wage at the aggregate level. It is particularly difficult this year to disentangle any effects of the minimum wage from the recession. Table 2.6 shows that the largest increases in employment, the number of employees and the number of employee jobs occurred in the year that the minimum wage was introduced or in years with relatively high increases in the minimum wage (2003–2004 and 2004–2005). The largest falls in those measures of employment were last year, mainly as a result of the recession. Prior to that, the lowest employment growth rates had generally coincided with relatively small increases in the minimum wage.

2.76 Prior to October 2004 the largest increase in ILO unemployment and smallest reduction in the claimant count had occurred in the year after the large minimum wage uprating in October 2001. Since that time, there does not appear to be any relationship between the minimum wage increase and the change in unemployment. In the last year, as a result of the recession, unemployment increased more than it had since the introduction of the minimum wage. There has been a fall in unemployment since the latest upratings in October 2009.

Table 2.6: Change in Employment, Jobs and Unemployment in Each National Minimum Wage Period, UK, 1999–2009

	NMW rise	LFS total employment		LFS employees		Employee jobs[a]		ILO unemployment		Claimant count	
	%	000s	%	000s	%	000s	%	000s	%	000s	%
Mar 1999–Sep 2000[a]	-	347	1.3	375	1.6	427	1.7	-151	-8.6	-168	-13.0
Sep 2000–Sep 2001	2.8	163	0.6	154	0.6	285	1.1	-59	-3.8	-99	-9.4
Sep 2001–Sep 2002	10.8	194	0.7	183	0.8	73	0.3	68	4.6	-2	-0.3
Sep 2002–Sep 2003	2.4	309	1.1	-5	0.0	73	0.3	-55	-3.6	-15	-1.6
Sep 2003–Sep 2004	7.1	252	0.9	314	1.3	255	1.0	-101	-6.8	-96	-10.3
Sep 2004–Sep 2005	7.8	374	1.3	320	1.3	422	1.6	31	2.2	43	5.2
Sep 2005–Sep 2006	4.1	230	0.8	127	0.5	76	0.3	243	17.1	82	9.3
Sep 2006–Sep 2007	5.9	204	0.7	130	0.5	239	0.9	-38	-2.3	-121	-12.6
Sep 2007–Sep 2008	3.2	136	0.5	164	0.6	-22	-0.1	180	11.1	119	14.3
Sep 2008–Sep 2009	3.8	-490	-1.7	-539	-2.1	-766	-2.8	621	34.4	670	70.0
Sep 2009–Nov 2009	1.2	-6	0.0	-17	-0.1			-3	-0.2	-20	-2.1

Source: ONS, total employment (MGRZ), LFS employees (MGRN), employee jobs (BCAJ), ILO unemployment (YBSH), and claimant count unemployment (BCJD), UK, seasonally adjusted, 1999–2009.
Note:
a. To be comparable with other periods, growth has been adjusted to represent 12 months.

Conclusion

2.77 The UK has suffered its longest and deepest recession since at least the 1930s with a total loss of output of around 6 per cent between the first quarter of 2008 and the third quarter of 2009. However, the labour market has been remarkably resilient with employment and hours falling by less than output. This is in stark contrast to the 1980s and 1990s recessions when employment and hours fell by more than output. The latest data suggest that the labour market has already begun to recover: the falls in employment, hours and vacancies, and rises in unemployment and redundancies appear to have stopped and started to reverse. Firms appear to have retained labour and have financed this by restricting wage growth, running down inventories and cutting investment. Nominal wage growth had been weak leading up to the recession and remains so. Compared with previous recessions, private sector firms' financial balances are much healthier; profits, albeit lower than at the start of this recession, are higher; and there have been fewer insolvencies. However, productivity has fallen and unit wage costs have risen so there may be further reductions in employment to come. In addition, the reductions in investment may have a downward impact on the future rate of output growth.

2.78 The economic growth outturn was worse than we had anticipated in our 2009 Report when recommending the minimum wage upratings for October 2009. However, employment falls and unemployment rises were less than expected. As we noted in our last report we thought average earnings growth would not be as strong as forecast. The 1.2 per cent increase in the minimum wage was in line with median pay settlements, private sector and whole economy average earnings growth (including and excluding bonuses) and it was between the increase in the two main measures of inflation (CPI and RPI).

2.79 Data limitations prevented us from assessing fully the impact of that latest minimum wage uprating, but we have investigated the impact of the 2008 minimum wage uprating on the economy and found that it continued to exert a significant influence on wages at the bottom of the earnings distribution. The numbers paid at the adult minimum wage rose to a record high of nearly 750,000 (3.2 per cent of all jobs held by adults) in April 2009, as a result of the 3.8 per cent increase in the minimum wage in October 2008. The bite (the value of the minimum wage relative to the median) remained just under 51 per cent.

2.80 We next go on to investigate the impact of the minimum wage on the low-paying sectors and small firms in Chapter 3, groups of workers in Chapter 4, and young people in Chapter 5. We discuss the economic outlook and its implications in greater detail in Chapter 8.

Chapter 3
Low-paying Sectors and Small Firms

Introduction

3.1 In Chapter 2 we assessed the minimum wage in light of the exceptional economic climate that has prevailed in the UK over the last 18 months and looked at its impact on earnings and employment in aggregate. In this chapter, we investigate how firms have coped with the impact of the minimum wage in a recession. But it should be noted that it is more difficult this year to disentangle the effects of minimum wage increases from those of the general economic climate.

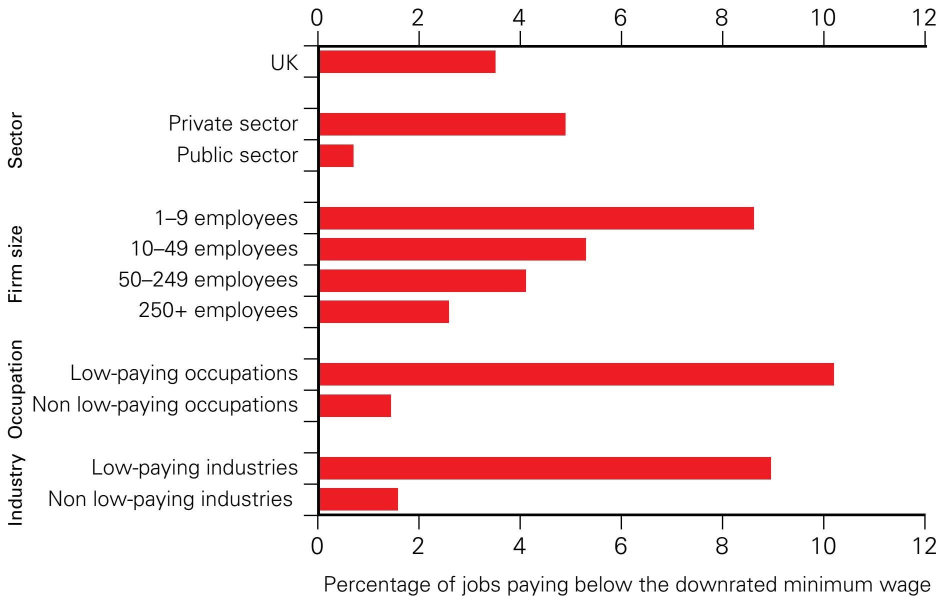
3.2 We begin by looking at which firms are more likely to be affected by the minimum wage. Having established that small private sector firms in certain industries are more likely to have workers in minimum wage jobs, we go on to look in detail at the impact of the minimum wage on each of these low-paying sectors in turn and on small firms. We include views from stakeholders, an examination of the number of jobs at and below the minimum wage, and analysis of employment trends.

3.3 In assessing the impact of the minimum wage, and in particular the minimum wage upratings of October 2008, we draw on a variety of material, including multiple data sources, our commissioned research, other independent research, surveys of the market and employers, and our consultation. The chapter concludes by drawing together key themes that have emerged from the evidence we have received, including the impact of the minimum wage in relation to the recession.

National Minimum Wage Jobs

3.4 If we define minimum wage jobs as being those paid less than the relative value of the then forthcoming minimum wage (that is, the value of the October 2009 upratings in April 2009), we see from Figure 3.1 that minimum wage jobs are more prevalent in the private sector, in small and medium-sized firms, and in certain low-paying industries and occupations. Around 5 per cent of private sector jobs are minimum wage ones compared with less than 1 per cent of public sector jobs. There is also a clear relationship between the proportion of minimum wage jobs and size of firm. Nearly 9 per cent of jobs in micro firms (those with fewer than 10 employees) are minimum wage jobs compared with fewer than 3 per cent in large firms (those with 250 employees or more).

Figure 3.1: Characteristics of Minimum Wage Jobs, UK, 2009

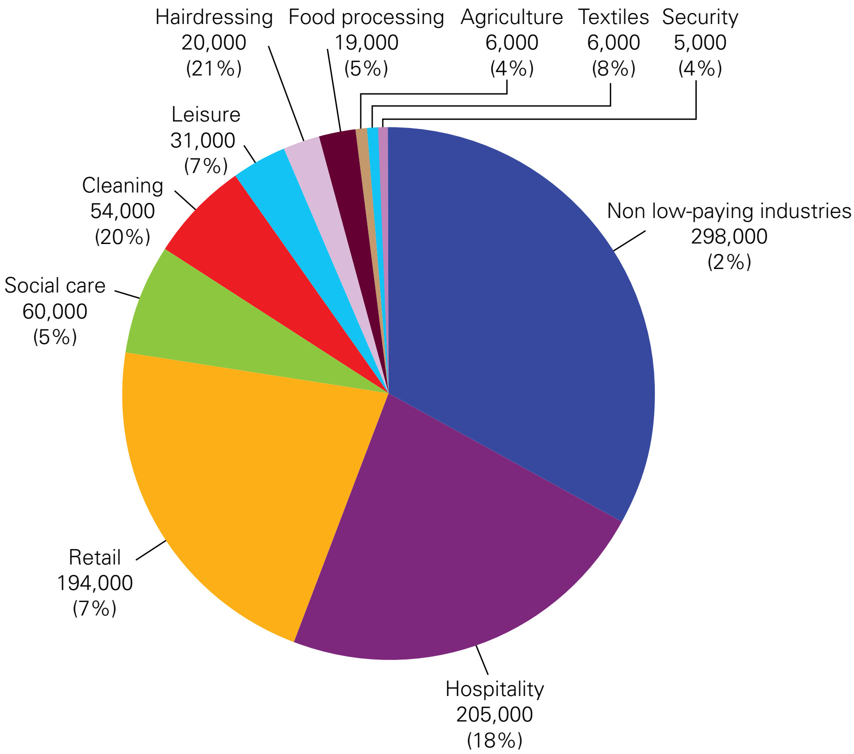


Source: LPC estimates based on ASHE 2007 methodology, low-pay weights, UK, April 2009.
Note: Minimum wage jobs defined as adults (aged 22 and over) earning less than £5.76, youths (aged 18–21) earning less than £4.80, and 16–17 year olds earning less than £3.54 in April 2009.

3.5 As in previous reports, we have identified the low-paying sectors as those industries or occupations with a large number of minimum wage workers or those in which a high proportion of jobs are paid at the minimum wage. The low-paying industries are: retail; hospitality; leisure, travel and sport; social care; food processing; agriculture; hairdressing; cleaning; security; and textiles and clothing. We also group low-paying occupations under these headings, with the addition of childcare and office work. Figure 3.1 shows that there are clear differences between those industries and occupations that we consider to be low-paying and those not.

3.6 Looking at the low-paying industries in greater detail, Figure 3.2 shows that nearly 300,000 minimum wage jobs (around a third) are not in these low-paying industries. The greatest numbers are in hospitality (205,000) and retail (194,000), which together account for around 45 per cent of all minimum wage jobs. The next largest industries are social care (60,000) and cleaning (54,000), each representing about 6 per cent of minimum wage jobs. The other low-paying industries account for just under 90,000 jobs (or around 10 per cent). The industries with the highest proportion of minimum wage jobs are hairdressing (21 per cent), cleaning (20 per cent) and hospitality (18 per cent). In contrast only 7 per cent of jobs in retail and 5 per cent in social care are minimum wage jobs.

Figure 3.2: Number and Proportion of Minimum Wage Jobs, by Low-paying Industry, UK, 2009[ab]



Source: LPC estimates based on ASHE 2007 methodology, low-pay weights, UK, April 2009.

Notes:

a. Minimum wage jobs defined as adults (aged 22 and over) earning less than £5.76, youths (aged 18–21) earning less than £4.80, and 16–17 year olds earning less than £3.54 in April 2009.

b. Percentages are the proportion of minimum wage jobs in each industry.

3.7 Looking at the low-paying occupations, we find a similar pattern. Again, around a third of minimum wage jobs are not in our defined low-paying occupations. The largest numbers of minimum wage jobs are in low-paying occupations in hospitality and retail, which together account for around 38 per cent. There are about 175,000 such jobs in hospitality (such as bar work, waiting in restaurants and less-skilled hotel jobs) and around 167,000 in retail (including shelf stacking, trolley collecting and till working). Using our occupational definition of low pay, cleaning accounts for roughly 15 per cent of minimum wage jobs (about 134,000). This is much larger than the numbers covered by the industry definition in Figure 3.2, as cleaners work in many other industries across the economy. Only 16 per cent of minimum wage jobs are in our other low-paying occupations (childcare, social care, food processing, hairdressing, leisure, office work, security, textiles, and agriculture).

3.8 As with our industry definition, the three occupations with the highest proportion of minimum wage jobs are hairdressing (20 per cent), hospitality (18 per cent) and cleaning (17 per cent). Having identified the lowest-paying sectors, we go on to give an overview of the impact of the minimum wage, before looking at each in turn.

Overview of Impact on the Low-paying Sectors

3.9 The ten low-paying industries identified above accounted for over 8.3 million jobs in September 2009; almost a third of all jobs in the UK. Retail continues to be the largest low-paying industry by far, accounting for around 39 per cent of all jobs in the low-paying industries. Hospitality is the next largest, accounting for 21 per cent of these jobs. It should be noted that not all jobs in the low-paying industries are low-paid; many may be paid significantly above the minimum wage.

3.10 Overall the total proportion of jobs paid at the minimum wage in April 2009 had risen slightly since April 2008, a year in which there was a 3.8 per cent rise in the minimum wage. Some sectors, including hospitality, saw a rise in the number of jobs paid at the minimum wage while other sectors, like agriculture and social care, saw a fall. In a survey of low-paying sectors, Incomes Data Services (IDS, 2009b) found that 55 per cent of employers surveyed had to raise their lowest rate of pay in order to comply with the October 2008 minimum wage. This is a marginal increase from last year when 51 per cent of organisations surveyed had to raise their lowest rate of pay in order to comply with the October 2007 minimum wage uprating.

Responding to the Recession

3.11 In general, there was less commentary on the impact of the minimum wage in responses to our consultation this year than in previous years.

The responses tended to reflect more on the impact of the recession, with many employers more concerned about the impact of the recession on their business rather than the impact of the rise in the minimum wage.

3.12 Employers can choose from a range of options to absorb some of the impact of an increase in the National Minimum Wage and manage the effects of a recession. During a recession, firms are likely to have used a mix of these options in order to control their wage and other costs. We have seen in Chapter 2 that some firms have attempted to cope with this recession by reducing investment, running down stocks and negotiating moderate pay settlements or pay freezes for workers paid more than the minimum wage. Other options to reduce labour costs include cutting other aspects of the remuneration package such as pension provision, unsocial hours payments, overtime and shift premia, bonuses, and non-wage considerations such as perks and staff discounts.

3.13 Employers can also, for example, adjust the number of hours worked, the numbers employed, or seek to increase the productivity of the workforce. If they fail to limit the impact, profit margins might be squeezed. It is difficult for firms to pass the costs on to their customers in the form of increased prices in a recession when inflation is low (or negative) and consumers are increasingly price-sensitive. The extent of any adverse impact from the increase in the minimum wage will be determined by the magnitude of these adjustments. At the aggregate level, it is unlikely that we would be able to disentangle the impact of the minimum wage from the effects of the recession. We begin our analysis of the low-paying sectors by looking at the impact of the minimum wage on earnings before going on to look at how firms in these sectors have coped.

Earnings

3.14 Table 3.1 shows that the increase in the National Minimum Wage in October 2008 of 3.8 per cent led to a slight rise in the proportions of jobs paid at the adult minimum wage in April 2009. In April 2009, 8.7 per cent of jobs in the low-paying industries were paid at the adult minimum wage compared with 8.2 per cent in April 2008. With the exception of the cleaning, social care and agriculture sectors, all other low-paying sectors experienced a rise in the proportion of jobs on the minimum wage.

3.15 The sectors with the highest proportions of jobs paid at the adult minimum wage in April 2009 were cleaning (21.8 per cent), hospitality (18.1 per cent), and hairdressing (10.3 per cent). The sectors with the highest proportions of jobs paid below the adult minimum wage were hairdressing (16.9 per cent), hospitality (15.2 per cent), and childcare (7.0 per cent), reflecting the widespread use of apprentice exemptions and the Youth Development Rate in these sectors.

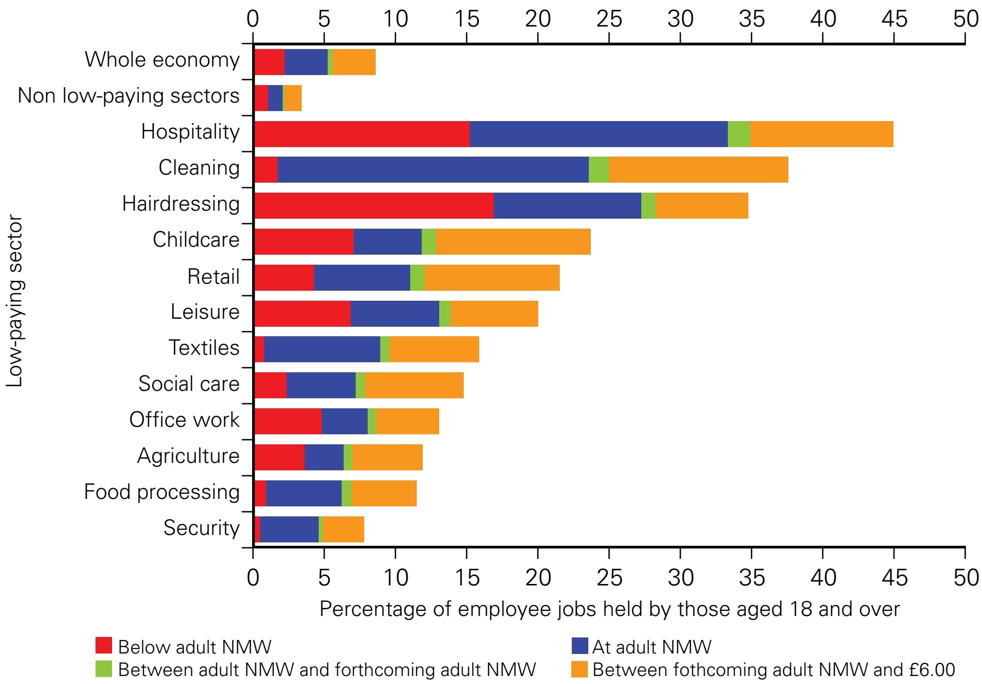
Table 3.1: Proportion of Employee Jobs Held by Those Aged 18 and Over Paid At or Below the Adult National Minimum Wage, by Sector, UK, 2007–2009[a]

	April 2007		April 2008		April 2009	
Industry/Occupation	**% Paid at £5.35**	**% Paid below £5.35**	**% Paid at £5.52**	**% Paid below £5.52**	**% Paid at £5.73**	**% Paid below £5.73**
Retail	7.0	4.5	6.5	3.9	6.8	4.2
Hospitality	16.4	13.2	16.4	14.4	18.1	15.2
Leisure	6.1	6.8	5.1	5.2	6.2	6.8
Cleaning	19.2	2.9	22.2	2.7	21.8	1.7
Security	3.3	1.0	3.1	0.5	4.1	0.5
Social care	4.1	2.2	4.9	2.6	4.8	2.3
Agriculture	2.6	3.8	3.9	3.5	2.8	3.6
Textiles and clothing	7.7	2.6	6.0	2.3	8.2	0.7
Hairdressing	8.2	17.5	9.0	17.8	10.3	16.9
Food processing	3.9	0.5	4.3	1.2	5.3	0.9
Office work[b]	3.2	2.9	2.2	3.6	3.2	4.8
Childcare[b]	3.8	7.5	4.5	8.4	4.8	7.0
All low-paying industries	**8.2**	**5.5**	**8.2**	**5.3**	**8.7**	**5.6**
Whole economy	**2.8**	**2.3**	**2.8**	**2.2**	**3.0**	**2.2**

Source: LPC estimates based on ASHE 2007 methodology, low-pay weights, UK, April 2007–2009.
Notes:
a. This table also includes those aged 18–21 paid at or below the adult rate in 2007, 2008 and 2009.
b. These sectors are defined using Standard Occupational Classifications. The other sectors are based on Standard Industrial Classifications.

3.16 In April 2009, the adult minimum wage was £5.73 and the then forthcoming October 2009 adult rate was £5.80. Figure 3.3 shows the proportion of jobs in each sector in April 2009 that paid: below the existing adult rate (less than £5.73); at the existing adult rate (£5.73); between the existing adult rate and the then forthcoming adult rate (£5.80); and between the then forthcoming adult rate and £6.00 per hour. The hospitality and cleaning sectors had the largest proportion of jobs (1.6 and 1.4 per cent respectively) that paid between the adult rate of the minimum wage and the forthcoming adult rate. In every other low-paying sector around 1 per cent of jobs were within this range of earnings, apart from security, which had fewer than 1 per cent. The cleaning sector had the highest proportion of jobs paid between the forthcoming adult minimum wage and £6.00 at 13 per cent, with childcare having 11 per cent, hospitality 10 per cent, retail 9 per cent, and social care 7 per cent. Thus, we would expect these sectors to be more sensitive to minimum wage increases.

Figure 3.3: Proportion of Employee Jobs Held by Those Aged 18 and Over Paid Below, At and Above the Adult National Minimum Wage to £6.00 Per Hour, by Sector, UK, 2009



Source: LPC estimates based on ASHE 2007 methodology, low-pay weights, UK, April 2009.
Note: Childcare and office work are defined using Standard Occupational Classifications. The other sectors are based on Standard Industrial Classifications.

Employment

3.17 As shown in Chapter 2, the recession has clearly affected employment. Table 3.2 shows that between September 2008 and September 2009, the number of employee jobs in the whole economy fell by 2.8 per cent (740,000). Jobs in the low-paying industries fell by 1.2 per cent (102,000), but this was a slower decline than in the economy as a whole. Within the low-paying industries, the largest declines in numbers were in retail (down 71,000 or 2.1 per cent) and hospitality (down 26,000 or 1.5 per cent).

Table 3.2: Change in Employee Jobs, by Low-paying Industry, GB, 2007–2009

	September 2009	Change on September 2008		Change on September 2007	
	000s	000s	%	000s	%
All sectors	**25,672**	**-740**	**-2.8**	**-737**	**-2.8**
All low-paying industries	**8,306**	**-102**	**-1.2**	**-56**	**-0.7**
Retail	3,227	-71	-2.1	-73	-2.2
Retail (excluding motor)	2,720	-39	-1.4	-36	-1.3
Hospitality	1,749	-26	-1.5	-35	-2.0
Social care	1,228	44	3.7	66	5.7
Cleaning	472	-23	-4.7	-16	-3.3
Agriculture	242	-22	-8.4	-4	-1.5
Security	178	2	1.4	7	4.0
Textiles and clothing	82	-8	-8.8	-11	-12.0
Food processing	348	-3	-0.7	-8	-2.4
Leisure, travel and sport	648	-1	-0.2	8	1.3
Hairdressing	133	6	4.8	11	9.0

Source: LPC estimates based on ONS employee jobs series, three-monthly, not seasonally adjusted, GB, 2007–2009.

3.18 The fall in the number of jobs in hospitality and retail is more likely a consequence of the general economic climate than as a result of increases in the minimum wage. In their evidence, the British Hospitality Association (BHA), British Beer & Pub Association (BBPA) and Business In Sport and Leisure (BISL) said that the hospitality and leisure sector continues to be affected by the economic downturn, with lower sales and employment levels. The British Retail Consortium (BRC) said 60 per cent of small and medium-sized enterprises (SMEs) and 25 per cent of large retailers had reduced staff levels as a direct result of a contraction in credit facilities. The food processing and leisure, travel and sport sectors saw minor job losses. Falls in other industries, such as textiles and clothing, are linked to factors that often pre-date the minimum wage.

3.19 Some low-paying industries experienced an increase in jobs over the same period. Social care saw the largest rise in jobs in terms of numbers (up 44,000 or 3.7 per cent), followed by hairdressing (up 6,000 or 4.8 per cent). Security saw a slight increase of 2,000 jobs (1.4 per cent). In its evidence, the United Kingdom Home Care Association (UKHCA) described the recruitment and retention difficulties in the social care sector, with lower-paid jobs filled by migrant workers. However, it said that one of the impacts of the recession was a moderate (though probably transitory) easing in recruitment difficulties. In its oral evidence the National Hairdressers' Federation (NHF) said that official statistics contradicted its experience of employment levels. It said that there was a surplus of qualified stylists and a squeeze on apprenticeships.

3.20 In its evidence the Trades Union Congress (TUC) noted that employment across the low-paying sectors as a whole was standing up to the recession better than higher-paying jobs. It stated that, with the exception of the retail sector, the recession so far had most affected finance, construction and manufacturing and that workers on the minimum wage were spread very thinly in those sectors. The Communication Workers Union said that the forecast fall in low-paying jobs relative to the economy had not happened and the evidence suggested that the minimum wage had not led to falls in employment or hours.

3.21 In contrast, the CBI said that the low-paying sectors had been badly hit by the recession, with the retail sector being particularly vulnerable. Manufacturing was under significant pressure and the employment outlook was weak. Small businesses, in particular, were reported to be finding it hard to cope with the recession. A Forum of Private Business (FPB) survey found 25 per cent of its members were looking to cut staff costs and 50 per cent listed staff costs as a very serious issue. The Federation of Small Businesses (FSB) said that many small businesses had to cut staff hours or numbers to keep their business going. The BRC reported that data from its Employment Retail Monitor showed that retail employment had fallen since October 2008. However, data on employment intentions indicated that the majority of retailers were either looking to keep staffing levels unchanged or increase the number of people employed.

Impacts on Other Business Outcomes

3.22 In Chapter 2 we commented that productivity in the whole economy had fallen sharply as the loss in output was more than the loss in employment or hours. That has also been true in distribution (including retail), and hotels and restaurants, for which productivity data are available. Productivity per job in both these low-paying sectors started falling in the first half of 2008, a quarter before the whole economy, and then followed a similar path and magnitude to that of the whole economy. However, in the third quarter of 2009, while whole economy productivity fell by 3.1 per cent, the productivity loss in hotels and restaurants rose to 4.7 per cent. In contrast, productivity in distribution grew by 0.4 per cent. A similar pattern, albeit more volatile, is also observed for productivity per hour.

3.23 If we look at the Services Producer Prices Index, a measure of the ability of businesses to pass on costs to other businesses, we find that services producer prices inflation remained at around 3 per cent throughout 2008. It fell sharply in 2009, reflecting the general fall in prices, and became negative in the second quarter of 2009. Services producer prices fell by 0.9 per cent over the year to the third quarter of 2009. This pattern was not even across sectors, with prices of security services rising strongly throughout 2009 (over 3 per cent), while price rises in industrial cleaning, employment agencies and catering were more subdued (around 1 per cent). Hotel services charges fell sharply (by around 3 per cent) and they had been falling since the start of the recession. Overall, this suggests that firms found it more difficult to pass on costs to their customers by increasing prices in 2009.

3.24 As we noted in Chapter 2, business investment has fallen by over 20 per cent since the start of the recession. The available data suggest that the falls in investment for those low-paying sectors that can be separately identified have been even greater. Business investment has fallen by around 25 per cent in both agriculture and the manufacture of food, drink and tobacco; and by around 40 per cent in the manufacture of textiles, and in hotels and restaurants.

3.25 There is limited timely information on profits at a disaggregated level. The rate of return in the services sector fell in 2009 at a similar rate to the whole economy but remained higher than in previous recessions.

3.26 In terms of business creation, there was a net growth of 2.2 per cent in the number of firms in the whole economy in 2008. However, net business creation was much lower in the low-paying sectors (about 0.1 per cent), with the number of firms actually falling in the hospitality sector. The number of insolvencies in the whole economy, retail, and hotels and restaurants started rising in the first quarter of 2008, peaking in the first quarter of 2009 and then falling back by the third quarter but remaining higher than the numbers recorded before the start of the recession.

3.27 In general, firms in the low-paying sectors have tended to cope with the recession in a similar way to those in higher-paying sectors. However, there is evidence to suggest that the recession has affected manufacturing (which includes food processing and textiles) and hospitality more than other low-paying sectors.

Responding to the National Minimum Wage

3.28 Evidence from stakeholders specifically on the minimum wage suggested that the issues this year were similar to those raised in previous years, in particular: future upratings – the level and the process; pay differentials; affordability of minimum wage increases; young people and apprentices; increases in statutory annual leave entitlement; enforcement; and other statutory demands on business.

3.29 The impact of the minimum wage on pay differentials has been a key concern highlighted by firms and their representatives over a number of years. Representatives of business across the low-paying sectors reported that minimum wage increases had compressed differentials and that employers were reducing staff hours to contain costs. The CBI said that the October 2009 minimum wage upratings would have affected more than 1 million workers because of the knock-on effect on differentials. IDS (2009b) found that 35 per cent of organisations it surveyed had to increase pay rates further up the pay scales in order to maintain differentials.

3.30 Trade unions offered a different perspective and referred to the benefits of a rising minimum wage. The TUC said it believed employer claims that differentials were being squeezed were overstated. The Union of Shop, Distributive and Allied Workers (Usdaw) reported that the impact of the minimum wage uprating was overshadowed by the recession and the minimum wage was rarely mentioned in its collective bargaining.

3.31 We now go on to look in detail at the impact of the minimum wage on each of the low-paying sectors.

Impact on Specific Low-paying Sectors

Retail

3.32 The reduction in consumer spending in the recession has had a clear impact on the retail sector. However, the impact has not been even across the sector, with food stores continuing to do well, albeit with consumers 'trading down', and non-food stores suffering the most. This has been despite some heavy discounting by retailers to generate sales.

3.33 Gross Value Added (GVA), a measure of a sector's output, in the wholesale and retail sector had seen continuous growth since 1998. GVA data show that growth continued in 2008 until the start of the recession. From the first quarter of 2008 until the third quarter of 2009 retail output fell by a cumulative total of 6.6 per cent, although the decline bottomed out in March 2009. While retail in total has seen a decline, the motor trade has suffered the largest falls. In contrast, retail sales data – official and industry estimates – suggest that the retail sector has held up relatively well throughout the recession, albeit with sales growth below that of the preceding few years. Some of this relatively good performance has been to the detriment of the hospitality sector as people have switched from eating and drinking out to consuming food and drink at home.

3.34 There are some signs that the retail sector may have turned the corner. Official retail sales figures from the Office for National Statistics (ONS) indicate that the total value of retail sales in November 2009 was 2.7 per cent higher than in November 2008. Total sales volumes in November 2009 were 3.1 per cent higher than in November 2008. When looking at the sales volumes for this period in more detail, food stores were up 1.7 per cent, non-food stores up 3.1 per cent and non-store retailing and repair was up 11.7 per cent. Industry data from the BRC-KPMG Retail Sales Monitor (RSM), show that total sales value increased by 6.0 per cent in December 2009 when compared with December 2008, against a 1.4 per cent decline in December 2008 compared with December 2007. According to the CBI's Distributive Trades Survey, 40 per cent of retailers reported that their sales had risen in the year to November 2009, while 27 per cent said they had fallen. The resulting balance of 13 per cent was the fourth consecutive month of growth and was the highest balance since November 2007. Industry commentators point out, however, that these increases are set against very low figures in the preceding year.

3.35 The IMRG Capgemini e-Retail Sales Index (IMRG, 2009) showed that online sales in December 2009 increased by around 4 per cent compared with November 2009 and by 17 per cent compared with December 2008. Figures from the BRC-KPMG RSM revealed that internet sales increased in December 2009 by over 26 per cent on a year earlier. ONS internet sales figures showed an increase of 37 per cent in December 2009 on a year earlier. Although online sales are increasing, they still represent a small share of overall retail sales (approximately 5 per cent). Many high street retailers have online sites and these provide a contribution to offset other losses retailers may suffer.

3.36 In July 2009, the Local Data Company (2009) reported that town centre store vacancy rates in England and Wales had risen from just over 4 per cent in the middle of 2008 to nearly 12 per cent at the end of June 2009. Among the large centres, the worst hit were the big regional centres in the north and midlands.

3.37 Overall, the fortunes of the retail sector are mixed. There have been closures of well known high street stores and employment has fallen. Those parts of the sector susceptible to discretionary consumer spending have, however, started to see an upturn in their fortunes compared with a year ago. Spending in retail has been relatively resilient (mainly as a result of food sales) and sales of household goods and furniture, which slumped over the last year, have started to pick up.

Earnings

3.38 According to the Annual Survey of Hours and Earnings (ASHE), 189,000 jobs in retail held by those aged 18 and over were paid at the adult National Minimum Wage in April 2009. This number was similar to April 2008, although the proportion of retail jobs paid at the adult rate was up slightly from 6.5 per cent to 6.8 per cent in April 2009. This is in contrast to a reduction in the proportion between April 2007 and April 2008, when the minimum wage increase (3.2 per cent) was less than in October 2008.

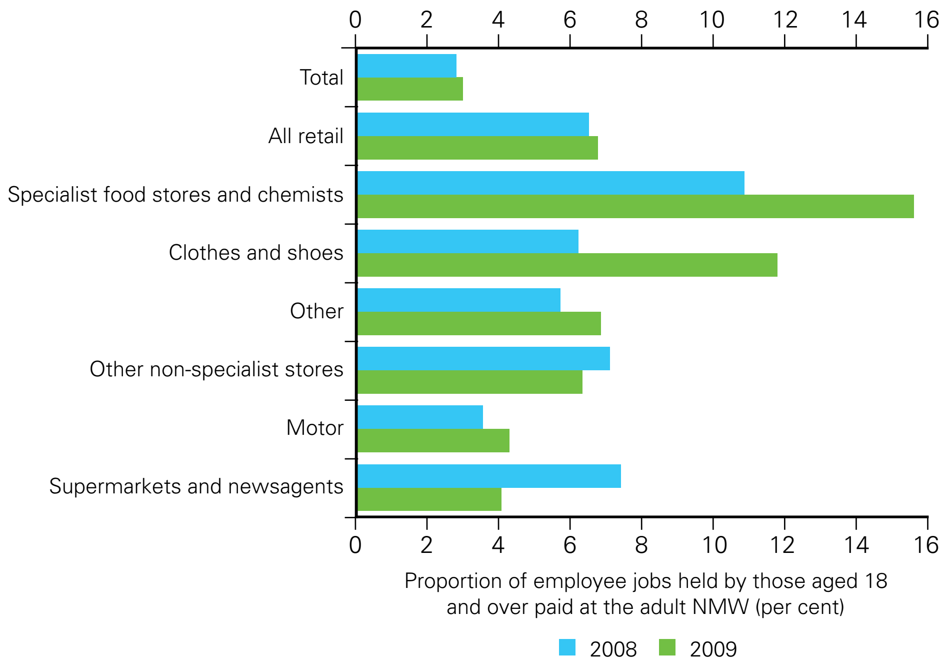
3.39 The 3.8 per cent increase in the minimum wage in October 2008 to £5.73 per hour had an impact on earnings in the retail sector. IDS

(2009b) found that half of retailers in its survey set the minimum wage as the starter or lowest rate of pay. This was an increase on 2008 when a third of retailers in its survey set the minimum wage as their starter rate. Two-fifths of those responding to the IDS survey had to raise their pay rates in order to comply with the uplift in the minimum wage. IDS also reported that many retailers had experienced a narrowing of differentials, as a result of lower grades receiving higher pay awards than more senior grades.

3.40 Results from a BRC survey of members showed that the median hourly pay rate of adult employees was £6.30 an hour. Around 8 per cent of these were paid between £5.73 and £5.79 and the majority were paid between £6.00 and £6.39 per hour. These results are in contrast to the 2009 ASHE data, where the median wage for those aged 18 and over was higher at £7.04 and only around 17 per cent were paid between £6.00 and £6.39 per hour.

3.41 When we look in more detail at the number of retail jobs paid at the adult minimum wage, over 15 per cent of employees in specialist food stores and chemists were paid at the National Minimum Wage in April 2009, compared with just fewer than 11 per cent in 2008. Other retail sectors that have seen a reduction in consumer spending as a result of the recession have also seen large increases in the number of jobs paid at the National Minimum Wage, as shown in Figure 3.4. Supermarkets and newsagents saw the largest fall in the proportion of jobs paid at the minimum wage between April 2008 and April 2009, reflecting that supermarkets have fared considerably better than other parts of retail during the recession.

Figure 3.4: Proportion of Employee Jobs in the Retail Sector Held by Those Aged 18 and Over Paid At the Adult National Minimum Wage, UK, 2008–2009



Source: LPC estimates based on ASHE 2007 methodology, low-pay weights, UK, April 2008–2009.
Note: The 'other' category includes specialist stores not elsewhere specified, second hand stores, non-store sales and repair of personal and household goods.

Employment

3.42 There were just over 3.2 million employee jobs in retail in September 2009, accounting for almost 39 per cent of all jobs in the low-paying industries and 12.6 per cent of jobs in the economy as a whole. The number of jobs decreased by 71,000 in the year to September 2009, the largest absolute reduction in jobs of all the low-paying industries representing 9.6 per cent of the total decline in jobs in the whole economy. However, the number of jobs in retail fell at a slower rate than in the whole economy (2.1 per cent on a year earlier compared with 2.8 per cent). Of this fall, 32,000 were in the motor sector and 9,000 in the specialist food sector. Household, another area susceptible to discretionary spend, saw a decrease in jobs of 13,000. Supermarkets and non-specialist stores, which saw a total increase of 16,000 jobs in the year to September 2009, were the only retail sectors to see a decrease in the number of jobs paid at the minimum wage in April 2009.

'Businesses have been cutting back hours for a number of years, but there is a limit to the amount of hours that can be cut while still providing a competitive service to the customer.'

Association of Convenience Stores (ACS) evidence

3.43 Using Labour Force Survey (LFS) data, there was a decrease in employment in low-paying retail occupations of around 59,000 (2.7 per cent) over the year to the third quarter of 2009. According to LFS, in the year to the third quarter 2009, the number of full-time retail jobs declined by 3.9 per cent and the number of part-time retail jobs declined by 1.8 per cent.

Stakeholder Views

'The impact of the October uprating is completely overshadowed by what has been happening to retailing and the individual companies as a result of the recession.'

Usdaw evidence

3.44 Usdaw advised that despite the employment figures, retail remained a vibrant sector of the economy and that many discount grocery retailers had performed exceptionally well. Retail would be a key sector in driving the economic recovery and the problems faced by the sector were not as a result of the existence or uprating of the minimum wage. The ACS reported that its members wanted to pay above the minimum wage, as the minimum wage rate attracted a stigma. However, with the current economic situation, they were finding it increasingly difficult to do this and a large proportion of its members reported that differentials continued to be squeezed as a result of increases to the minimum wage. The Scottish Grocers Federation reported that its members were finding it increasingly difficult to reward staff for good work. In addition, a number had reported not replacing staff and reducing hours. The Rural Shops Alliance (RSA) said that many shop owners were having to pay their staff considerably more than they were able to pay themselves. Increases to the minimum wage had meant that it was extremely difficult to maintain differentials.

3.45 The BRC reported that it appeared the worse of the recession was now over, but the outlook for the retail sector in 2010 was challenging. Businesses still faced difficulties in accessing credit, and business investment was likely to remain depressed for some time to come.

Hospitality and Leisure, Travel and Sport

3.46 These closely linked sectors experienced a substantial expansion of jobs in the period after 1999. As with the retail sector, however, both hospitality and leisure are sensitive to changes in discretionary consumer spending. It appears that the UK recession has led to a substantial fall in jobs in hospitality and a muting of jobs growth in leisure, travel and sport. The fall in jobs in hospitality has been linked to the substantial fall in hospitality output, which unlike the retail sector, has shown no sign of improving. The minimum wage continues to have a strong influence on pay in these sectors, particularly in hospitality.

Earnings

3.47 The earnings distribution in the hospitality sector is one of the most affected by the National Minimum Wage. Not surprisingly, the relatively higher increase in the minimum wage in October 2008 compared with 2007, coupled with the impact of the recession on this sector, has led to a rise in the proportion of sector jobs paid at this rate. This proportion was almost 2 percentage points higher in April 2009 than in April 2008, at just over 18 per cent. The proportion was highest in bars (at over 26 per cent) and restaurants (at 19 per cent). There was also an increase, although smaller at around 1 per cent, in the proportion of jobs paid below the adult rate, to just over 15 per cent. This was indicative of the increased use of youth rates in the economy, as discussed in Chapter 5.

3.48 IDS (2009b) investigated the October 2008 upratings, and found that the hotels sector and the fast food, pubs and restaurants sector, when compared with the other low-paying sectors, had the highest proportions of organisations that had to raise their lowest rate of pay to comply with the rise in the National Minimum Wage (75 and 86 per cent respectively). The average across all the low-paying sectors surveyed was 55 per cent. ASHE data provide no evidence of any further reduction in differentials between April 2008 and April 2009. Indeed the hourly differential between the lowest decile and first quartile actually increased from 32 to 46 pence.

The rates of 35 per cent of the hotel workers in this year's survey were raised to comply with the October 2008 uplift in the NMW. These were most likely to be waiting and bar staff and room attendants.

IDS (2009b)

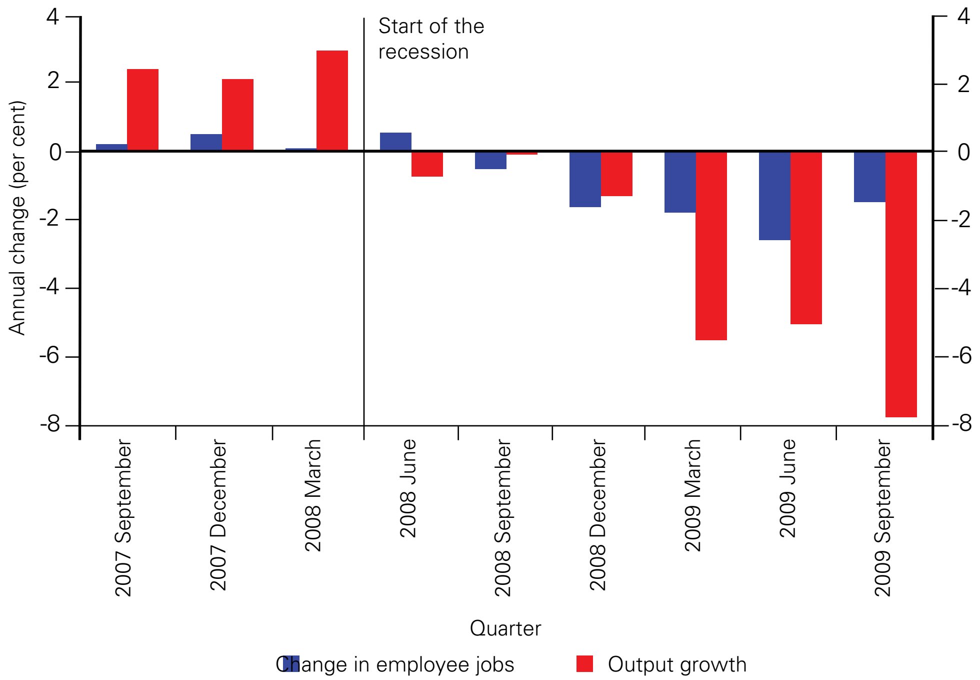
3.49 The impact of the minimum wage on earnings in leisure, travel and sport has always been less than in hospitality. Although the proportion of jobs in the sector paid at the adult minimum wage did rise, from just over 5 per cent to just over 6 per cent between April 2008 and April 2009. IDS (2009b) found in its latest study that at 50 per cent, the leisure sector had a lower proportion of businesses that had to increase their lowest rate of pay in order to comply with the 2008 upratings, when compared with hospitality. ASHE data suggest that the pay differential between the first quartile and the median increased by 21 pence between April 2008 and April 2009.

Employment

3.50 Hospitality is a sector that experienced considerable growth in employment during the last decade. This trend has now reversed, however, with annual falls in the number of jobs in each quarter since September 2008. As shown in Figure 3.5, this reduction in jobs tracked the decline in sector output from September 2008, after initially lagging behind it. This annual fall in sector output is increasing, in contrast to the retail sector, with the largest fall yet in September 2009. The number of employee jobs in hospitality in September 2009 was down 26,000 (1.5 per cent) on the same period in 2008, and 35,000 (2.0 per cent) lower than September 2007. The breakdown of this decline by sub-sector reveals that the majority of job losses between September 2008 and September 2009 were in hotels (down 14,000 or 4.0 per cent), and restaurants (down 11,000 or 1.7 per cent).

3.51 The recent substantial fall in sector jobs is most likely explained by the recession, although some employers may have found it difficult to cope with the increase in the National Minimum Wage. IDS (2009b), however, found in the hospitality and leisure sectors little evidence that the minimum wage was a major concern for employers or a cause of the reductions in jobs or hours worked. The loss of output has been substantially greater than the loss in employment, leading to a sharp fall in productivity. Business investment in hospitality has also been severely affected by the recession. In contrast to the employee jobs and output data, LFS data suggest that employment in the low-paying hospitality occupations rose by over 51,000 (4.9 per cent) between the third quarter of 2008 and the same period in 2009, to stand at nearly 1.09 million.

Figure 3.5: Output Growth, UK, and Employee Jobs, GB, in the Hospitality Sector, 2007–2009



Source: LPC estimates based on ONS employee jobs series, three-monthly, not seasonally adjusted, GB, and ONS, output index for hotels and restaurants (GDQC), quarterly, seasonally adjusted, UK, 2006–2009.

3.52 In contrast, the recession has so far not led to any substantial reduction in jobs in leisure, travel and sport, but it does appear to have constrained the substantial jobs growth the sector saw in the post-1999 period. The number of employee jobs remained virtually unchanged between September 2008 and September 2009 at around 648,000. This was still 8,000 (1.3 per cent) higher than in September 2007. Employment in low-paying leisure, travel and sport occupations actually rose by over 3,000 (3.2 per cent) between the third quarter of 2008 and the same period in 2009, to stand at over 102,000.

Stakeholder Views

3.53 Representatives of businesses have continued to advise us of the tough trading conditions in the hospitality and leisure sectors. Written evidence from the BHA, BBPA and BISL said that any recovery in hotels was patchy, with hotel and restaurant revenues under pressure. Sales in the hotel sector were down, with corporate business suffering more than leisure. In restaurants, revenues were often kept up by use of discounting at the expense of margins. The associations told us that

'UK hotel general managers continue to be increasingly positive about their hotel's trading performance.... Pessimism in the hotel industry is declining.'

Unite evidence

'...growth is minimal and members of all three associations are dreading this winter almost as much as they feared last winter.'

BHA, BBPA and BISL oral evidence

in the pub sector, 52 establishments were estimated to be closing each week, and that the sector faced a rise in duty and Value Added Tax (VAT) as well as competition from the 'in-home' leisure market. In oral evidence BHA, BBPA and BISL said that, anecdotally, employers told them that they had tried to introduce measures that did not involve staff redundancies, instead cutting hours and shifts, freezing pay (so far as the minimum wage allowed) and reducing reliance on agency staff.

3.54 Employer stakeholders also continued to tell us of the impact of the minimum wage on differentials, adversely affecting reward and retention. Others told us of the impact on employment. The Association of Licensed Multiple Retailers said that 82 per cent of members had to let staff go because of increases in the minimum wage, up from 61 per cent in 2008 and 45 per cent in 2006. It is also a sector where stakeholders have referred to the impact of other regulatory change, such as the increase in statutory leave and the smoking ban.

3.55 BHA, BBPA and BISL evidence also pointed to pressures across leisure sector businesses. Bingo clubs had continued to close in the past year, with the loss of jobs including redundancies in back office roles. They said that in some commercial leisure businesses there had been a reduction in advertised remuneration of up to 10 per cent where vacancies occurred, bringing wages much nearer to the October 2009 minimum wage level.

'The minimum wage is eroding differentials. There is now little scope to reward staff and small differentials offered little or no incentive to staff to gain promotion and resulted in losing key staff.'

Group of hoteliers Commission visit to Llandudno

3.56 Trade unions suggested, however, that the position and outlook for the hospitality sector was brighter. Unite referred to the Hotel Confidence Monitor by TRI Hospitality Consulting UK. It said that the proportion of optimistic respondents had risen dramatically by 23 per cent since January 2009, and 85 per cent of respondents were intending to maintain or increase staffing levels in the third quarter of 2009 compared with the previous year. Unite said that in restaurants, a survey conducted by accountancy firm BDO Stoy Hayward, found that a third of businesses believed there would be slight growth in 2009 and 2010, while a similar number believed there would be strong growth in 2010.

Social Care

3.57 Social care is one of the low-paying sectors that appears to have been less affected by the recession. Given an ageing UK population, the demand for care services is likely to experience significant future growth. The majority of adult social care is funded by the state but delivered by independent sector providers, either through care homes or homecare provision (Laing & Buisson, 2008a and 2008b). In July 2009 the Government commenced a consultation on future funding and support arrangements for care (*Shaping the Future of Care Together*). A White Paper is scheduled for 2010, which will detail proposals for a national care service in England. In September 2009, the Government announced there would be free personal homecare in England, for people with highest needs, from October this year. A Personal Care at Home Bill is being introduced to facilitate this.

3.58 Representatives of independent sector providers of care continue to tell us about their concerns regarding how care is funded. In particular the level of funding by the state to independent suppliers of care and how the minimum wage interacts with this. We have also heard this year from workers and their representatives about pay practices, which they claimed may result in some workers receiving less than the minimum wage.

Earnings

3.59 The ASHE data for April 2009 show that despite the higher increase in the minimum wage in 2008 compared with 2007, a very similar proportion of social care jobs were paid at the adult rate of the minimum wage, at just under 5 per cent. This proportion is lower than in most of the low-paying sectors, although the impact is higher in the independent care sector, particularly the private sector where 8 per cent of jobs were paid at the adult rate of the minimum wage in April 2009. IDS (2009b) found that, apart from retail, organisations in this sector were least likely to have to raise their lowest rate of pay to comply with the 2008 upratings. The median proportion of staff in social care organisations it surveyed on this lowest rate was 8 per cent – only leisure had a lower proportion.

> Employees on the lowest rates of pay are typically frontline care workers on the lowest grades, such as unqualified care assistants, domestic workers or new starters.
>
> **IDS Research (2009b)**

3.60 IDS (2009b) also found, however, that for one in five social care organisations it surveyed, the increase in the minimum wage had led to a narrowing of differentials. Stakeholders raised concerns with us about this impact on differentials, including how it can lead to a reduced incentive for staff to develop skills. The impact on differentials particularly occurred where local authority increases in care fees were less than the rise in the minimum wage. ASHE data also show some narrowing of the hourly rate of pay between the lower quartile and median earnings.

Employment

3.61 Social care is a low-paying industry that has maintained job growth during the recession. The number of employee jobs in September 2009 (1.2 million) stood 44,000 (3.7 per cent) higher than in September 2008 and 66,000 higher (5.7 per cent) than in September 2007. Employment in low-paying social care occupations has also risen, up by nearly 42,000 (6.2 per cent) between the third quarter of 2008 and the third quarter of 2009. In its evidence to us, the UKHCA said that it was difficult to see any particular pattern that could be attributed to the recession: recruitment difficulties had eased somewhat, but there was an expectation of tighter public spending in the future.

Our Previous Recommendation

3.62 In our 2009 Report we recommended that, in line with previous recommendations, the commissioning policies of local authorities and the National Health Service (NHS) should reflect the actual costs of care, including the National Minimum Wage. The latest data on care home fees (Laing & Buisson, 2009b) show the average uplift for local authority supported care of elderly people in independent sector homes across the UK in 2009/10 was 2.6 per cent. While this is higher than the increase in the National Minimum Wage in October 2009, and slightly above an estimated care home inflation rate of 2–2.5 per cent (Laing & Buisson, 2009b), the uplift varies across the countries and local authorities of the UK, with Wales experiencing the highest average rise of 4.6 per cent. Laing & Buisson (2009b) argue, however, that even where higher rises have occurred these have only started to address the issue of underfunding that has existed for many years, judged against their fair price models. And stakeholders claimed in evidence to us that there continues to be underfunding of care services. Although Laing & Buisson (2009c) reported a shift from a declining to a growing market, with the number of independent sector care home residents set to rise from 419,000 in 2009 to 459,000 by 2019.

3.63 The UKHCA believed that in the absence of positive action to pay a fair price by those responsible for commissioning care, the ability of providers to absorb minimum wage uplifts would be severely restricted. It said there had been a general failure of central government to implement the Commission's recommendation, but acknowledged efforts by the Welsh administration to bring relevant parties together. A Memorandum of Understanding, agreeing principles for a way forward, had been signed (Welsh Local Government Association, 2009). The English Community Care Association (ECCA) said that the pressure on public budgets was likely to be severe, with a subsequent impact on the fees paid to the independent sector. During our Commission visits, care providers also told us of the squeeze they faced resulting from the level of fees paid by public bodies that purchase care services.

'Professionalising the workforce requires paying staff more than the minimum wage, and a proper and robust 'cost of care' system. Local authorities have either refused to agree to enter into such an arrangement or torn them up where they ever existed.'

ECCA oral evidence

3.64 The Government told us it allocated resources to local authorities who then made decisions on what proportion of their budgets were spent on adult social care. Local commissioners in authorities had to ensure that service providers offer value for money and a quality service. In addition, however, the Government said that the Department of Health's (DH) Adult Workforce Strategy acknowledged that pay and remuneration could be a concern for the sector. While DH did not set pay and conditions for adult social care workers, the Government recognised the need for a renewed focus on ensuring that when commissioning services, there was a clear remit to include quality commissioning for fair workforce terms and conditions.

3.65 We understand that commissioning of care is a local matter, and that there are a number of factors that local purchasers of care will wish to take into account, not just the level of the minimum wage. We note the Memorandum of Understanding reached in Wales as an example of some of those involved in the commissioning of care, establishing a process that looks to build relationships and take into account respective needs and pressures. We shall continue to monitor the practical steps the Government, the devolved administrations, the NHS and local government take in responding to our earlier recommendation on commissioning.

Stakeholder Views on Other Matters

3.66 Employer stakeholders in the sector also referred to other concerns they said we should take into account, including regulatory burdens increasing costs for the sector, such as new arrangements for the registration and vetting of staff. Concern was also raised again about the level of direct payments and whether those employing personal assistants for their care were fully aware of, and can fund, their minimum wage responsibilities. The Government said to us that its work in relation to implementing the social care workforce strategy would include setting out how people in receipt of direct payments, who employ their own services, could be supported to ensure appropriate recruitment and retention of these workers. We will continue to monitor arrangements and support to ensure those commissioning their own care by employing personal assistants understand their obligations to pay at least the National Minimum Wage.

3.67 Trade unions raised concerns over practices that they said could see care workers paid less than the minimum wage. UNISON referred to a group of homecare workers in the independent sector paid a set amount per visit (rather than an hourly rate) with different rates for visits of 15, 30, 45 or 60 minutes. A 5 minute journey between visits was unpaid and staff could lose as much as 15 minutes pay per hour. They were also on zero hours contracts, only paid for the time they actually carried out a visit, with little or no pay for cancelled visits or ones that could not be carried out. The union called for social care companies to be a priority target for minimum wage enforcement. The GMB referred to another group of care workers who had unpaid breaks but were sometimes interrupted, and in effect working. It said that other 'hidden' time included handovers between shifts.

3.68 We are concerned that certain pay practices in the sector may be leading to non-payment of the minimum wage. The law is clear on matters such as payment for travel time and hours that count for calculation of the minimum wage. The regulations should be properly enforced. We shall continue to monitor this area and will draw any concerns to the attention of HM Revenue & Customs as appropriate.

Childcare

3.69 The Government continues to increase the provision of childcare by developing 3,500 Children's Centres and encouraging schools to provide childcare for children of all ages between 8am and 6pm by 2010. By 2010 all 3 and 4 year olds will be entitled to 15 hours per week of free childcare for 38 weeks per year. As part of its plans to raise standards, the Government introduced early years professional status in 2007. Qualified early years professionals are sometimes called 'graduate leaders' and the Government is considering making it a legal requirement that every full-day care setting has a graduate from 2015.

3.70 Laing & Buisson's annual Children's Nurseries and UK Market report for 2009 (Laing & Buisson, 2009a) valued the childcare market at £4.1 billion. It estimated, in January 2009, the total number of children attending nurseries per day in the UK was 577,105. However, the economic slowdown in 2008 has put downward pressure on demand and upward pressure on vacancies. Three-quarters of all children's day nurseries in the UK reported vacancies in January 2009.

Earnings

3.71 According to ASHE, the proportion of jobs in childcare paid at the adult minimum wage rose between April 2008 and April 2009 to stand at 4.8 per cent. Laing & Buisson (2009a) estimated that in January 2009, the average wage for a qualified nursery nurse in the UK was £7.74 per hour, and for an unqualified worker was £6.15 per hour. ASHE data suggest the overall median wage was £6.75 per hour in April 2009. IDS (2009b) found that in the companies it surveyed, the median starting rate for nursery nurses was £5.97 an hour. For nursery assistants however, it found that the median starting rate was the adult minimum wage. As in last year's survey, around 63 per cent of respondents in the sector had to raise rates in order to comply with the minimum wage upratings.

Employment

3.72 Since 2008 the childcare sector has seen a rise in employment. According to LFS, there were 169,000 nursery nurses employed in the third quarter of 2009, compared with 155,000 in the third quarter of 2008, an increase of just over 9 per cent. The number of childcare assistants has also risen. There were 373,000 childcare assistants employed in the third quarter of 2009, compared with 342,000 in the third quarter of 2008, an increase of 9.1 per cent.

3.73 IDS (2009b) found that the largest groups of employees in nurseries were nursery nurses (35 per cent) and nursery assistants (32 per cent). The remainder of staff were made up of senior nursery nurses, supervisors and managers. According to LFS, around 45 per cent of employees in the childcare industry were nursery nurses and around 20 per cent were nursery assistants. The LFS also showed that the majority of nursery nurses (around 61 per cent) worked in private firms, around 33 per cent worked in the public sector, and around 6 per cent in the voluntary sector.

Stakeholder Views

3.74 The childcare sector continues to be one where the minimum wage has a significant influence on wage structures, and we received evidence of an impact on differentials. White Horse Child Care Limited said in its evidence that there had been an erosion of pay differentials and staffing was only maintained by the commitment of the people who work in the sector. It said increases in the minimum wage had led to increases in the fees charged to parents, which had reduced the size of the market and excluded many of the parents that most needed high quality childcare. During a Commission visit to Liverpool we met staff at a nursery. The nursery manager said that minimum wage upratings had reduced differentials in the nursery and it was likely pay would be frozen for staff not on the minimum wage this year. The National Day Nurseries Association (NDNA) reported that the current economic climate was having an impact on the sector, placing additional pressure on nursery businesses and their staff, with many nurseries concerned about increased debt and expenses.

'Up to an estimated 80 per cent of parental fees go directly on staff salaries. Any rises in the minimum wage have a knock-on effect on nurseries.'

National Day Nurseries Association evidence

Cleaning and Security

3.75 The latest report from Market & Business Development (MBD, 2008) estimated that in 2008 the UK market for contract cleaning would be £5.7 billion, continuing the growth trend in previous years. The annual growth in 2008 was expected to slow to 2 per cent, reflecting the economic downturn and price competition in an industry where customer loyalty was becoming less prevalent as clients sought more competitive contracts. In addition, MBD reported that volume demand was declining as SMEs were internalising certain cleaning duties. The Cleaning and Support Services Association (CSSA) estimated that there were in excess of 9,500 separate businesses within the UK cleaning industry and the total size of the market was just under £10 billion. It advised that the cleaning of private sector premises was largely outsourced compared with about 35 per cent of public sector premises.

3.76 The impact of the minimum wage on the security sector has reduced, mainly as a result of the introduction of a statutory licensing system that led to an increase in professionalism and consequently higher rates of pay. According to the British Security Industry Association (BSIA), the part of the security industry most affected by the minimum wage was the security guarding sector. MBD reported in May 2009 (MBD, 2009) that in 2008, the UK market for manned security increased by an estimated 4 per cent to £3.3 billion, consolidating growth of 5 per cent in 2007. It reported that with the recession being more severe than previously anticipated, and with companies focussing on cost cutting measures, there would be an impact on the manned guarding sector in 2009.

Earnings

3.77 The cleaning sector continues to have the highest proportion of jobs paid at the adult minimum wage. According to ASHE, in April 2009 the proportion of cleaning jobs paid at the adult minimum wage remained the same as in April 2008, at around 22 per cent. The proportion of jobs paid at £6.00 per hour, the next largest spike on the earnings distribution, decreased from just over 9 per cent in 2008 to just over 7 per cent in 2009, suggesting that differentials had been maintained. A 2009 survey of CSSA members showed that around 75 per cent of cleaners were paid between the minimum wage and £6.00 per hour, but according to ASHE, this figure is only 38 per cent. CSSA members reported a progressive drop in differentials between minimum wage levels and an artificial ceiling of £6.00 per hour.

'The security guarding sector is a low margin sector with changes to the NMW directly impacting on charge out rates.'

BSIA evidence

Employment

3.78 The ONS employee jobs series shows there were 472,000 jobs in the cleaning industry in September 2009, a decrease of 23,000 (4.7 per cent) when compared with the same period in 2008. Of this decrease, 16,000 were part-time and 7,000 were full-time jobs. The percentage decrease in jobs in the cleaning sector is nearly four times the percentage decrease in jobs in the low-paying sectors as a whole, and around 2 percentage points larger than the decrease in the whole economy. According to the LFS, employment in low-paying cleaning occupations stood at around 701,000 in the third quarter of 2009, a decrease of around 21,000 (3.0 per cent) when compared with the same period for 2008. Of these 701,000, 61 per cent are part-time and 70 per cent are female. A recent survey of CSSA members showed that 68 per cent of cleaners worked part-time, with an average of 18 hours per week, and 55 per cent of the workforce were female.

3.79 The security sector has experienced moderately strong growth in employment over the last ten years. The number of jobs in the security industry stood at 178,000 in September 2009, a slight increase of 2,000 (1.4 per cent) on the same period in 2008. In contrast to the employee jobs numbers, estimates from the LFS suggest that employment in the low-paying security occupations stood at around 217,000 in the third quarter of 2009, a decrease of nearly 3,000 (1.2 per cent) when compared with the same period in 2008.

Stakeholder Views

3.80 The CSSA advised that margins had now declined to around 4 per cent, driven by aggressive price-motivated competition. Businesses had reduced staffing levels in 2009, although it was difficult to attribute these reductions to the minimum wage. While clients might accept cost increases when the minimum wage rose, the contract was often re-tendered on a shorter number of hours or lower specification.

3.81 The BSIA advised that businesses within the security guarding sector often operated at low margins, with changes to the minimum wage directly affecting pricing and putting some companies at risk of losing business. It said that the minimum wage affected different regions to varying degrees, with companies in the South East paying considerably above the minimum wage while companies in the North, Scotland and Northern Ireland were heavily influenced by the minimum wage. The sector had been affected by the recession especially where there was a reliance on custom from those sectors that were hardest hit, such as construction and finance.

Hairdressing

3.82 The 2008 Annual Business Inquiry shows that there were around 25,000 businesses operating in the hairdressing sector, with a total turnover of over £3 billion. It is a sector that is dominated by micro businesses (those employing fewer than 10 people), with over half the sector workforce employed in this size of organisation. There is some evidence that this is another of the low-paying sectors that has so far avoided the worst impact of the recession on sector employment.

Earnings

3.83 Many of the business models in the sector appear sensitive to cost changes, particularly the price for labour, and make substantial use of the youth rates and apprentice exemptions (Institute for Employment Studies, 2009). In line with this, the most striking feature of the sector's earnings distribution is the high proportion of jobs paid below the adult rate. Table 3.1 showed that in April 2009 nearly 17 per cent of jobs held by employees aged 18 and over were paid below the adult minimum wage, and just over 10 per cent were paid at the rate of the adult minimum wage. Although the increase in the minimum wage was higher in October 2008 than October 2007, ASHE data show that differentials between key points on the earnings distribution (such as the lowest decile and the median) have remained very similar.

3.84 The use of the youth rates and apprentice exemptions appears to be fairly consistent across micro and larger hairdressing businesses. But the proportion of jobs paid at the adult minimum wage is substantially higher in micro businesses than larger ones, at 12.1 per cent compared with 6.9 per cent, as shown in Figure 3.6 (which provides data for employees aged 16 and over). The proportion paid at this rate rose for both sizes of businesses between April 2008 and April 2009, although the increase was greater for those businesses with 10 or more employees (from 3.9 to 6.9 per cent).

Figure 3.6: Proportion of Employee Jobs in the Hairdressing Sector Held by Those Aged 16 and Over Paid Below, At and Above the Adult National Minimum Wage, by Firm Size, UK, 2008–2009

Source: LPC estimates based on ASHE 2007 methodology, low-pay weights, UK, April 2008–2009.

Employment

3.85 The latest employee jobs data provide some evidence that this sector may be another where employment has held up well despite the recession. While sensitive to wage changes, there is no evidence that the minimum wage has had an adverse impact on aggregate sector employment, with the latest employee jobs data showing an increase for the sector. The number of employee jobs in September 2009 was 6,000 (4.8 per cent) higher than in the same period in 2008. While, in contrast, employment in low-paying hairdressing occupations was over 14,000 (10.1 per cent) lower in the third quarter of 2009 than in the same period of 2008, it should be noted that there was a corresponding rise in self-employment in low-paying hairdressing occupations during the same period.

'Business was said to be 'okay', with some salons' profits flat and some slowing as clients make fewer appointments. They froze pay rates last year. Apprenticeship applicants have fallen this year, although salons are also taking on fewer apprentices.'

Hairdressers (Andrew Collinge) Commission visit to Liverpool

Stakeholder Views

3.86 The NHF stated in its written evidence that salary bills were the highest costs for labour intensive small businesses such as hairdressing, and that any compulsory pressure to increase costs would inevitably result in continued job losses. The NHF told us during oral evidence that the current economic climate had created a very nervous period for the sector. Although one view was that hairdressing was recession-proof, customers tended to make fewer visits and did not book too far ahead. Anecdotally NHF said it had experienced fewer requests for apprentice starter documents, and in January to March 2009 there had been a significant number of enquiries about redundancies; this had fallen off, but conduct and disciplinary enquiries had risen. NHF had concerns that salons would face further problems when the VAT reduction was reversed in January 2010. The impact of the minimum wage on training remained a key issue for employer stakeholders in the sector. Views on apprentices are looked at in Chapter 6.

Agriculture

3.87 In contrast to last year, the picture looks bleak for the agricultural sector with falling employment and income. Agricultural output (as measured by GVA) in 2008 remained stable, contributing 0.1 per cent of national GVA. In the third quarter of 2009, however, output fell by 7.5 per cent compared with the third quarter of 2008. The Department for Environment, Food and Rural Affairs (DEFRA, 2010b) estimated that in real terms, average farm business income for all types of farms in England was expected to be around £44,300 in 2008/09, about 11 per cent lower than in 2007/08. It also estimated that total income from farming would fall by a further 8.8 per cent in 2010.

Earnings

3.88 The minimum wage for workers employed in agriculture is set by the Agricultural Wages Boards (AWB) in England and Wales, Scotland, and Northern Ireland. The minimum rate depends on several factors, including a worker's age, experience, their qualifications and their responsibilities. The proportion of jobs on the minimum wage remains low at 2.8 per cent in April 2009. DEFRA (2010a) found that on average, male full-time workers earned £8.19 per hour and female full-time workers earned £7.25 per hour.

3.89 The AWB for England and Wales increased the rate of pay for all grades from 1 October 2009. The Grade 1 pay rate rose by 1.2 per cent from £5.74 to £5.81 per hour for workers over compulsory school age, one penny above the minimum wage. Pay rates for other grades increased by 2.2 per cent. The minimum hourly rate for apprentices in their first year of an apprenticeship rose from £3.53 to £3.57. Apprentices aged 22 and over in their second year of an apprenticeship saw an increase from £5.73 to £5.80.

3.90 The Scottish AWB increased the rate of pay for agricultural workers in their first 26 weeks of employment in line with the National Minimum Wage, to £5.80 per hour (an increase of 7 pence per hour) from 1 October 2009. For those employed for more than 26 weeks by the same employer the rate rose to £6.32. For the first time, agricultural apprentices will receive a statutory hourly minimum of £3.50 for the first 12 months of employment.

3.91 The AWB for Northern Ireland announced that from 6 April 2009, age bands (16–22) will be removed from the minimum wage rates. The minimum rate for Grade 1, the lowest pay band, has also been increased in line with the National Minimum Wage to £5.80 per hour.

Employment

3.92 There were 242,000 employee jobs in the agricultural sector in September 2009, making up around 3 per cent of jobs in the low-paying industries. According to ONS, the number of employee jobs in the sector fell by 22,000 (8.4 per cent) between September 2008 and September 2009. Employment in low-paying agricultural occupations, according to LFS, also fell by over 26,000 (33.6 per cent) during the same period to stand at 57,000.

Stakeholder Views

'The increase in the pay of Grades 2 and over has been greater than the NMW for the past three negotiations which implies that the consequences of NMW increases for agriculture has been greater than for most industries.'

NFU evidence

3.93 The minimum wage has a potential knock-on effect on differentials for the agricultural wage rates set by the AWB. The National Farmers' Union (NFU) said that negotiations over pay for all grades of agricultural workers were affected by the National Minimum Wage rate. It claimed that because the sector faced overseas competition, it was harder for the producers of labour intensive products like dairy to compete with competitors in countries with lower minimum wages. The Association of Labour Providers again drew our attention to the interaction between the Agricultural Minimum Wage and the National Minimum Wage, recommending that the Commission should study this interaction as a first step to the introduction of joined-up policy. It said it had made a case to DEFRA for the abolition of the Agricultural Minimum Wage. On a Commission visit to Ulster, the Ulster Farmers' Union questioned the need for the AWB now that the National Minimum Wage offered workers protection. The NFU, in a meeting with the Secretariat, said that last year there had been concern that the 21,250 places available under the Seasonal Agricultural Workers Scheme were insufficient to meet the labour needs of the industry. This year, however, the NFU had received fewer concerns from members, with the recession likely to be playing a part in assisting the supply of available labour.

Textiles, Clothing and Food Processing (Manufacturing)

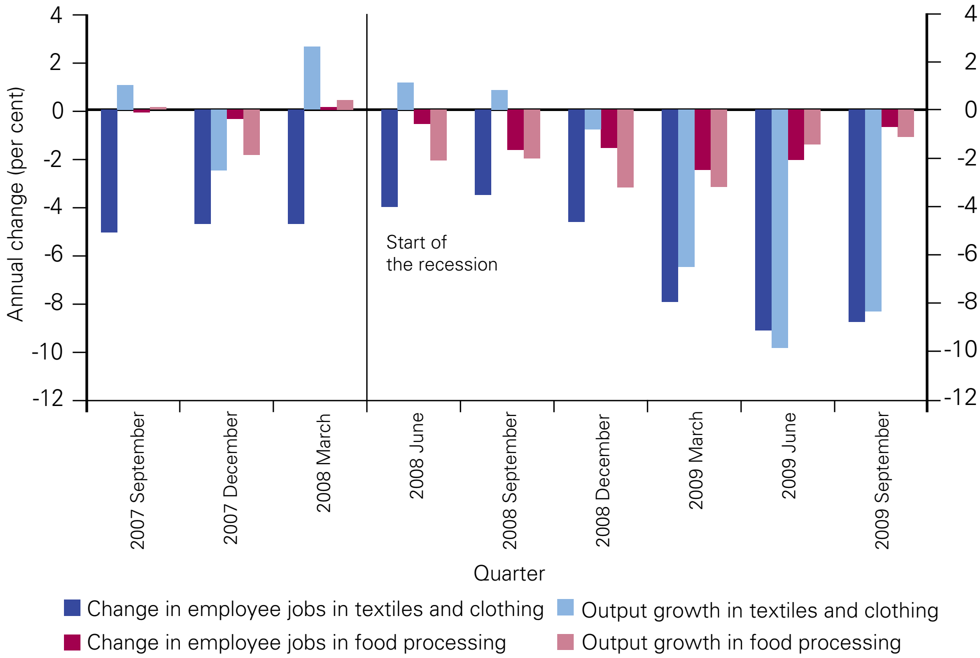
3.94 In the manufacturing sectors the picture remains bleak, with falling employment and declining output. The manufacturing sectors in the UK have been in long-term decline, which pre-dates the introduction of the National Minimum Wage. Between September 2008 and September 2009, employee jobs in manufacturing fell by 7.6 per cent. Manufacturing output fell by 10.8 per cent in the third quarter of 2009 compared with the third quarter of 2008. The first three quarters of 2009 saw the largest annual falls in manufacturing output since the end of 1980.

3.95 Within manufacturing, the textiles and clothing sector has generally experienced negative growth since the late 1980s. This is a long-term trend, the primary cause being competition from overseas low-wage economies. In the third quarter of 2009 there was a fall in output of 8.4 per cent compared with the third quarter of 2008, as shown in Figure 3.7. This was greater than the fall in output in the whole economy, which fell by 5.1 per cent in the same period. The food processing sector has seen a continued fall in output since the second quarter of 2008, affected by increased food costs and the weakness of the pound. There was an annual fall in output of 1.1 per cent in the third quarter of 2009, however this was the smallest year-on-year fall since the start of the recession and was not as great as the fall in output in the whole economy.

Earnings

3.96 Earnings figures for textiles and clothing show an increase in the proportion of jobs paid at the adult minimum wage between April 2008 and April 2009. In April 2009, 8.2 per cent of jobs were paid at the adult minimum wage compared with 6.0 per cent in April 2008. In the food processing sector, the number of jobs paid at the adult minimum wage in April 2009 rose to 5.3 per cent from 4.3 per cent in April 2008.

Figure 3.7: Output Growth, UK, and Employee Jobs, GB, in the Textile and Clothing and Food Processing Sectors, 2007–2009



Source: LPC estimates based on ONS employee jobs series, three-monthly, not seasonally adjusted, GB, and ONS, index of production for manufacture of food, drink and tobacco (CKZA) and textiles and textile products (CKZB), quarterly, seasonally adjusted, UK, 2006–2009.

Employment

3.97 The textiles and clothing sector accounted for 1.0 per cent of all jobs in low-paying industries in September 2009. The figure is higher for food processing, which accounted for 4.2 per cent of all jobs in low-paying industries. There has been a reduction in the number of jobs in the textiles and clothing sector in the year to September 2009. Between September 2008 and September 2009, the number of jobs fell by 8.8 per cent from 90,000 to 82,000 jobs. This was greater than the fall in employee jobs in the whole economy, which fell by 2.3 per cent over the same period. In the food processing sector, the number of jobs also fell but only marginally. There were 348,000 jobs in September 2009 compared with 350,000 jobs in September 2008. The decline in the number of employee jobs in these sectors pre-dates the introduction of the minimum wage and is primarily linked to competition from overseas low-wage economies. According to LFS, employment in low-paying occupations in textiles and clothing fell by 4,000 (7.7 per cent) and in food processing fell by 42,000 (19.1 per cent) between the third quarter of 2008 and the third quarter of 2009. Again, this was greater than the fall in employee jobs in the whole economy over the same period.

'...the NMW may initially have had a minor direct impact on FDF members...the indirect impact on the cost of services such as cleaning, catering and security continues to be felt keenly.'

Food and Drink Federation evidence

3.98 In terms of productivity, manufacturing has fared better than the whole economy over the year to the third quarter of 2009. Although the output loss was higher, the relative job loss was higher still. Indeed, in the manufacture of textiles, the percentage fall in output was less than the fall in jobs, leading to an increase in productivity over that period. In food processing, the loss of output and jobs were relatively small, with productivity changes also small.

Stakeholder Views

3.99 The Food and Drink Federation (FDF) said that the minimum wage was having a direct impact on pay levels and the structure of remuneration for its members. There was pressure to maintain differentials and employees still attached stigma to the term 'minimum wage'. It said that the minimum wage was having a direct impact on the cost of services with suppliers of services like cleaning tending to pass on the cost of any increase in wage costs to clients. FDF said it would like a formula to determine future minimum wage levels to give companies the opportunity to plan and budget for any cost increases. The UK Fashion and Textiles Association also said that increases in the minimum wage had had an effect on differentials and incentives. In the textile sector, most organisations now found that all their operatives were on the adult minimum wage.

Impact on Small Firms

3.100 Finally in this chapter, we consider the impact of the minimum wage on small and medium-sized firms. SMEs, defined as those with 1–249 employees, are important contributors to the UK economy and, as we have previously reported, workers on the minimum wage are disproportionately likely to be employed by small firms. We have shown earlier in this chapter that nearly 9 per cent of jobs in micro firms (those with fewer than 10 employees) are minimum wage jobs, hence we take a close interest in the performance of this sector.

3.101 In 2008, SMEs in the UK together accounted for 42.6 per cent of all private sector employment and 42.4 per cent of all private sector turnover. When broken down further, we find that small firms (1–49 employees) accounted for 31.1 per cent of all private sector employment and 28.8 per cent of all private sector turnover.

3.102 There has been much reported in the media about the impact of the recession on small firms, and that it would be small firms that lead the UK's growth out of recession. Particular problems reportedly encountered by small firms include limited access to credit and finance, and late payment of invoices by suppliers. The results of the UK's largest survey of small and medium-sized businesses (Small Business Week, 2009) published in October 2009, showed that 18 per cent of firms said the recession had a negative, lasting impact on business performance, with 17 per cent saying business costs were up and 16 per cent reporting an increase in debt. Around 48 per cent of small businesses said turnover was down, with nearly 25 per cent seeing a dip of more than 10 per cent. Just over 40 per cent wanted more support to access finance.

3.103 RSM Tenon (RSM, 2009a) reported in May 2009 that 38 per cent of entrepreneurs felt increased credit and access to bank funding would be beneficial to their businesses, and 33 per cent said since the start of the recession it had been harder to access funding. Results from the British Chambers of Commerce's Quarterly Economic Survey in October 2009 (BCC, 2009) showed that for the seventh successive quarter, more firms saw their cash flow worsen than improve over the previous three months, although the strongest improvement was among SMEs in services.

3.104 In October, RSM Tenon (RSM, 2009b) reported that in the previous three months, 21 per cent of entrepreneurs had failed in their attempts to raise cash and 38 per cent of entrepreneurs had needed to raise additional finance. This was a clear indication of how firms were continuing to struggle to manage cash flow during the recession. In November, RSM Tenon (RSM, 2009c) reported that the number of business failures to the end of October had exceeded those for the whole of 2008 and it expected another 5,000 to fail in November and December.

Earnings

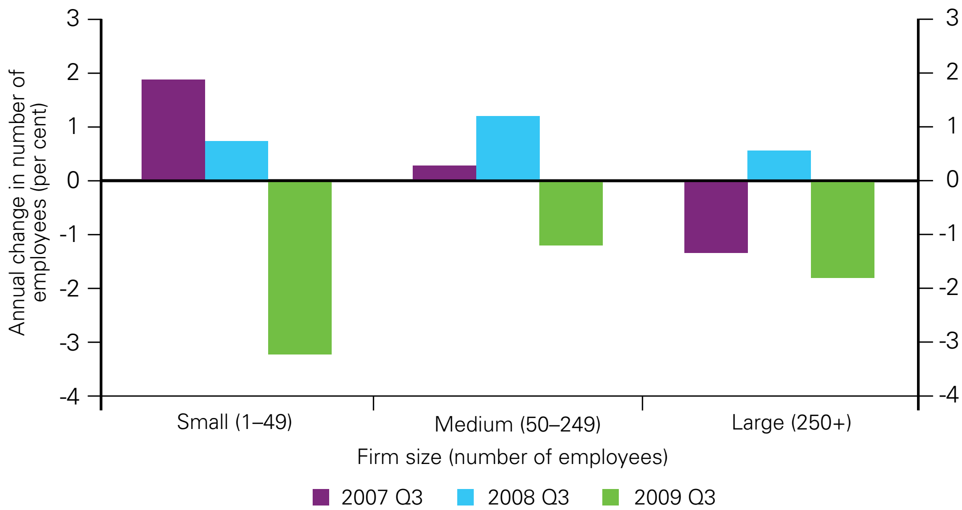
3.105 Official data show that 4.9 per cent of jobs in small firms were paid at the adult rate of the minimum wage in April 2009. This was an increase on 2008 of nearly 1 percentage point. For medium-sized firms, the percentage of employee jobs paid at the adult minimum wage in April 2009 was 3.5 per cent, compared with 3.1 per cent in 2008. There was no change for large firms between April 2008 and April 2009.

3.106 A survey of members of the ACS in 2009 showed that none paid their staff over £6.00 per hour and that in the last three years there had been an increase in the number of employers paying at the adult minimum wage.

Employment

3.107 LFS figures for employment by firm size show that in the third quarter of 2009, there were 11.8 million employees in small firms (1–49 employees) – down 392,000 (3.2 per cent) on the same period in 2008, as shown in Figure 3.8. This is compared with nearly 6.4 million employees in medium-sized firms (50–249 employees) – down 78,000 (1.2 per cent) on the same period in 2008. In large firms (250+ employees) there were just over 6.5 million employees in the third quarter of 2009 – down 120,000 (1.8 per cent) on the same period in 2008.

Figure 3.8: Change in the Number of Employees, by Firm Size, UK, 2007–2009



Source: LPC estimates based on LFS Microdata, quarterly, not seasonally adjusted, UK, Q3 2006–Q3 2009.

'The NAMB was inundated with telephone calls from bakers saying they will have to lose a member of staff to accommodate the NMW increase. Bakers are relying on members of their family to fill in and many are working longer hours.'

National Association of Master Bakers (NAMB) Commission visit to London

'For many businesses in the current economic climate there is not the slack to absorb additional costs and it means making cuts to ensure that employment costs remain the same.'

Independent Retailers' Confederation evidence

Stakeholder Views

3.108 The FPB reported that small businesses were finding it hard to cope with the recession and half of its members had highlighted staff costs as a very serious issue for their business. The FSB said many businesses had cut staff numbers and hours to keep business going. It also said that the October 2009 increase in the minimum wage was still too low to make a genuine difference to employees and left struggling businesses to cope with additional costs. The NAMB said the viability of many shops was now threatened because of increased costs, and differentials continued to be squeezed.

3.109 The RSA said that a significant number of rural shops continued to close (it estimated 400–500 in 2009) and that differentials had now been eroded as far as it was possible for them to go. The ACS said that the number of independent shops was nearly 2,000 down based on 2008 figures and that employment costs for its members had increased by around 3 per cent in 2009 (through increases in annual leave entitlement and the minimum wage). On our visits, small retailers told us that it was difficult to compete with large supermarkets.

Conclusion

3.110 The low-paying industries have experienced a fall in jobs of a smaller proportion to the fall in jobs in the whole economy. The majority of the job losses in the low-paying industries between September 2008 and September 2009 were in the two largest, retail and hospitality. These sectors are sensitive to falling consumer spending, which has occurred as a result of the recession. Other sectors have also experienced a decline in jobs; some of these have been in decline for a number of years, for example agriculture and textiles, and some as a result of the recession, for example cleaning. As we have noted in previous reports, much of this decline will be as a result of general economic conditions and not as a result of increases in the minimum wage. Small firms saw a large reduction in employment between the third quarter of 2008 and the third quarter of 2009 and the reduction in employment was greater in small firms than in medium-sized or large firms. Not all of the low-paying sectors have seen a reduction in jobs over the same period. Social care has seen the largest increase, with hairdressing and childcare also experiencing increases.

3.111 Data show that the minimum wage has had a different impact on each of the low-paying sectors. Overall the proportion of jobs paid at the minimum wage increased slightly between April 2008 and April 2009. Cleaning and hospitality continued to have the highest proportion of jobs paid at the minimum wage, with hospitality and hairdressing having the highest proportions paid below the minimum wage, reflecting the widespread use of apprentice exemptions and youth rates in these sectors. Research has shown that the relatively higher increase in the minimum wage in October 2008, coupled with the impact of the recession, have affected firms’ ability to maintain, or increase, differentials.

3.112 Having considered the position of the low-paying sectors and small firms, we go on in the next chapter to look at the impact of the National Minimum Wage on particular groups of workers.

Chapter 4
Particular Groups of Workers

Introduction

4.1 In this year's terms of reference the Government again asked us to monitor the effect of the National Minimum Wage on different groups of workers, including on different age groups, ethnic minorities, women, disabled people and migrant workers. These groups, plus those who are unqualified, have poorer employment prospects and tend to include a large proportion of workers on low pay. They are, therefore, more likely to be affected by the minimum wage than other groups and we might also expect them to be particularly affected by the recession. This chapter begins by discussing each of these key groups and explaining the impact of the recession and the minimum wage on their earnings and their positions in the labour market.

4.2 In addition, there are other groups of workers who, by the nature of their work and how they are paid, face issues around the application of the minimum wage that are of particular concern to us. These groups are affected for a range of reasons, such as their type of employment (e.g. agency workers); location (e.g. homeworkers/Fair Piece Rates and seafarers); or questions around whether employees are within the scope of the National Minimum Wage Act (e.g. voluntary workers and people on unpaid work experience). Other issues about the coverage and scope of the Act relate to pay, so we are interested in groups of workers affected by the accommodation offset; the treatment of tips; and the use of tax-free travel and subsistence payments.

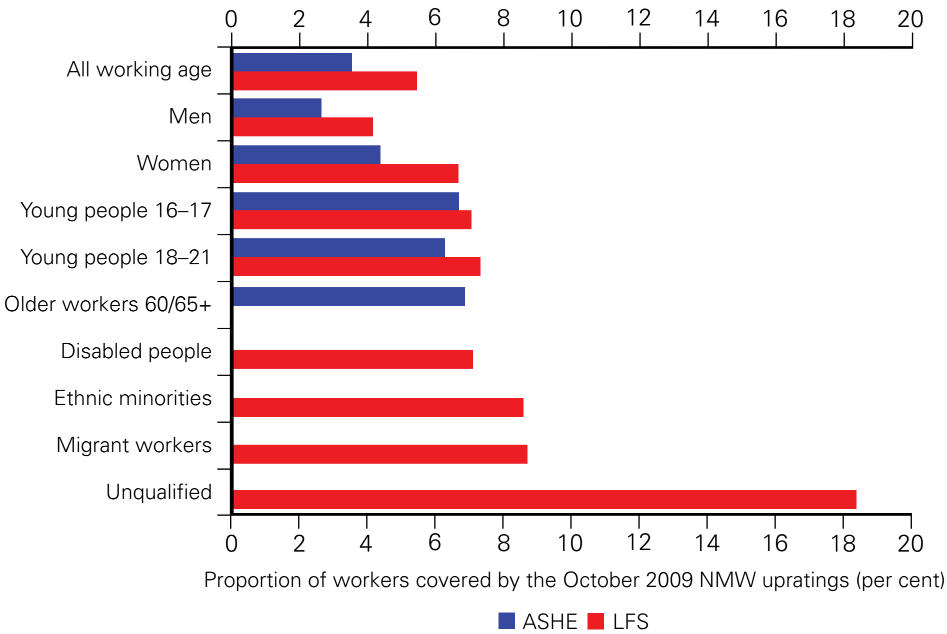
4.3 We consider each of these groups in turn and explain the reasons for our interest. We report on evidence received from stakeholders and other sources on the impact of the minimum wage, and provide an update on any recent developments in government policy.

Overall Position of Particular Groups of Workers

4.4 In looking at particular groups of workers, high quality earnings data are available by gender and age from the Annual Survey of Hours and Earnings (ASHE). Data on earnings for ethnic minorities, disabled people, migrant workers, and people with no qualifications are available from the Labour Force Survey (LFS); but this is self-reported and a smaller sample and, therefore, subject to greater errors. The reliability of data available to support our analysis varies accordingly.

4.5 Figure 4.1 illustrates that workers in our groups were more likely to be covered by the October 2009 National Minimum Wage upratings than workers in general or men (used here as a comparison group). For most groups, coverage based on the LFS was between 6.7 and 8.7 per cent, while for unqualified people it was around 18 per cent, over three times as high as for the working age population. It is worth noting that young people have been analysed here with respect to their lower minimum wage rates, which is why they do not show as having the highest coverage. When compared with the adult rate, around 72 per cent and 29 per cent of 16–17 and 18–21 year olds respectively were covered. As our groups are more likely to have been affected by the 3.8 per cent increase in the minimum wage, they could potentially be more vulnerable during the recession, especially those with no qualifications.

Figure 4.1: Proportion of Workers Covered by the October 2009 National Minimum Wage Upratings, UK, 2009



Source: LPC estimates based on ASHE 2007 methodology, low-pay weights, UK, April 2009 and LFS Microdata, income weights, UK, Q2 2009.
Note: Coverage defined as adults (aged 22 and over) earning less than £5.76, youths (aged 18–21) earning less than £4.80, and 16–17 year olds earning less than £3.54 in April 2009; working age, unless stated otherwise.

4.6 In the third quarter of 2009, all of our groups had lower employment rates than the working age population and men, as shown in Table 4.1. They also had higher inactivity rates and, apart from women and those aged above State Pension Age, higher unemployment rates. Table 4.1 shows that since the start of the recession, all groups of workers have seen some deterioration in their labour market prospects. But only men, young people and those with no qualifications have been affected more than the working age population as a whole.

Table 4.1: Change in Employment, Unemployment and Inactivity Rates Throughout the Recession for Various Groups, UK, 2008–2009

Per cent, change in percentage points	Employment rate		Unemployment rate		Inactivity rate	
Group of worker	**2009 Q3**	**Change on 2008 Q2**	**2009 Q3**	**Change on 2008 Q2**	**2009 Q3**	**Change on 2008 Q2**
Working age	73.2	*-1.6*	7.5	*2.1*	20.9	*-0.1*
Men	76.6	*-2.3*	8.3	*2.6*	16.4	*0.1*
Women	69.4	*-0.8*	6.5	*1.4*	25.8	*-0.2*
Young people 16–17	28.9	*-5.2*	30.7	*4.8*	58.3	*4.4*
Young people 18–21	53.3	*-4.8*	19.9	*4.9*	33.4	*1.8*
Older workers 60/65+	11.9	*0.5*	2.4	*0.8*	87.8	*-0.6*
Disabled people	40.0	*-0.3*	13.7	*1.9*	53.6	*-0.7*
Ethnic minorities	60.2	*-0.8*	12.6	*2.0*	31.1	*-0.6*
Migrant workers	67.9	*-1.2*	n/a	n/a	n/a	n/a
Unqualified workers	45.4	*-2.3*	15.8	*4.0*	46.1	*0.2*

Source: LPC estimates based on LFS Microdata, quarterly, four-quarter moving average, UK, Q3 2007–Q3 2009.
Note: Working age, unless stated otherwise.

4.7 The following sections look in more detail at the current labour market position of our vulnerable groups of workers and to what extent they have been affected by the recession. Young people are covered separately in Chapter 5.

Women

4.8 Despite women's increased participation in the labour market over recent years, they are still more likely than men to be low-paid and less likely to be in employment. First we look at the possible reasons for women to be in low-paying jobs, we go on to assess the difference in men and women's earnings, and finally we investigate the impact of the recession on their earnings and labour market prospects.

4.9 Women remain far more likely to work part-time than men. According to LFS, two-fifths of women worked part-time in the third quarter of 2009, compared with a tenth of men, making up over three-quarters of all part-time employees. As around two-thirds of jobs paid at the minimum wage are part-time (based on ASHE), this leads to a higher chance of women being low-paid compared with men.

4.10 Similarly, women are more likely to work in low-paying sectors than men. LFS data show that over half of employees in low-paying industries and two-thirds of employees in low-paying occupations are female. The gender split is less pronounced for industries as they include higher-paying managerial and supervisory roles, which are more likely to be held by men. Childcare and hairdressing occupations are overwhelmingly female (over 90 per cent) and the two largest low-paying occupations, hospitality and retail, also contain a greater proportion of women (59 and 66 per cent respectively).

Table 4.2: Hourly Gender Pay Gap of Full-time Workers Aged 18 and Over, UK, 1997–2009

	£ per hour						Per cent		
	Men			Women			Pay gap		
Year	Lowest decile	Median	Upper decile	Lowest decile	Median	Upper decile	Lowest decile	Median	Upper decile
1997	4.44	8.19	17.24	3.87	6.87	13.83	12.9	16.1	19.7
1998	4.62	8.54	18.10	4.08	7.14	14.44	11.6	16.4	20.2
1999	4.85	8.85	18.89	4.29	7.46	15.22	11.5	15.7	19.4
2000	4.94	8.87	19.45	4.41	7.65	15.67	10.8	13.8	19.4
2001	5.15	9.32	20.84	4.65	8.02	16.54	9.7	14.0	20.6
2002	5.40	9.72	21.94	4.88	8.41	17.43	9.6	13.5	20.6
2003	5.63	10.03	22.53	5.11	8.75	18.00	9.1	12.7	20.1
2004	5.81	10.48	23.44	5.36	9.21	18.94	7.6	12.1	19.2
2004	5.76	10.36	23.02	5.33	9.10	18.75	7.5	12.2	18.6
2005	6.00	10.80	24.24	5.60	9.60	19.76	6.7	11.1	18.5
2006	6.24	11.22	25.38	5.84	10.00	20.28	6.4	10.9	20.1
2006	6.20	11.14	25.25	5.75	9.86	20.12	7.3	11.5	20.3
2007	6.50	11.61	26.25	6.08	10.34	20.87	6.5	11.0	20.5
2008	6.73	12.16	27.27	6.25	10.74	21.50	7.1	11.6	21.2
2009	7.00	12.65	28.19	6.54	11.24	22.53	6.6	11.1	20.1

Source: LPC estimates based on ASHE without supplementary information, April 1997–2004, ASHE with supplementary information, April 2004–2006 and ASHE 2007 methodology, April 2006–2009, standard weights, UK.
Note: Direct comparisons before and after 2004 and those before and after 2006, should be made with care due to changes in the data series.

4.11 The extent of the difference in pay between men and women can be assessed using the gender pay gap (i.e. the proportional difference between men and women's earnings). We tend to focus on the median gender pay gap for full-time workers, as it more closely compares like-with-like and is less affected by extreme earnings than the mean. Table 4.2 shows that the median gender pay gap has gradually closed from above 16 per cent before the introduction of the minimum wage to 11.1 per cent in April 2009. There were small increases in some years, which tended to be when the minimum wage increased by less than the growth in average earnings. The gender pay gap at the lowest decile is smaller and, as expected, appears more sensitive to the level of the uprating.

4.12 In its response to our consultation this year, Unite acknowledged the reduction in the gender pay gap since the minimum wage's introduction. Nevertheless, it claimed that the UK was years away from a position of parity between the genders and, therefore, considered the minimum wage a vital tool for reducing the gender pay gap.

4.13 If we calculate the gender pay gap by age, Figure 4.2 shows that it varies considerably. In 2009 the gender pay gap for women only existed from age 30. Between ages 18 and 29 the gap was non-existent, but it was negative for 16–17 year olds (men had lower earnings than women in this age group). For all age groups, the pay of women has improved relative to men since 1998, although the pay gap for those aged over 18 was similar in 2008 and 2009. The gap became more negative for 16–17 year olds in 2009, as men's average earnings growth was lower than women's.

Figure 4.2: Hourly Median Gender Pay Gap of Full-time Workers, by Age, UK, 1998 and 2008–2009

Source: LPC estimates based on ASHE without supplementary information, April 1998, and ASHE 2007 methodology, April 2008–2009, low-pay weights, UK.
Note: Direct comparisons with 1998 should be made with care due to changes in the data series.

4.14 Overall, there is evidence that the positive impact of the minimum wage has gone some way to outweighing the negative effect of the recession on women's earnings. Further, it appears that men's earnings have been particularly affected by the recession and that 16–17 year olds have been hit the hardest.

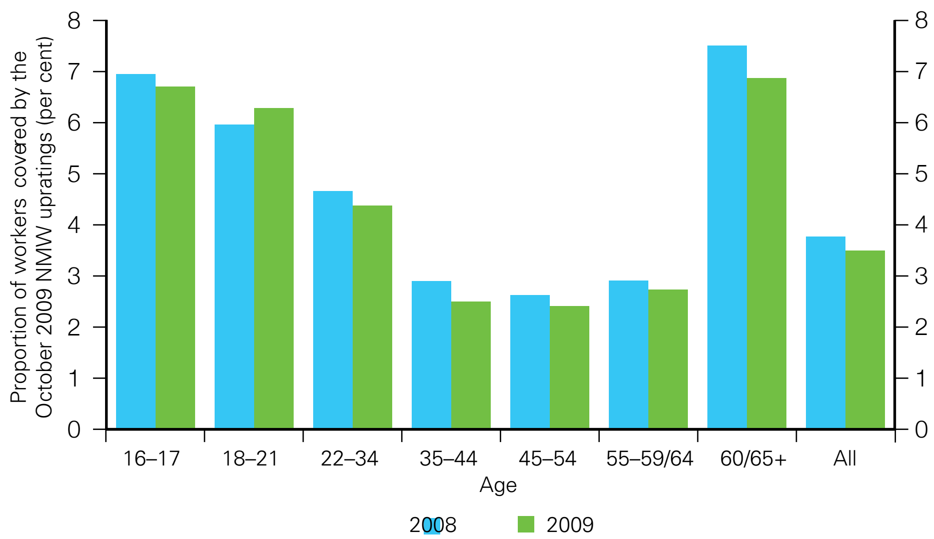
4.15 This pattern also plays out in the labour market where men have seen a much greater deterioration throughout the recession. Table 4.1 showed that, despite a fall in the employment rate (down 0.8 percentage points) and a rise in the unemployment rate (up 1.4 percentage points) for women, these changes have been smaller than for men. Further, LFS data indicate that around 60 to 70 per cent of redundancies in each month of the recession have been men. In fact, women have continued to increase their participation in the labour market throughout the recession. In conclusion, women have been adversely affected by the recession, but not to the same extent as men.

Older Workers

4.16 Age is arguably the most important factor with regard to the minimum wage. It is the only factor by which the minimum wage varies. Young people are covered in detail in Chapter 5 and here we focus on the earnings and labour market prospects of older workers at or above State Pension Age (currently age 60 for women and age 65 for men).

4.17 First, according to ASHE, the difference in median pay between older and other workers was around 22 per cent. In April 2009, median hourly earnings for those aged over State Pension Age were £8.43, compared with £10.82 for those aged 18 and above. Further, Figure 4.1 showed that workers aged over State Pension Age were more likely than the working age population to be covered by the October 2009 minimum wage upratings. Coverage varies across age bands and Figure 4.3 shows that it is considerably higher for these older workers (6.9 per cent in 2009) than for other adults (4.4 per cent or lower in 2009). Nevertheless, the coverage for older workers did not increase between 2008 and 2009. In fact, the only age group to have seen an increase in coverage was 18–21 year olds, again suggesting that young people may have been more affected by the recession.

Figure 4.3: Proportion of Workers Covered by the October 2009 National Minimum Wage Upratings, by Age, UK, 2008–2009



Source: LPC estimates based on ASHE 2007 methodology, low-pay weights, UK, April 2008–2009.
Note: Coverage defined as adults (aged 22 and over) earning less than £5.76, youths (aged 18–21) earning less than £4.80, and 16–17 year olds earning less than £3.54 in April 2009; working age, unless stated otherwise.

4.18 Despite older workers having the lowest employment rate because of the large numbers that are retired, the rate has been increasing since the middle of 2001, with a corresponding decrease in their inactivity rate. LFS data show that these trends have continued throughout the recession. In fact, Table 4.1 showed that older workers were the only group with an increase in their employment rate (up 0.5 percentage points) since the start of the recession. In conclusion, workers over State Pension Age remain vulnerable in terms of being low-paid. But in the recession their earnings position has not worsened and despite more older workers choosing to stay in work for longer, they have been managing to keep their current job or find an alternative.

Disabled People

4.19 The employment rate of disabled people was low at around 40 per cent (accounting for 2.1 million workers) in the third quarter of 2009. Nevertheless, since before the introduction of the National Minimum Wage they have been increasing their participation in the labour market. Disabled people remain more likely to be low-paid because of the type of roles they tend to occupy. A third work part-time, which is a higher proportion than workers without a disability (less than a quarter). They are also more likely to work in low-paying occupations. For example, 12 per cent of cleaners had a work-limiting disability in the third quarter of 2009, compared with 8 per cent of all workers.

4.20 In its evidence submitted this year, UNISON reiterated that disabled people have extra living costs, such as heating, transport, housing and prescriptions. It saw this as another reason for maintaining a decent level of the minimum wage.

4.21 To assess the difference in earnings between people with and without disabilities, we can use the LFS to estimate the pay gap. In the National Minimum Wage year 2008/09, disabled people earned 8.1 per cent less than others at the median. Comparing data at the start of the recession (second quarter of 2008) with a year later, there was no change in the median pay gap. The pay gap at the lowest decile is minimal, which could be a result of the minimum wage. Further evidence of the difference in pay is shown in Figure 4.1, with 7.1 per cent of disabled workers estimated to be covered by the October 2009 National

Minimum Wage upratings. This was higher than coverage for people without disabilities (5.0 per cent).

4.22 Although traditionally it might be expected for disabled workers to fare particularly poorly in the recession, there is evidence that this has not been the case. As already noted, disabled people have been increasing their participation in the labour market over recent years, and Table 4.1 showed that this trend has continued throughout the recession. According to the Department for Work and Pensions (DWP), between May 2008 and May 2009, the number of incapacity benefit claimants fell by 260,000 to 2.33 million. Further, despite a decrease in their employment rate and an increase in their unemployment rate since the recession began, these changes were small. In conclusion, although disabled people have experienced some negative effects of the recession, generally they have been coping well compared with other groups and their earnings do not seem to have been adversely affected.

Ethnic Minorities

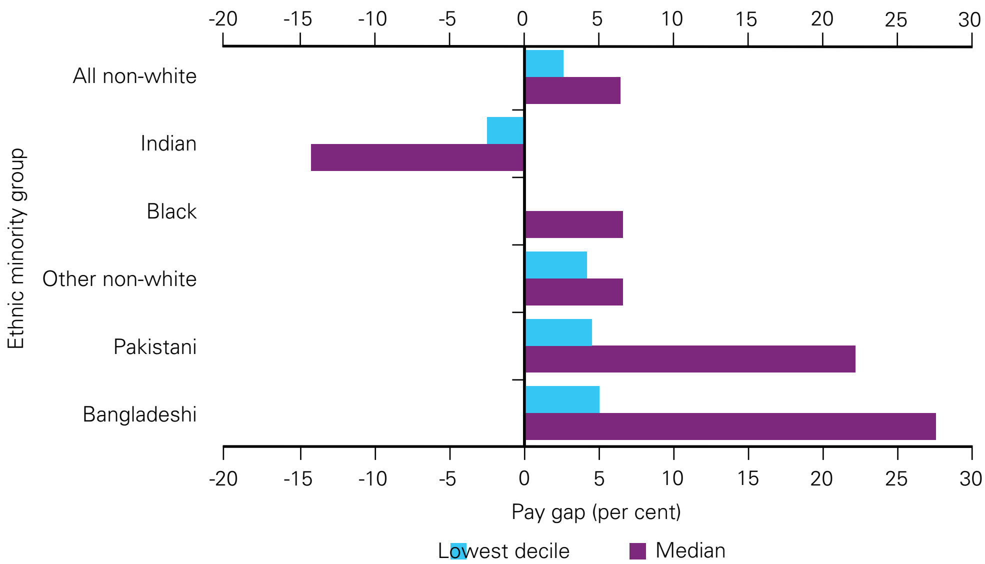
4.23 Ethnic minorities have historically been more vulnerable in the labour market than white workers, yet they too have been increasing their participation over recent years. According to LFS, in the third quarter of 2009 there were 2.6 million ethnic minority workers (around 10 per cent of all workers). Their inactivity rate was relatively high at 31 per cent, compared with 21 per cent for the working age population, with the rate for ethnic minority women even higher at 41 per cent.

4.24 Compared with white workers, ethnic minorities are more likely to work in part-time jobs and in low-paying occupations (25 per cent and 30 per cent respectively in the third quarter of 2009), although this varies by ethnic group. Black people make up a relatively high proportion of security guards and social carers, whereas Indians, Pakistanis and Bangladeshis make up a relatively high proportion of workers in occupations within the textile industry (all around 7 per cent compared with 2 per cent of all workers).

4.25 In its written evidence, the Scottish Government acknowledged the 'ethnic penalty' in employment, whereby people from minority ethnic communities were likely to earn less than their white counterparts. It concluded that the minimum wage would be of significant benefit in redressing these inequalities.

4.26 The median pay gap between ethnic minorities overall and white people was 6.4 per cent in the 2008/09 National Minimum Wage year based on LFS data. If we again look at the different ethnicities separately, Figure 4.4 shows that some pay gaps were much larger and average earnings were not always lower than those for white people. There was a negative pay gap at the median and lowest decile for Indians (-14.3 per cent and -2.5 per cent respectively), which meant that they earned more than white people on average. In the 2007/08 National Minimum Wage year there was little difference in pay between black and white people at the median, but in 2008/09 the gap was 6.6 per cent. Pakistanis and Bangladeshis had the largest pay gaps in 2008/09. The gaps were similar for both these ethnic groups at the lowest decile (around 5 per cent) and were 22.1 per cent and 27.5 per cent respectively at the median.

Figure 4.4: Hourly Pay Gap Between White and Ethnic Minority Workers, UK, 2008/09



Source: LPC estimates based on LFS Microdata, quarterly, not seasonally adjusted, UK, Q4 2008–Q3 2009.

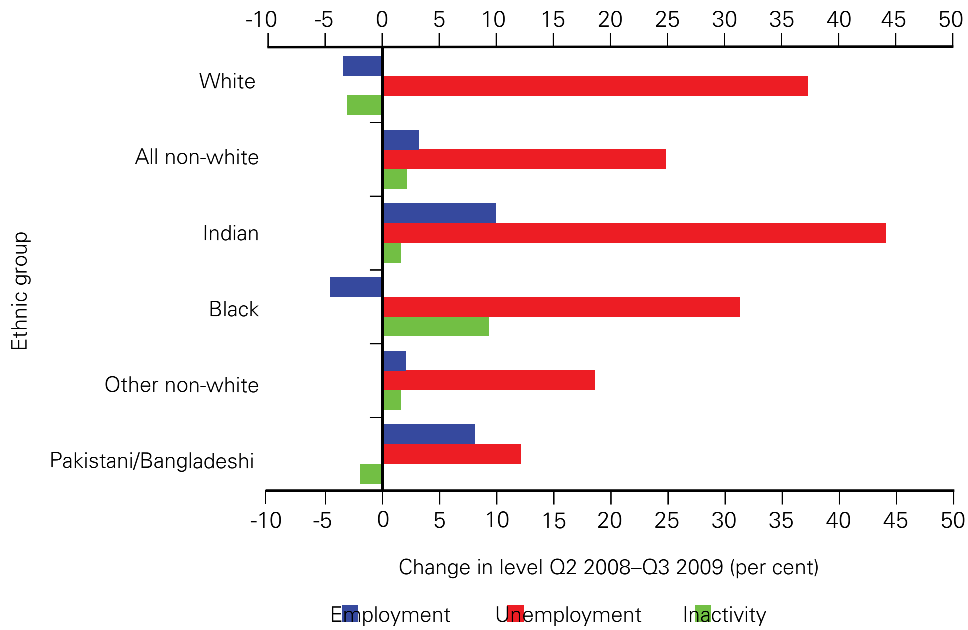
4.27 These findings on earnings further support the evidence in Figure 4.1, which showed that coverage of the 2009 National Minimum Wage upratings was higher for ethnic minorities overall than for all workers, using LFS data. There was a similar pattern in coverage and changes to coverage through the recession by ethnic minority group. Indians were less likely to be in 'minimum wage jobs' than white people in 2008 and

2009. Black people had the lowest coverage in 2008, but in 2009 it was higher than for white people. Bangladeshis also experienced an increase in their coverage, and Pakistanis and Bangladeshis remain the ethnic groups most likely to be covered by the minimum wage in 2009 (15.6 per cent and 21.9 per cent respectively).

4.28 Overall, the recession has not affected the labour market prospects of ethnic minorities to the same extent as it has for white people. Table 4.1 showed that ethnic minorities experienced a small decrease in their employment rate and a small increase in their unemployment rate, but that their participation has continued to increase. The change in unemployment was similar for ethnic minority men and women, but a fall in the employment rate for men offset a small rise for women. Similarly, an increase in women's participation offset a decrease for men, demonstrating again that men have been more affected by the recession than women.

4.29 As we have seen for earnings, some ethnic groups have been more affected in the labour market than others. Figure 4.5 shows that only black people saw a decrease in employment levels between the start of the recession and the third quarter of 2009 (down 4.5 per cent). Further, black and Indian people experienced the largest increases in unemployment levels, but only the increase for Indians was larger than that for white people. Pakistanis and Bangladeshis experienced the smallest unemployment increase. They increased their employment level (by 8.1 per cent) and their participation level accordingly.

Figure 4.5: Change in Employment, Unemployment and Inactivity Levels Throughout the Recession, by Ethnic Group, UK, 2008–2009



Source: LPC estimates based on LFS Microdata, quarterly, four-quarter moving average, UK, Q3 2007–Q3 2009.
Note: Working age.

4.30 In conclusion, the effect of the recession on different ethnic groups has been mixed. Black people used to receive higher earnings on average, but they have been most affected by the recession. Bangladeshis and Pakistanis are most likely to be covered by the minimum wage, yet their labour market prospects have not been as severely affected. Further, ethnic minority men have been more affected in the labour market than ethnic minority women.

Migrant Workers

4.31 Migrant workers have again been identified throughout our consultation as a group who are particularly susceptible to exploitation. Many come to the UK with high skill levels and good qualifications but have to take lower-paid jobs, with the language barrier causing problems for some. In its written evidence, the United Kingdom Home Care Association (UKHCA) in particular noted the vulnerability of migrant workers. It said that there was research indicating that there were issues around delivery of care due to language and cultural barriers.

4.32 These problems particularly affect those from the accession (A8) countries (the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia), who have been arriving in increased numbers since 2004. We first look at the latest statistics on the numbers of migrants in the UK, before turning to examine their earnings and labour market position and to what degree they have been affected by the recession.

4.33 Since our last report, the Office for National Statistics (ONS) has completed its first year of the cross-government Migration Statistics Improvement Work Programme. As well as implementing methodological improvements, it has combined statistics from the ONS, Home Office and DWP into one publication. This has been useful for comparison purposes and for providing a fuller picture. Table 4.3 shows that total inflows have slowed on most measures, but that net migration was still positive in 2008. The largest reductions in inflows in 2008 were for those born in the A8 countries (falls of around a quarter). The latest available statistics show that these trends have continued into the first half of 2009.

Table 4.3: Migration Statistics, UK, 2002–2009

Thousands	ONS[a]	ONS[a]	DWP[b]	DWP[b]	WRS[c]
	Net	Inflow	Inflow	Inflow	Inflow
	All countries	All countries	All countries	A8 countries	A8 countries
2002	81	386	311	15	–
2003	113	427	362	24	–
2004	208	518	413	79	*135*
2005	168	496	619	244	212
2006	160	529	633	283	235
2007	209	527	797	368	218
2008	129	538	670	272	167
2009 (first 6 months)	–	–	*326*	*105*	*54*

Notes:
a. ONS Long Term International Migration statistics measure the number of people that migrated to/from the UK for at least 12 months.
b. DWP National Insurance Number statistics are based on the number of registrations; they include self-employed, whereas Worker Registration Scheme (WRS) figures do not.
c. WRS figures are for applicants, rather than the number of applications; 2004 is May to December.

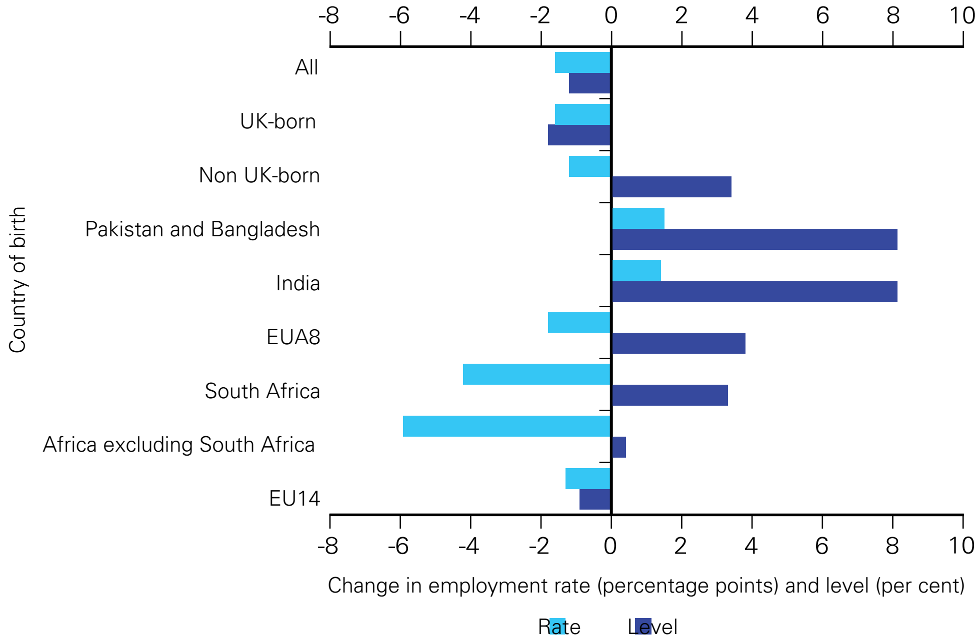
4.34 Traditionally, non UK-born workers received higher earnings and worked in similar sectors of the economy as UK-born workers. But this changed as workers from the A8 countries began to migrate to the UK. In the second quarter of 2009, LFS data showed around a third of workers born in the A8 countries worked in elementary occupations[1], compared with around a tenth of UK-born workers (Clancy, 2009). As a result, median earnings for those born outside the UK have fallen below the average for those born here. The estimated pay gap between non UK-born and UK-born workers for the 2008/09 National Minimum Wage year was 3.6 per cent, based on the LFS.

4.35 Further, Figure 4.1 showed that around 9 per cent of non UK-born workers were covered by the October 2009 National Minimum Wage upratings (LFS data), which was higher than for all workers. This was similar to the estimated coverage for the 2008 upratings, so although there is evidence that migrants are more vulnerable in terms of lower earnings, their earnings do not appear to have been significantly affected by the recession.

4.36 Table 4.1 showed that migrant workers overall experienced a 1.2 percentage point fall in their employment rate, which was a smaller fall than for all workers. Behind this statistic lies significant variation by country of birth, which is illustrated in Figure 4.6. First, despite the fall in the rate since the start of the recession, the employment level for those born outside the UK increased by 3.4 per cent. This pattern is similar for A8 migrants, suggesting that more people have moved to the UK since the start of the recession, but there is a higher chance of being unable to find a job. People born in India, Pakistan and Bangladesh fared better than other groups, with similar increases to employment rates and levels. Those born in Africa fared worse, with the largest reductions in employment rates.

1 Elementary occupations generally involve performing routine tasks, the majority of which do not require formal qualifications. They include, for example, farm labourers, office juniors, unskilled factory workers and shelf fillers.

Figure 4.6: Change in Employment Rate and Level Throughout the Recession, by Country of Birth, UK, 2008–2009



Source: LPC estimates based on ONS data, quarterly, four-quarter moving average, UK, Q3 2007–Q3 2009.
Notes:
a. Working age.
b. The EU14 are Austria, Belgium, Denmark, Finland, France, Germany, Greece, Holland, Italy, Luxembourg, Portugal, Republic of Ireland, Spain (including the Canary Islands), and Sweden.
c. Change between Q2 2008 and Q3 2009.

4.37 In conclusion, migrant workers overall have not fared worse in the recession than those born in the UK. But people from different countries of birth have had mixed experiences of the recession, with those from Asia doing relatively better than others.

Unqualified Workers

4.38 Workers with no qualifications tend to fare worse than others in the labour market as employers seek experience and evidence of educational attainment. In its written evidence, the CBI said that employers demanded workers with good literacy, numeracy, IT and general employability skills, and that in a recession these would be in particular demand. The unqualified are also traditionally more affected by recessions as firms protect their core workers who are qualified and higher-skilled, and dispense with temporary and less-qualified workers. We look to see whether the latest evidence supports these presumptions.

4.39 LFS data showed that there were 2.1 million people (8 per cent of the workforce) with no qualifications in employment in the third quarter of 2009. They were more likely to be low-paid because of their higher chance of working part-time (30 per cent) and within low-paying sectors (36 per cent). They made up at least 25 per cent of workers in the textile and cleaning occupations. Unqualified workers were also more likely to be aged over State Pension Age than workers in the whole economy, so there is some interaction between this group and older workers, whom we discussed earlier.

4.40 According to the LFS, the difference between earnings for people with and without qualifications is reasonably modest at the lowest decile (4.5 per cent), but the pay gap increases along the earnings distribution. At 32.6 per cent, the difference at the median is the largest of all our groups of workers in the 2008/09 National Minimum Wage year. Further, Figure 4.1 showed that unqualified workers are considerably more likely to be in 'minimum wage jobs' than any other group. Their minimum wage coverage was 18.6 per cent in 2009, which was an increase from 17.5 per cent in 2008. So, excluding young people, not only are they the lowest paid, they are most likely to be covered by the minimum wage upratings and this coverage has increased during the recession.

4.41 The labour market prospects for unqualified workers have been deteriorating over a number of years according to the LFS. Their employment rate began to decrease from around 2001, their unemployment rate began increasing from around 2005, and these trends have worsened throughout the recession. Table 4.1 showed that of all our groups, with the exception of young people, unqualified workers have experienced the largest fall in their employment rate since the start of the recession and account for nearly 60 per cent of the overall employment level decrease. They were also one of the few groups that experienced a rise in their inactivity rate. Overall, the only group to have been hit harder throughout the recession than unqualified workers was young people.

Agency Workers

4.42 Agency work offers important flexibility for both workers and employers. It can offer a short-term solution to staffing problems for employers while offering individuals the opportunity to gain skills and experience in different areas. Agency workers are fully entitled to the minimum wage but are not yet required to have the same pay and conditions offered to directly employed staff.

4.43 Our consultation revealed a number of issues concerning agency workers this year. As in previous years, some are covered in this section and others, relating to enforcement, are covered in Chapter 7.

4.44 According to the Recruitment and Employment Confederation (REC), in 2007/08 the recruitment industry placed 1.2 million people into temporary jobs every week. Data from LFS showed that in the third quarter of 2009 there were around 238,000 jobs classified as 'agency temping' compared with 234,000 for the same period in 2008 and 265,000 in 2007. Examining all types of temporary jobs, some of which would not involve the use of an agency, we found that there were just over 1.3 million temporary jobs in the third quarter of 2009, 13,000 more than in the same period for 2008 but 155,000 fewer than that period for 2007. We can see that the current use of agency workers is down on 2007 levels, but up on 2008 levels suggesting that firms reduced their reliance on agency workers in the second half of 2008 but that the market for these services is now improving. This is supported by REC (2010), which recorded the fifth consecutive month of growth for temporary placements.

4.45 According to ASHE, the proportion of workers in the labour recruitment sector paid at the minimum wage increased slightly from 10.0 per cent in 2008 to 10.7 per cent in 2009. The proportion paid at £6.00 per hour was similar, however a smaller proportion were paid at £6.50 per hour in 2009 (2.5 per cent compared with 2.9 per cent in 2008).

4.46 In our 2009 Report we noted that agreement had been reached in Europe on the Agency Workers Directive. This enables the Government to implement the Directive on the basis of an agreement between the CBI and the Trades Union Congress (TUC), which will allow for equal treatment to apply after a temporary worker has been in a given job for 12 weeks. The Government launched 2 consultations on the implementation of this Directive and recently announced that it will not be implemented until October 2011.

Entertainment Sector

4.47 Equity highlighted the problem of work being offered for no pay, giving aspiring performers an opportunity to work in the industry. Our

Secretariat also met two actors who raised the issue of the complex nature of the law in relation to the entertainment industry and of roles in TV and film being advertised as unpaid when they were clearly work. They wanted it to be made illegal to advertise work for no pay. The actors, along with Equity, had passed details of adverts offering work for no pay to HM Revenue & Customs (HMRC) and felt that some sort of sector specific guidance for employers and agencies in the entertainment industry would be beneficial.

'Many workers in the entertainment sector with minimum wage problems are scared to enforce their rights. They fear retribution from their employers.'

Equity evidence

4.48 During a visit to London we met a group of actors who told us of the problems those in the entertainment sector faced. These included: agencies taking their fees from a day's pay, leaving the worker with less than the minimum wage, and offering no subsequent work to the actor; work being advertised for no pay (but sometimes with expenses); and the complex nature of the regulations in this sector. They told us that those in the industry were reluctant to report abuse for fear that they would subsequently find it difficult to obtain work.

4.49 In November 2009, an Employment Tribunal ruled that workers engaged on an expenses-only basis were entitled to payment at least in line with the National Minimum Wage. The case was brought by a department assistant against a film company and was supported by the Broadcasting Entertainment Cinematograph and Theatre Union (BECTU).

4.50 We have again heard this year about a number of problems faced by those working in the entertainment industry. We understand that the issues are not always as straightforward as they may appear and that two enforcement bodies, HMRC and the Employment Agencies Standards Inspectorate, have an involvement in this sector. While more may need to be done in relation to enforcement of existing regulations, we believe the production and publication of guidance specifically for the entertainment industry would go some way to highlighting the rights and obligations of employers, agencies and workers in the sector. **We therefore recommend that the Government produces, in conjunction with interested parties, sector specific guidance on the National Minimum Wage for the entertainment sector.** We will monitor the situation with regard to this group of workers carefully and, following publication of the sector specific guidance, review the effect of its publication.

Workers Provided with Accommodation

4.51 Accommodation is the only benefit-in-kind that can count towards the minimum wage. It provides a mechanism to enable employers to offset the cost of providing accommodation for workers against the minimum wage, up to a maximum daily limit. The level of the offset has risen, in percentage terms, broadly in line with the adult rate of the minimum wage.

4.52 The provision of accommodation is common in some low-paying sectors such as agriculture and hospitality. Offset arrangements provide protection to the worker and give some recognition of the value of the benefit, but are not intended to reflect the actual costs of provision to the employer or the commercial market value.

4.53 We undertook a detailed review of the offset for our 2006 Report, including considering whether there was a case for relaxing the offset rules. The conclusion of our review was that there remained concern whether workers (some of the most vulnerable) would have a genuine choice if accommodation was provided as an 'option', outside the contract of employment. We therefore recommended that the current provisions should continue to apply to all workers housed by their employers.

4.54 In subsequent reports, we continued to note the concerns of stakeholders over the operation of the existing offset arrangements and the issues it caused. In particular, we noted that employers were no longer providing accommodation because they claimed it was not economically viable to do so. This left workers having to obtain accommodation on the open market, where they faced exploitation from unscrupulous landlords. In our 2009 Report we said we would invite stakeholders to submit further and more detailed evidence as part of our review for this report.

4.55 In its evidence this year the National Farmers' Union (NFU) stated that agriculture had been severely affected by the shortage of rural accommodation for employees. As a consequence, many employers were obliged to provide accommodation to a large number of workers, not because it was necessary to have them on site, but because otherwise they would not be able to recruit sufficient labour. The NFU wanted to see the level of the offset increased to encourage employers to improve the standard of the accommodation they provided. The 50 Club Horticultural Employers' Association also argued for the level to be raised as an incentive for farmers to invest in accommodation. The Association of Labour Providers again stated that most labour providers no longer provided accommodation as it was not economically viable to do so.

4.56 In their joint submission, the British Hospitality Association (BHA), the British Beer & Pub Association (BBPA) and Business In Sport and Leisure (BISL) claimed that the offset remained below the economic rate for what was being provided. A recent BHA survey found that accommodation was provided because workers were not based locally or because local accommodation was expensive. The Association of Licensed Multiple Retailers advised that the low level of the offset and the current economic climate were forcing operators to generate as much income as they could, which included renting out accommodation previously used by low-paid staff. It wanted to see the level of the offset raised to £60 per week.

4.57 During a visit to Wales, we spoke to a group of hoteliers who had different opinions on the offset. Some supported the current arrangements (although wanted the level raised) as there was a clear benefit for the employer in having the workers on site. Others, however, felt the offset encouraged short-termism. Workers (mainly migrants) saved money, which they then took with them when they returned home. There was no benefit, therefore, to the local economy, and it also provided workers with a false situation (i.e. subsidised accommodation).

4.58 The TUC supported the retention of the offset and its increase each year at the same rate as the adult rate. It said complaints about misuse were about arrangements that employers made to avoid the law, most commonly striking a deal with an accommodation provider. The TUC said the revised guidance issued in 2006 to deal with abuses was never tested and had now been removed from the Government's website. It wanted to see this revisited. In its evidence, the Government advised that of the 1,746 cases of minimum wage non-compliance found in 2008/09, only 35 involved employers who had failed to implement the offset correctly.

4.59 Stakeholders have again this year reported differing concerns with the current offset provisions. It is clear that some sectors rely on it as a means of obtaining workers. From a worker's perspective, without it they would sometimes be unable to take up employment. The low monetary level of the offset is a concern to those who provide accommodation, but affordability of accommodation to the workers is crucial. Although we note the concerns raised, we have not received the more detailed evidence we were seeking and that leads us to conclude that substantial change to the current arrangements is neither necessary nor desirable. We will, however, keep the issue under review and if evidence nor forthcoming that leads us to a different conclusion, we will report as appropriate.

Voluntary Workers

4.60 Voluntary workers are outside the scope of the minimum wage as they are not classified as 'workers'. Under Section 44 of the National Minimum Wage Act 1998 voluntary workers are defined as: those working for specific organisations (a charity, voluntary organisation, associated fund-raising body, or a statutory body) and receiving only very specific payments and benefits-in-kind. Certain conditions must be met to ensure that the voluntary worker does not qualify for the minimum wage. Voluntary workers may not receive any monetary payment apart from the reimbursement of expenses incurred in the performance of duties or expenses incurred in order to enable the voluntary worker to perform their duties.

4.61 In January 2009 the Government extended the range of expenses that could be reimbursed to voluntary workers to include those to enable them to perform their duties. This included expenses to cover the cost of care of dependants needed to enable the voluntary worker to do the voluntary work, expenses to cover the cost of a lunch during a break in the voluntary activities, and expenses to cover the cost of travelling to and from the voluntary location. We will continue to monitor changes in the law on expenses and benefits-in-kind.

4.62 In recent reports we noted the concerns raised by the voluntary sector about minimum wage arrangements, particularly definitional problems such as who a voluntary worker was and what qualified as a benefit-in-kind. This year there was little evidence from stakeholders on voluntary workers, with the focus primarily on unpaid work experience. We continue to see the way forward as the provision of better guidance by the Government, and continuing dialogue between the voluntary sector and enforcement authorities, all within the existing minimum wage framework. In April 2009 the Government updated the guidance it had developed with stakeholders on voluntary workers and this was published on the DirectGov and Business Link websites. We will continue to monitor the impact of the revised guidance and any new guidance produced by the Government.

Volunteers

4.63 There is a clear distinction between voluntary workers and volunteers under the National Minimum Wage Act 1998. Unlike voluntary workers, who must work either for a charity, a voluntary organisation, an associated fund-raising body or a statutory body, volunteers can volunteer for anybody and not just for organisations in the not-for-profit sector. Like voluntary workers, volunteers are exempt from the National Minimum Wage as they are not classified as 'workers' but they can receive reasonable expenses only. Volunteers are sometimes provided with refreshments during the volunteering day and clothing and equipment to enable them to perform their duties. Reasonable provision of these items does not define the volunteer as a 'worker' and there will be no entitlement to the minimum wage.

4.64 This year we received little evidence from stakeholders on volunteers. The Rural Shops Alliance (RSA) said that trends in recent years had seen an increase in the number of community shops, mainly run by volunteers. It said that current legislation meant that paying anything that could be construed as remuneration had to be paid at or above the minimum wage. The RSA said that it would like to see the rules on volunteers reviewed so that there was more flexibility in rewarding volunteers. The National Council for Work Experience (NCWE) said that it had received enquiries from people confused about the minimum wage and whether it should be paid to volunteers. NCWE said it believed there was confusion and inconsistency with the guidance and advice given by different government departments.

4.65 Encouraging people, and particularly young people, to undertake volunteering is high on the Government's agenda. On 13 January 2009 it published a social mobility White Paper 'New Opportunities, Fair Chances for the Future', setting out measures to promote social mobility. One of the programmes announced was 'v' Talent Year. 'v' is the national youth volunteering organisation set up to implement the recommendations of the Russell Commission in England. 'v' is investing £10 million in the Talent Year scheme aimed at 16–25 year olds who work to achieve qualifications at NVQ Level 2. The scheme is delivered through local authorities' young children's and young people's services departments and the first cohort commenced in March 2009. The scheme runs for 44 weeks and there are 1,000 volunteering opportunities over 2 years in 33 local authorities. Around 40 per cent of volunteers will be not in education, employment or training (NEET) and will have access to expenses and subsistence (up to £100 per week). There is also possible access to a personal development grant of up to £1,500 at the end of their programme.

4.66 The scheme has more recently been expanded to enable the programme to be delivered within different sectors, including 9 English further education colleges. In total the programme will provide structured volunteering opportunities for a further 900 young people over 2 years. 'v' Talent Year volunteers can be recruited from the local community, and may include recent college graduates, alongside NEETs and others who wish to gain experience in education institutions.

4.67 Voluntary schemes including the 'v' volunteering programme for young people have been carefully written to comply with the rules for voluntary workers and the minimum wage. We recognise the benefits to people undertaking voluntary work and it is not our intention to stop individuals volunteering. However, our underlying concern is that the number of people being encouraged back to work via unpaid full-time volunteering, but exempt from the minimum wage, is rapidly increasing. We will continue to monitor these schemes closely to ensure that they comply with the National Minimum Wage Act.

People on Unpaid Work Experience

4.68 Work experience placements undertaken by students as part of a UK-based higher education course or further education course are exempt from the National Minimum Wage, provided the placement lasts less than one year. In these circumstances, people doing work experience are under no obligation to perform work and are not 'workers' for minimum wage purposes. In determining if someone is a 'worker', key features include whether an individual is remunerated through money or benefits-in-kind (beyond basic expenses) and whether there is a contractual obligation (which could be written, oral or implied) on the individual to perform the work and, in return, an obligation on the employer to provide work.

4.69 Some students undertaking work experience take a job that is not part of their course and they are entitled to the minimum wage unless a specific exemption applies. Similarly, students aged 18 and over who are taking a 'gap' year between school and higher education must be paid at least the minimum wage for any work they do.

4.70 Clearly, work experience can be highly valuable and we welcome good quality opportunities that operate within the terms of the National Minimum Wage legislation. There has been growth in the number of internships but also growing evidence of abuse, particularly in certain sectors.

Interns and Internships

4.71 The terms 'intern' and 'internship' do not exist under National Minimum Wage legislation. Unpaid internships can be advertised by employers but if the actual working arrangements are such that the person is a 'worker' then, by law, they are entitled to be paid at least the minimum wage. If an advert offers a reward for the work to be performed, either in the form of a monetary payment or a benefit-in-kind, then this would suggest the person is likely to be a 'worker'. The greater the reward, the more likely that a worker's contract will be formed and that the person will be a 'worker' and entitled to the minimum wage.

4.72 The Government has implemented a number of unpaid work experience initiatives that have been described as internships. The Department for Business, Innovation and Skills (BIS) launched its web-based Graduate Talent Pool in July 2009, a scheme that matches employers with graduates. Over 5,000 internship places have so far been confirmed through universities and local businesses and through organisations like Network Rail, Microsoft and the Police Service. Employers are encouraged to pay a wage that reflects both the value of the intern's contribution and the level of training and support provided. The website includes a link to minimum wage guidance and employers are advised that it is their responsibility to ensure that they comply with legislation.

From January 2010, if an internship is unpaid, graduates already receiving Jobseeker's Allowance for 6 months or more will be able to do an unpaid internship for up to 13 weeks alongside claiming an allowance and looking for work.

4.73 In July 2009 the Government announced a new campaign called Backing Young Britain, an initiative aimed at uniting business and government to create thousands of opportunities for young people. Ministers announced funding of £40 million for over 20,000 additional internships so that graduates and non-graduates could get high quality work experience. The website advises that an intern should not be a substitute for work done by regular employees and that, as a minimum, the organisation should cover any necessary work-related expenses incurred by the intern.

4.74 A new initiative was announced by the Government in October 2009 that planned to help create 10,000 skilled internships aimed at helping university graduates find employment with small companies. Under the initiative, which the Federation of Small Businesses (FSB) helped develop, participating graduates would be able to get a grant of £100 a week towards their wages, which would then be topped up by their employer. The FSB said that it would be promoting the scheme among its members and encouraging all small businesses to link up with university careers services in order to offer vacancies and create placements.

4.75 On 18 January 2010 the Government announced the creation of an online National Internship Service for undergraduates and graduates. It aimed to work with business to give individuals access to opportunities and information to develop their employability skills and establish standards to benefit interns and employers. Students from low-income backgrounds would be eligible for bursary funding. This initiative is one of the Government's responses to the final report from the Panel on Fair Access to the Professions published in July 2009 which challenged the Government to do more to ensure that people, regardless of their social or economic background, can succeed in the professions.

4.76 Evidence from stakeholders continues to indicate that labels such as 'volunteer', 'intern' or 'work experience' were sometimes applied to activities that are clearly work and for which at least the minimum wage should be paid. In its evidence, Equity said that there was an ongoing problem of unpaid work, particularly with walk-on roles that offer no pay. Interns Anonymous claimed that interns were being used by employers to cut the cost of basic administration and entry level jobs. In his evidence, Mark Watson submitted 140 adverts for unpaid interns and work experience that appeared to break minimum wage rules. In its oral evidence, the National Union of Journalists (NUJ) said that many people who were undertaking work experience were actually doing jobs that employers relied on, particularly in television and consumer magazines. It said that there was an over-supply of people desperate to work in the media industry and employers have built unpaid work placements into their business model. In its oral evidence BECTU said that some well established companies used the terms 'volunteer', 'intern', 'trainee' or 'work experience' in the entertainment industry to encourage people to undertake unpaid roles which included basic office work, digitising material and writing up transcripts.

'...in addition to the threat of exploitation and low pay, there is a continuing problem of performers carrying out unpaid work.'

Equity evidence

4.77 It is becoming increasingly commonplace in certain sectors, particularly the media, entertainment industry and in politics, for employers to demand a period of unpaid work experience as a means of getting into the industry. The Government's Fair Access to the Professions report highlighted the issue of unpaid internships and how they serve to limit career choices to those who can afford to work unpaid and those who live near London. We received evidence from several individuals and organisations that confirmed this finding. Interns Anonymous claimed that it was difficult to gain employment with MPs or political parties without intern experience in parliament. In its oral evidence the NUJ said that it was hard to get a job in journalism without having previous work experience but despite people undertaking internships, there was often no prospect of a permanent job for interns. It estimated that only 30 per cent of unpaid journalist positions resulted in permanent jobs. In his evidence Mark Watson said that a period of unpaid work was now regarded as an unofficial price of entry into many industries, resulting in large numbers of young people failing to be paid the minimum wage where it was due. The TUC said it did not believe that employers should be able to demand a toll of unpaid work before awarding jobs as this puts those people without parental financial support at a disadvantage.

'Many interns felt that the only way to crack their preferred job market was to undertake unpaid internships, often for 3 months or longer.'

Interns Anonymous evidence

4.78 We recognise the benefit to young people undertaking work experience and do not want to stop individuals undertaking genuine work experience placements or discourage employers from offering good quality opportunities. Our view has always been that unpaid work experience is an area where wider dissemination of guidance and more effective enforcement is needed, rather than any change to the rules themselves. However, we are concerned about the increasing number of organisations that are relying on interns, often for several months, to perform work for no pay. The evidence we received on unpaid work experience indicates that there is systematic abuse of interns, with a growing number of people undertaking 'work' but excluded from the minimum wage.

4.79 We have expressed our concerns about unpaid internships to BIS throughout the year and it has responded positively. In its evidence to us, BIS said that it recognised the concern that was expressed in the media about the inappropriate use of internships. It said that it would consider whether there was anything further it could do to make its guidance on work experience clearer for employers and interns and increase awareness of the guidance. We further encourage BIS as part of this work to engage directly with the sectors in which lengthy unpaid internships have become the norm. We invite BIS to present its proposed strategy to us by the summer.

4.80 We have also raised our concerns about unpaid internships and effective enforcement with HMRC. HMRC responded that in none of the complaint cases it had received in 2009 concerning interns was there sufficient evidence to suggest that the individuals were 'workers'. It reported that it cannot get reliable figures on the number of interns who complain because it does not record whether a worker regards themselves as an intern when they ring the helpline. Stakeholders confirmed that there was a reluctance on the part of some people undertaking work experience, who believed they were a 'worker', to report complaints to HMRC.

4.81 We understand that in some cases it is not clear or easy to define whether a person is a 'worker' or on a period of unpaid work experience. However, while it is not illegal to advertise jobs which do not pay at least the minimum wage, we believe that HMRC should adopt a more pro-active approach to investigating cases and sectors where the term 'intern', 'volunteer' or 'work experience' is being applied, particularly when work is clearly being advertised. HMRC has indicated that it may be implementing a new enforcement approach in relation to interns. We judge this is likely to be appropriate and have asked HMRC to keep us aware of any developments. We will monitor these carefully.

Homeworkers and Fair Piece Rates

4.82 The Fair Piece Rate (FPR) system provides a mechanism under the National Minimum Wage for workers to be paid by reference to their output rather than their hours of work. Where, however, an employer controls their hours of work, the workers are regarded as undertaking 'time work' for National Minimum Wage purposes, and their total pay must equal at least the minimum wage for each hour worked. The most likely situation for application of the FPR arrangement is, therefore, to workers undertaking work at home ('homeworkers'), where hours are not usually controlled.

4.83 In our 2008 Report we recommended that the Government take stock and evaluate whether the FPR system was meeting its objectives. The Government accepted this recommendation, but at the time of our 2009 Report it was still undertaking its review. The Government's evidence this year provided details of the review's outcome. While the consultation, rather disappointingly, only generated responses from five stakeholders, it said the overwhelming message from this group was that more needed to be done on the publicity of FPR, and some said there should be better enforcement. It reported that no stakeholder recommended a change in the FPR system.

4.84 The Government will take action as a result of this evaluation. There will be an online leaflet specifically aimed at homeworkers as part of this year's publicity and awareness campaign. In addition, the Government plans to hold a small trial of placing postcards in newsagents' windows, which may create an awareness of fair piece rates. This is the first time the Government has specifically tried to reach this audience and it said it will evaluate the results.

4.85 In its evidence to us the TUC said it had found it hard to identify any instance of the FPR regime being used as intended, but that there were a number of examples of abuse by employers. It thought there may be a case for scrapping the arrangements, restricting its use to certain occupations, or at the very least reviewing the arrangement, tightening the regime and rigorously enforcing it. The TUC, Unite and Oxfam flagged up the emergence of the use of piece rates as a problem in the hotel sector. There were examples of hotels using contract cleaning companies and employment agencies for room cleaning. Piece rates were set for cleaning the rooms, often at unattainable levels, making it impossible for workers to achieve the National Minimum Wage. We also received evidence of such practices during oral evidence sessions and on Commission visits.

4.86 The BHA said it had re-issued guidance to members that they should ensure that agencies did not set unrealistic work targets for housekeeping staff which would lead to their pay for their actual hours worked falling below the minimum wage. Evidence from another employer organisation told us of a lack of clarity in the official minimum wage guidance and a lack of enforcement. It said that agencies often abused wage systems for competitive advantage. Further, the style of working in the sector was nearer 'piece rate' than 'time work', but the sector largely failed to carry out the required time study measurements to ensure fairness.

4.87 It is too early to evaluate the success of the Government's publicity and awareness raising campaign for homeworkers as a result of their review of fair piece rates. We will, however, monitor the campaign and would welcome evidence from the Government on its impact for our next report.

4.88 In the case of contract and agency cleaners in hotels, we received evidence that, although cleaners are paid by reference to piece rates, their hours of work are controlled. This suggests that this is 'time work' for minimum wage purposes and, although it can be legitimate to pay by piece rate, the total earned must equal at least the minimum wage for each hour worked. We were presented with evidence of systemic abuse, with both misuse of piece rate arrangements and hours of work being under-recorded, leading to lower rates of pay than were due to the worker by law. We are concerned about the treatment of these workers and the apparent widespread nature of the problem. **We recommend that HMRC investigates whether contract and agency cleaners in the hotel sector are receiving their entitlement under the National Minimum Wage for their hours worked.**

Workers Receiving Tips

4.89 On 1 October 2009 an amendment to the National Minimum Wage Regulations came into force that prevents the use of tips, gratuities, service charges and cover charges as payment or part payment of the National Minimum Wage. The Government has also carried forward its proposal to develop the principles of a voluntary code of practice and supporting guidance for tipping sector businesses on how to be transparent with their customers on the use of tips. The code of best practice was agreed with a range of stakeholders and launched alongside the change in the law. The code is enforced through consumer protection from unfair trading regulations.

4.90 At the time of our last report we received divergent evidence from employers and trade unions on the possible impact of this change: some employer organisations had concerns with the possible adverse impact on costs and jobs, while trade unions welcomed the change to the law, believing that it would have a very modest overall impact on the tipping sectors. Similar differences in views were expressed again for this report. In addition, both employer and trade union representatives recognised our role in monitoring the changes which have now been introduced. Evidence from trade unions also voiced concern about achieving effective enforcement of the changes and questioned whether there was sufficient information and support available from official sources.

4.91 It is too early for any proper analysis on how the change has worked in practice and for us to draw any firm conclusions. We will monitor the change and take a view as further evidence emerges for our next report.

Seafarers

4.92 Seafarers are covered by the minimum wage while they are employed to work on a ship registered in the UK while it is working in the UK or its internal waters (i.e. the estuaries and also the sea between the UK mainland and its many islands). In addition, a seafarer working on a ship registered in the UK must be paid the minimum wage wherever in the world that ship may be, unless:

- all the work takes place outside the UK (and its internal waters); or
- they are not normally resident in the UK and the ship is outside the UK (and its internal waters).

4.93 In its evidence this year, the National Union of Rail, Maritime and Transport Workers repeated its call for the minimum wage to apply to all ships trading solely within UK territorial waters. The Chamber of Shipping reported that it was waiting to receive clarification from the Government regarding non UK-resident seafarers' entitlement to the minimum wage. It also reported that any legislation that required operators of UK-flagged ships to increase their employment costs above market rates would be very likely to lead to a large number of ships flagging out. We understand there are differing legal opinions on whether the minimum wage can be applied to foreign-flagged ships in UK territorial waters. We encourage all parties to continue with their dialogue to try and resolve the issue.

Workers Receiving Tax-free Travel and Subsistence Payments

4.94 We have received evidence this year about 'travel and subsistence schemes' operated by 'umbrella companies'. Under these schemes, workers who are deemed to be working in temporary workplaces sacrifice some income before tax in relation to their travel expenses and in return receive tax-free travel and subsistence payments from their employer, under a dispensation issued by HMRC. Stakeholders have raised a number of concerns regarding the use of these schemes, not least questioning the legality when deducting income before tax takes the worker below the National Minimum Wage.

4.95 The advantage to workers of using these schemes is that they get slightly higher net pay, as they pay less tax and National Insurance. However, the longer-term disadvantage is that paying less National Insurance means the worker may not make sufficient contributions to be eligible for earnings-related social security benefits.

4.96 From the evidence we have seen, by using this scheme, the worker is only a few pounds a week better off. We are, however, concerned that workers affected may not be fully aware of the implications and that longer term they may be worse off. We know that in some of the sectors where these schemes are operated, for example agriculture and food processing, a large number of migrant workers are employed and these are a particularly vulnerable group.

4.97 In November 2009, the Gangmasters Licensing Authority (GLA) advised labour providers of its intentions to clamp down on the use of these schemes. In particular, it intended to ensure that: 'umbrella companies' held a GLA licence; evidence was provided to show that workers had actually incurred these travel expenses; and workers were not being charged an administration fee for using the scheme.

4.98 In the Pre-Budget Report in December 2009, the Government stated its commitment to addressing the problem of the potentially exploitative arrangements which are implemented for some workers paid at or near the National Minimum Wage. It said it would launch a consultation in the New Year inviting views on proposed changes to the National Minimum Wage Regulations and whether this was the best approach to tackling this problem. We look forward to seeing the Government's consultation and will respond to this as appropriate.

Conclusion

4.99 The Government asked us to review the impact of the National Minimum Wage on certain groups of workers. All of the groups we look at in detail remain vulnerable, but not all of them have been adversely affected by the recession to the same degree. Indeed, in terms of job loss, this recession has particularly affected men. Women, older workers and disabled people have seen less of an impact on their earnings and labour market prospects than the working age population. Overall, ethnic minorities and migrant workers have also been less affected by the recession, although the impact varies within the groups. It is young people and those without qualifications who have experienced the largest adverse impact from the recession.

4.100 The evidence we have received this year has led us to recommend that sector specific guidance for the entertainment sector is necessary to address the issues faced by this sector. In addition, we have had evidence presented on the misuse of the Fair Piece Rate system by contractors and agencies operating in the hotel cleaning sector, so we have recommended that HMRC investigates whether contract and agency cleaners in the hotel sector are receiving their entitlement under the National Minimum Wage for their hours worked. We have not received the more detailed evidence we had requested in relation to the operation of the accommodation offset and have decided substantial change to this is not necessary. We will, however, keep this issue under review. The misuse of exemptions under the National Minimum Wage Act in relation to volunteers and interns has been widely reported in the media and we have received evidence from stakeholders to back this up. We encourage BIS to engage directly with those sectors in which lengthy unpaid internships are prevalent, and HMRC to tackle abuse through effective enforcement.

4.101 This chapter has highlighted the different impacts the minimum wage and the recession have had on various groups of workers. The next chapter considers the position of young people in more detail.

Chapter 5
Young People

Introduction

5.1 Since the Commission's establishment we have made the case that young people should be treated differently to their older counterparts. This is because the threat of unemployment for young people is greater than for older workers. Furthermore, we do not wish to see the minimum wage restrict opportunities for training or work that develop basic skills. We start this chapter by looking again at the evidence for moving the starting age of the adult rate from 22 to 21, which the Government has committed to do in October 2010. We then go on to investigate the impact of the minimum wage and the recession on young people's earnings, participation in education, and employment. We first look at all young people before concentrating on those that are most affected by the minimum wage: young people not in full-time education (FTE).

Overview

5.2 Young people often lack experience in the workplace and are therefore more likely to be on lower earnings than older workers (as already shown in Chapter 4) and to work in low-paying sectors. Thus young people are likely to be more vulnerable in the labour market. This was evident again in 2009 as young people were severely affected by the recession.

5.3 In its written evidence, the Trades Union Congress said that it was particularly concerned by the disproportionate impact that the recession was having on young people, whose unemployment levels had risen much faster than those for older workers. It did not believe that the minimum wage had been a strong factor affecting young people's employment prospects, as they had also been badly hit by the recessions of the early 1980s and 1990s. During these recessions, minimum wages were less widespread and less effective. The CBI noted in its written evidence that young people were particularly vulnerable in a downturn. It said that those with low levels of qualifications and poor employability skills were most at risk of lengthy spells out of work, which often resulted in long-term wage-scarring effects. The CBI cited the Organisation for Economic Co-operation and Development, which pointed out that young inexperienced workers' chances in the labour market were particularly sensitive to wages; setting the rate too high could damage work prospects.

5.4 Despite the recession, most young people (around 80 per cent) remain in education or employment. When they are in work, we believe that young people should receive a fair rate of pay and that the minimum wage should protect them from exploitation. In recommending minimum wage rates for young people, we have aimed to ensure the rates neither provide an incentive for young people to leave education or training nor harm the employment prospects for those who decide to enter the labour market. But we continue to believe there is a case for applying the adult rate from age 21.

21 Year Olds

5.5 In our 2009 Report we recommended that 21 year olds be entitled to the adult rate of the National Minimum Wage. We welcome the Government's acceptance of our recommendation. As the Government decided to delay implementation until October 2010, and as the UK has remained in recession since our 2009 Report, we have looked again at the evidence.

Earnings

5.6 In our previous reports we argued that 21 year olds should be paid the adult rate based on the strong evidence from our analysis of earnings. The earnings evidence this year is even stronger. Most 21 year olds are already paid at or above the adult rate. According to the Annual Survey of Hours and Earnings (ASHE), around 90 per cent of 21 year olds were in jobs that paid at or above the adult rate in April 2009. Only 55,000 were paid below, which is a lower number than in April 2008. Some of these were on a trainee rate of pay. Of all 21 year olds not on a trainee rate of pay, 9.5 per cent were paid less than the adult rate in April 2009 (down from 10.1 per cent in April 2008). Further analysis of ASHE suggests that these workers are mainly in large firms in the retail and hospitality sectors or in sectors that are not generally low-paying. We believe that the businesses affected should be able to absorb the additional costs imposed by this change.

5.7 Data from ASHE indicate that since 2007, hourly earnings at the lowest decile for 21 year olds have been closer to those of 22 year olds than to those of 20 year olds. The pay increase at the lowest decile for 21 year olds was higher than that for 22 year olds and much higher than that for 20 year olds in 2009. As shown in Table 5.1, this has led to a differential of just 5 pence in the earnings of 21 and 22 year olds at the lowest decile, compared with 50 pence for 20 and 21 year olds. At the lowest decile, earnings of 21 year olds as a proportion of earnings of 22 year olds rose to 99 per cent in 2009, while earnings of 20 year olds as a proportion of those of 21 year olds fell to 91 per cent.

5.8 Data from ASHE also indicate that median earnings of 21 year olds moved closer to those of 22 year olds in April 2009. The differentials at the median between 20 and 21 year olds and between 21 and 22 year olds were similar in April 2009, whereas previously median earnings of 21 year olds had been closer to 20 year olds. Mean earnings of 20 year olds as a proportion of mean earnings of 21 year olds were 86 per cent in April 2009, while mean earnings of 21 and 22 year olds were similar to each other.

Table 5.1: Gross Hourly Earnings of Young People, by Age, UK, 2007–2009

£	Lowest decile			Lowest quartile			Median		
Age	**2007**	**2008**	**2009**	**2007**	**2008**	**2009**	**2007**	**2008**	**2009**
18	4.45	4.60	4.77	4.98	5.14	5.18	5.50	5.68	5.85
19	4.73	4.95	4.89	5.35	5.52	5.60	5.93	6.00	6.07
20	5.05	5.15	5.20	5.49	5.67	5.75	6.16	6.36	6.47
21	**5.35**	**5.48**	**5.70**	**5.65**	**5.75**	**6.00**	**6.60**	**6.68**	**6.98**
22	5.37	5.60	5.75	5.92	6.08	6.28	7.06	7.41	7.50
23	5.50	5.68	5.86	6.25	6.48	6.57	7.84	7.97	8.15
24	5.64	5.80	6.00	6.57	6.68	6.99	8.50	8.73	8.87

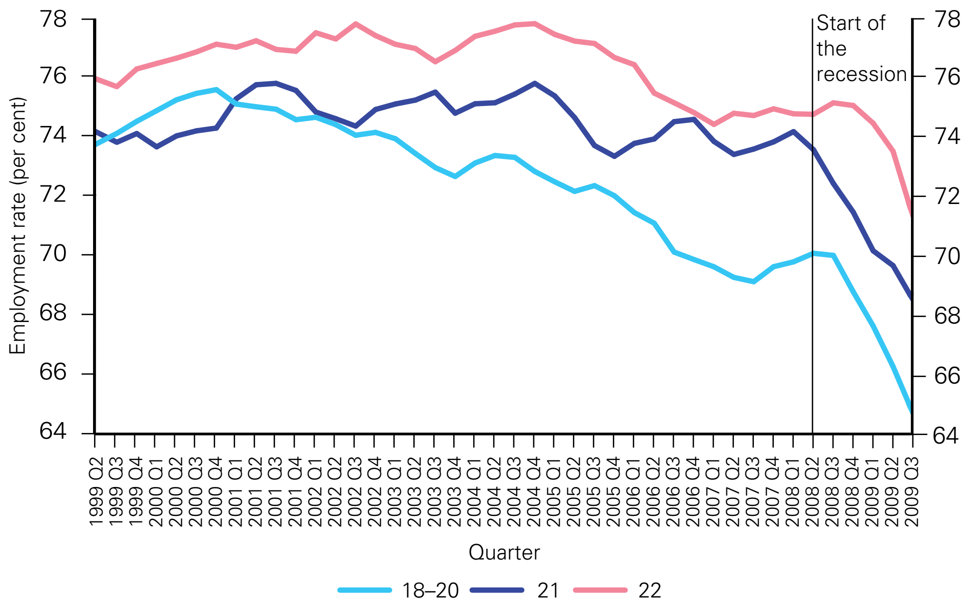
Source: LPC estimates based on ASHE 2007 methodology, standard weights, UK, April 2007–2009.

5.9 In April 2009, the bite (the minimum wage as a proportion of median earnings) of the Youth Development Rate for 21 year olds was 68 per cent. If, in April 2009, 21 year olds had been entitled to the adult rate, the bite would have been 82 per cent. This would be consistent with the starting age of the Youth Development Rate (age 18), where the bite of the Youth Development Rate was also 82 per cent.

Labour Market

5.10 As noted in the Government's economic evidence (BIS, 2009d), and shown in Figures 5.1 and 5.2, the employment and unemployment rates of 21 and 22 year olds not in FTE had been more closely aligned than previously. In recent years prior to the recession, 18–20 year olds not in FTE fared worse in the labour market than 21 year olds not in FTE.

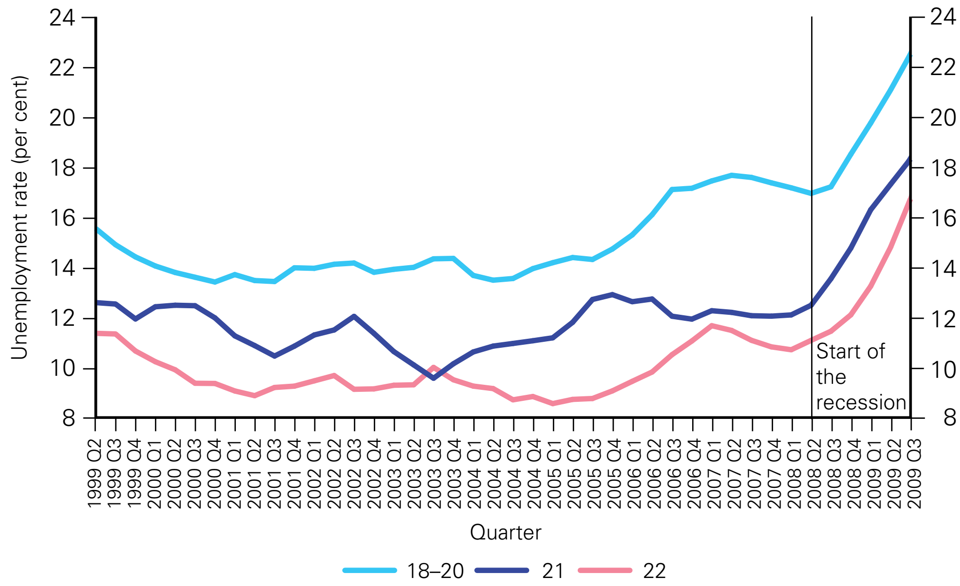
Figure 5.1: Employment Rate of 18–22 Year Olds Not in Full-time Education, by Age, UK, 1999–2009



Source: LPC estimates based on LFS Microdata, quarterly, four-quarter moving average, UK, 1998–2009.

5.11 Since the start of the recession, the employment rate of 18–20 year olds has fallen by more than for older ages. Although the employment rate of 21 year olds has fallen by more than that of 22 year olds, the unemployment rate of 21 year olds has risen by a similar amount since the start of the recession. The Government stated in its economic evidence that the labour market performance of 21 year olds was likely to improve before the end of 2010 as the economy recovers from the recession.

Figure 5.2: Unemployment Rate of 18–22 Year Olds Not in Full-time Education, by Age, UK, 1999–2009



Source: LPC estimates based on LFS Microdata, quarterly, four-quarter moving average, UK, 1998–2009.

5.12 There continues to be widespread support from unions and industry for starting the adult rate at age 21. The GMB, UNISON and Unite all welcomed the Government's acceptance of the Commission's recommendation to reduce the starting age of the adult rate to 21. Many unions and representative bodies saw starting the adult rate at age 21 as a positive move towards removing youth rates entirely. Among industry, the British Hospitality Association, British Beer & Pub Association and Business In Sport and Leisure in joint evidence; the Association of Licensed Multiple Retailers; and the British Apparel & Textile Confederation all said that lowering the adult rate to age 21 would not have much of an impact as most firms already pay the adult rate from age 21.

5.13 As well as those 21 year olds who are in jobs paying less than the adult rate, 21 year olds not yet in employment are also likely to be affected when the adult rate moves to age 21. In the third quarter of 2009, around a fifth (181,000) of 21 year olds were not in employment or FTE. A large number of these (80,000) were inactive for reasons such as being a carer, disabled or a part-time student. The remainder were unemployed (84,000) or inactive for other reasons (18,000). Unemployed 21 year olds represent about a tenth of the population of 21 year olds. Of these unemployed 21 year olds, three-quarters have good qualifications and only a tenth have no qualifications. As with other young age cohorts, there is a high degree of churn within this age group with a constant flow into and out of different economic states. Only around 5 per cent of unemployed 21 year olds have been so since age 18; most (64 per cent) move out of unemployment within 6 months.

5.14 In their research, Dickens, Riley and Wilkinson (2010) made use of the age-related structure of the National Minimum Wage to investigate the effects of turning 22 on labour market behaviour. They found that, despite a possible 20 per cent increase in hourly pay, an individual's probability of employment increased at the age of 22. Comparison of low-skilled individuals either side of their 22nd birthday suggested a 4–6 percentage point rise in their employment rate on turning 22. They found no such effects at any other age, including 18 when a similarly large pay increase was potentially available. The research suggested that lowering the starting age of the adult rate to 21 could actually increase employment of 21 year olds. They concluded that there would be little harm to the employment prospects of 21 year olds in legislating to start the adult minimum wage rate at age 21.

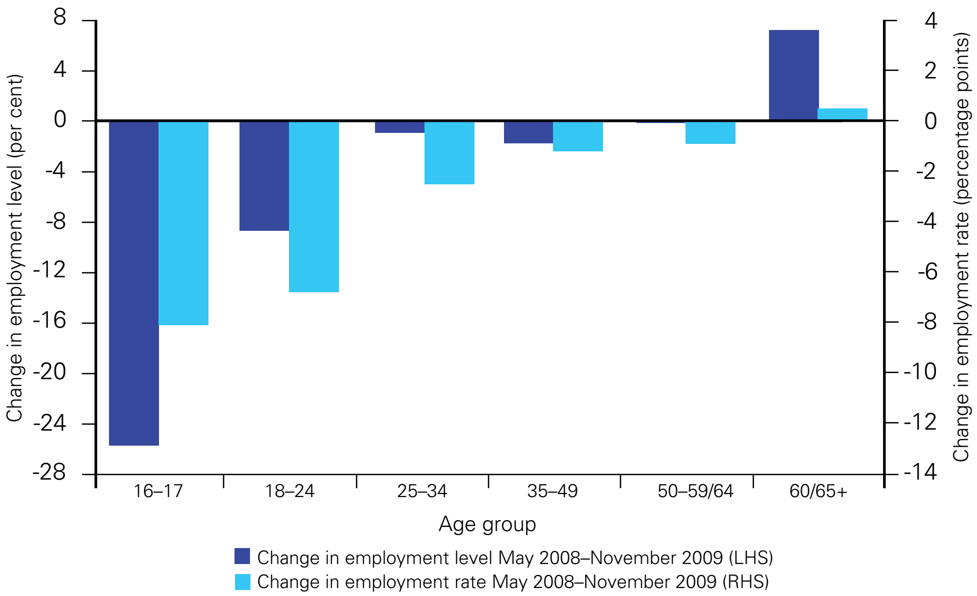
5.15 We continue to believe there is a case for applying the adult rate from age 21. We now turn to look at the age groups that will be affected by our recommendations on the youth rates.

16–17 and 18–20 Year Olds

5.16 This section will first give an overall picture of what has happened to the labour market prospects of all young people since the start of the recession (the deepest since World War II), and demonstrate why they are now even more vulnerable than they were previously. We then go on to investigate the impact of the National Minimum Wage and the recession on the earnings of young workers, participation in education and the labour market prospects of young people not in FTE (the group we believe are most affected by the minimum wage).

5.17 Young people are usually hit hardest during a recession as firms stop hiring and make their least-skilled and least-experienced staff redundant. This is evident when looking at the latest official monthly data, which are available for 16–17 year olds and 18–24 year olds. Figure 5.3 shows that employment of young people has fallen faster than that of their older counterparts. Between May 2008 (when total employment peaked) and November 2009, the employment rates of 16–17 and 18–24 year olds fell by 8.1 and 6.8 percentage points respectively, while the employment rate of those aged 25 and over fell by only 1.2 percentage points. In addition, the unemployment rates of young people increased by more, and remain far higher, than for older age groups. Between May 2008 and November 2009, the unemployment rates of 16–17 and 18–24 year olds rose by 7.7 and 5.9 percentage points to 32.9 and 17.7 per cent respectively, while the unemployment rate of those aged 25 and over rose by 2.2 percentage points to 5.7 per cent.

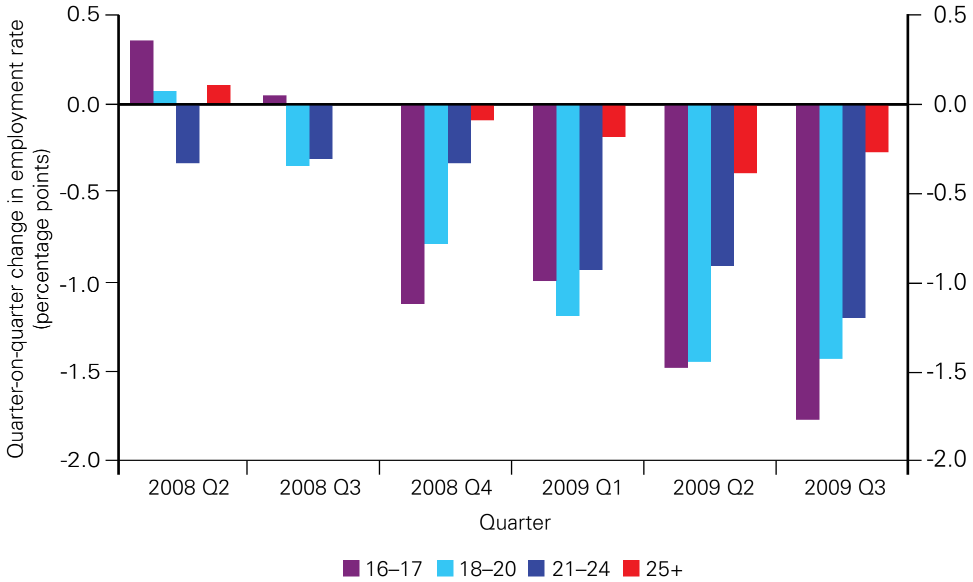
Figure 5.3: Change in Employment Level and Rate, by Age, UK, 2008–2009



Source: LPC estimates based on ONS data, employment level by age (YBTO, YBTR, YBTU, YBTX, MGUW and MGUZ respectively) and employment rate by age (MGSU, YBUA, YBUD, YBUG, YBUJ, YBUM and TBUP respectively), monthly, seasonally adjusted, UK, May 2008–November 2009.

5.18 Although young people have been doing worse in the recession than people aged 25 and over, the labour market position of 16–24 year olds started to deteriorate long before the beginning of the recession. In general, the employment rate of young people has been falling and the unemployment rate rising since 2001. However, as shown in Figure 5.4, the speed of deterioration has increased during this recession. In the third quarter of 2009, the employment rate of those aged 25 and over started to show signs of recovery while the employment rates of younger age groups fell by at least as much as in the previous quarter.

Figure 5.4: Quarterly Change in Employment Rate, by Age, UK, 2008–2009



Source: LPC estimates based on LFS Microdata, quarterly, four-quarter moving average, UK, Q2 2007–Q3 2009.

Earnings

5.19 This section investigates the impact of the minimum wage and the recession on the earnings of young people. In October 2008, the 16–17 Year Old Rate and the Youth Development Rate increased by 3.8 and 3.7 per cent to £3.53 and £4.77 per hour respectively. In October 2009, the respective rates increased by 1.1 and 1.3 per cent to £3.57 and £4.83 per hour. These upratings were in line with the increases in the adult rate. Taken over the two years, these increases were in line with the growth in the Consumer Prices Index but above average pay settlements, average earnings growth in the whole economy, and the growth in the Retail Prices Index. We estimate that just under 7 per cent (23,000) of 16–17 year olds and around 8 per cent (95,000) of 18–20 year olds were covered by the October 2009 upratings of the 16–17 Year Old Rate and Youth Development Rate respectively.

5.20 When looking at the distribution of earnings of young people, using data from ASHE, there are clear spikes at the three National Minimum Wage rates. Each year, these spikes move in line with the minimum wage upratings. The proportions of 16–17 year olds and 18–20 year olds paid at their applicable minimum wage rates increased respectively from 1.8 and 3.3 per cent in April 2005 to 3.1 and 6.0 per cent in April 2009. These were faster increases than for the proportion of those aged 21 and over paid at the adult rate. At the same time the median pay of young people has increased at a slower rate than for those aged 21 and over. The continued effect of uprating the youth rates in line with the adult rate and the downward pressure from a slower increase in young people's earnings has meant that the bites of the youth rates have increased continuously since their introduction. In April 2009, the bite of the applicable minimum wage rate was 69 per cent for 16–17 year olds and 78 per cent for 18–20 year olds. Although the bite of the adult rate increased in the early years of the National Minimum Wage, it has remained similar for the last four years.

5.21 Employers seem to have made greater use of the youth rates for young people in 2009, and the scale of the increase is far larger than in previous years (a 3.6 percentage point increase in the proportion of 18–20 year olds paid less than the adult rate in 2009, compared with a slight fall in 2008). This is explored for the 16–17 and 18–20 year old age groups separately below.

5.22 The proportions of 16–17 year olds paid at the 16–17 Year Old Rate and adult rate in April 2009 were similar to April 2008, despite the increase in the minimum wage in October 2008 being larger than the previous uprating. However, there is evidence to suggest that employers are making more use of youth rates for 16–17 year olds. As shown in Table 5.2, the proportion of jobs held by 16–17 year olds that paid at and below the Youth Development Rate but above the 16–17 Year Old Rate rose in April 2009 to 34.4 per cent (from around 28 per cent in both April 2008 and April 2007). At the same time the proportion of jobs that paid above the Youth Development Rate fell to 58.5 per cent in April 2009 (from around 65 per cent in both April 2008 and April 2007).

Table 5.2: Proportion of Jobs Held by 16–17 Year Olds, by National Minimum Wage Rate, UK, 2004–2009[ab]

Per cent	16–17 Year Old Rate (£)	YDR (£)	Adult rate (£)	Below 16–17 Year Old Rate	At 16–17 Year Old Rate	Above 16–17 Year Old Rate and below YDR	At YDR	Above YDR and below adult rate	At adult rate	Above adult rate
2004[c]	-	£3.80	£4.50	-	-	25.0	5.7	27.0	4.9	37.4
2005	£3.00	£4.10	£4.85	4.0	1.8	22.8	2.8	28.3	4.3	36.1
2006	£3.00	£4.25	£5.05	4.0	1.6	25.5	3.8	25.4	3.8	36.0
2006	£3.00	£4.25	£5.05	3.8	1.5	25.5	3.9	25.6	3.8	35.9
2007	£3.30	£4.45	£5.35	4.0	2.7	24.6	2.9	28.9	7.4	29.5
2008	£3.40	£4.60	£5.52	3.9	3.1	26.2	1.9	30.7	5.7	28.6
2009	£3.53	£4.77	£5.73	4.1	3.1	30.9	3.5	24.8	5.7	27.9

Source: LPC estimates based on ASHE with supplementary information April 2004–2006 and ASHE 2007 methodology April 2006–2009, low-pay weights, UK.

Notes:

a. Direct comparisons between the 2004–2006 and 2006–2009 series should be made with care due to changes in methodology.

b. We define the minimum wage rates as the five pence band that lies from the applicable rate to strictly less than five pence above the applicable rate (e.g. we define the adult rate in 2009 as from £5.73 to strictly less than £5.78).

c. As the 16–17 Year Old Rate was introduced in October 2004 and ASHE measures pay in April, the proportion shown for Above 16–17 Year Old Rate and Below YDR in 2004 (25.0 per cent) is actually the proportion paid below the Youth Development Rate.

5.23 The proportions of 18–20 year olds paid at the Youth Development Rate and adult rate in April 2009 were higher than in April 2008, in line with the larger increase in the minimum wage in October 2008. There is evidence to suggest that employers are making greater use of youth rates for 18–20 year olds than previously, although most 18–20 year olds are paid at or above the adult rate. As shown in Table 5.3, the proportion of jobs held by 18–20 year olds that paid below the adult rate rose in April 2009 to 26.7 per cent (from around 23 per cent in both April 2008 and April 2007). At the same time the proportion of jobs that paid above the adult rate fell to 64.7 per cent in April 2009 (from around 70 per cent in both April 2008 and April 2007).

Table 5.3: Proportion of Jobs Held by 18–20 Year Olds, by National Minimum Wage Rate, UK, 2004–2009[ab]

Per cent	YDR (£)	Adult rate (£)	Below YDR (£)	At YDR	Above YDR and below adult rate	At adult rate	Above adult rate
2004	£3.80	£4.50	2.9	2.1	12.2	6.1	76.6
2005	£4.10	£4.85	3.7	3.3	11.7	5.7	75.6
2006	£4.25	£5.05	3.0	3.8	14.3	6.6	72.3
2006	£4.25	£5.05	3.0	3.8	14.1	6.6	72.4
2007	£4.45	£5.35	3.5	3.8	16.1	7.3	69.4
2008	£4.45	£5.35	3.2	3.8	16.1	7.6	69.4
2009	£4.77	£5.73	3.3	6.0	17.4	8.6	64.7

Source: LPC estimates based on ASHE with supplementary information April 2004–2006 and ASHE 2007 methodology April 2006–2009, low-pay weights, UK.
Notes:

a. Direct comparisons between the 2004–2006 and 2006–2009 series should be made with care due to changes in methodology.
b. We define the minimum wage rates as the five pence band that lies from the applicable rate to strictly less than five pence above the applicable rate (e.g. we define the adult rate in 2009 as from £5.73 to strictly less than £5.78).

5.24 Nearly half of young workers are employed in either retail or hospitality, therefore these sectors are an important source of work for young people. There is greater use of the youth rates in the hospitality sector than in the retail sector. According to ASHE, most 16–17 year old workers in the retail sector were paid above the Youth Development Rate and most 18–20 year old workers were paid above the adult rate. This is in contrast to the hospitality sector, where most 16–17 year old workers were paid at or below the Youth Development Rate and most 18–20 year olds were paid at or below the adult rate. Research from Incomes Data Services (2009b) also found more use of youth rates in the hospitality sector than in the retail sector. It found that the use of age-related pay continued to be widespread in the fast food, restaurant and pub sector, where around 80 per cent of companies it surveyed used youth rates. In the retail sector, 57 per cent of companies it surveyed had an age-related pay structure, although most employers paid at least the adult rate from age 18 onwards.

5.25 As well as more widespread use of youth rates in the hospitality sector compared with retail, results from ASHE indicate that there has also been an increase in the use of youth rates in hospitality. Between April 2008 and April 2009, the proportion of 18–20 year olds paid below the adult rate increased in the hospitality sector but remained similar in the retail sector. At the same time, the proportion of 16–17 year olds paid below the Youth Development Rate increased in both the hospitality and retail sectors.

5.26 In written evidence, Morrisons said that it paid all its employees over the age of 18 the same rate. It believed the Youth Development Rate led to confusion and recommended that it be abolished. Usdaw said in written evidence that most retailers paid the adult rate at age 18 and that removing the Youth Development Rate would have a minimal negative impact on employment of 18–21 year olds. It noted that there had been an increase in the use of youth rates but said there was no reason to believe that 18–21 year olds had become less productive. In contrast, the Association of Convenience Stores thought that the Youth Development Rate was an important fall-back for businesses struggling during the recession. It said that many retailers paid the adult rate from age 18 but they were starting to use the Youth Development Rate for those aged under 21.

5.27 Many unions, youth organisations and age equality bodies called for removal of the youth rates. They argued that varying the minimum wage by age was discriminatory. Some suggested that the youth rates be phased out while others said they should be abolished as soon as possible.

5.28 It is clear that the National Minimum Wage has had a major impact on the earnings of young people, as evidenced by the high proportions paid at the minimum wage rates. There is also evidence that employers are making greater use of youth rates, possibly in reaction to the recession.

Participation in Education

5.29 As well as falling employment and rising unemployment, participation in education has increased sharply since the start of the recession. Quarterly data from the Labour Force Survey (LFS) suggest that between the third quarter of 2008 (just after the start of the recession) and the third quarter of 2009, the proportion of 16–17 and 18–24 year olds in FTE rose by 4.2 and 2.0 percentage points respectively. This is compared with annual increases of 1 percentage point or less leading up to the recession. Research from the Institute of Education (De Coulon, Meschi, Swaffield, Vignoles and Wadsworth, 2010) found that local youth unemployment rates had an effect on young people's decisions to stay in education. Increased youth unemployment led to higher participation in education.

5.30 Participation rates have generally been increasing since before the introduction of the National Minimum Wage, which implies that the minimum wage has not encouraged young people to leave education. This is supported by research carried out by the Institute of Education (De Coulon, Meschi, Swaffield, Vignoles and Wadsworth, 2010), which found that the decision of 16–17 year olds to stay in FTE did not seem to be driven by local wages. It also found no evidence that the introduction of the 16–17 Year Old Rate in 2004, or the large increase in 2006, had affected participation in education.

5.31 As unemployment rises during a recession, you would also expect the proportion of young people who are not in education, employment or training (NEET) to increase. According to the Department for Children, Schools and Families, this had been the case for 18–24 year olds but not 16–17 year olds. The NEET rate of 18–24 year olds increased by 2.3 percentage points between the third quarter of 2008 and the third quarter of 2009, while the NEET rate of 16–17 year olds remained similar. This may be due to a higher proportion of 16–17 year olds staying in education than previously.

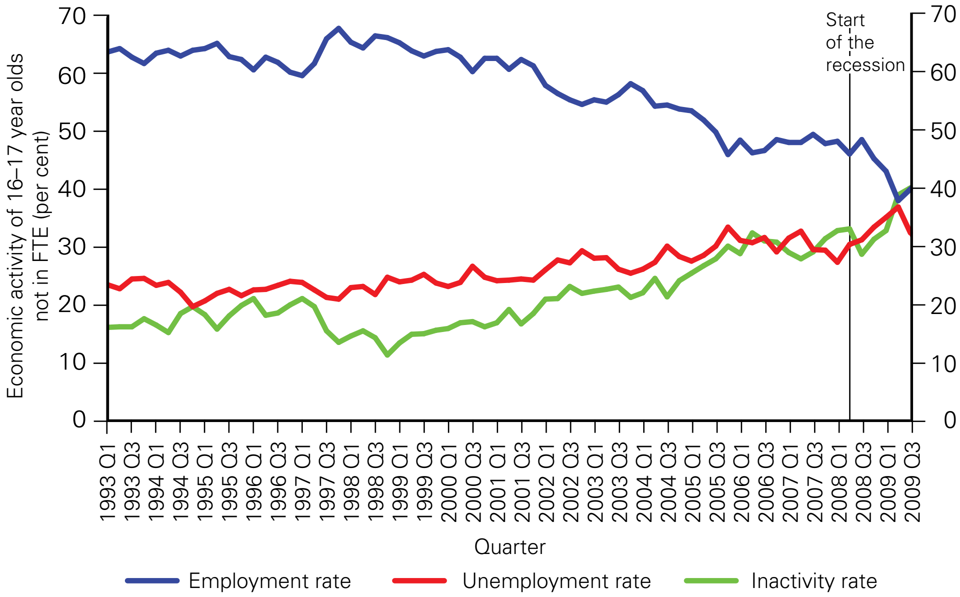
Labour Market Prospects of Those Not in Full-time Education

5.32 As demonstrated in Chapter 4, young people and those with no qualifications have been most affected by the recession. Therefore, young people not in FTE are particularly vulnerable. Analysis of LFS data shows that, since the start of the recession, the employment rates of 16–17 and 18–20 year olds not in FTE have fallen by more than those of each age group in total. In addition, unemployment rates have risen by more for those not in FTE.

5.33 Figure 5.5 shows how, since the start of the recession, the employment rate of 16–17 year olds not in FTE has fallen sharply, while the unemployment rate has risen sharply. Inactivity has also increased at a faster pace, mainly due to a large increase in the rate of participation in education. The deterioration of the labour market performance of 16–17 year olds started in early 1998, well before the introduction of the 16–17

Year Old Rate. Before the recession, this deterioration looked as though it had stalled. Employment and unemployment rates had remained steady since the end of 2005. During that time, there was a large uprating of the 16–17 Year Old Rate (up 10 per cent in October 2006). This suggests that prior to the recession the National Minimum Wage did not appear to have an observable negative impact on the employment of 16–17 year olds.

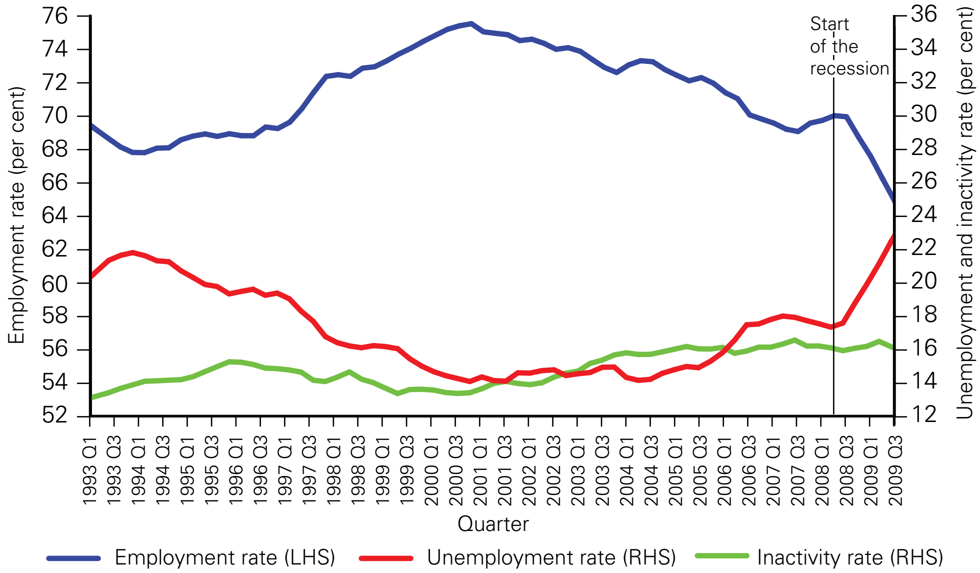
Figure 5.5: Economic Activity of 16–17 Year Olds Not in Full-time Education, UK, 1993–2009



Source: ONS, employment rate (AIWG), unemployment rate (AIXR) and inactivity rate (AIYS) of 16–17 year olds not in FTE, quarterly, seasonally adjusted, UK, 1993–2009.

5.34 As shown in Figure 5.6, the labour market performance of 18–20 year olds not in FTE has been in general decline since 2001. Employment had started to increase after the middle of 2007, but since the start of the recession the employment rate of 18–20 year olds not in FTE has fallen sharply. Unemployment has generally mirrored employment, while inactivity has been steadily rising since before the introduction of the National Minimum Wage.

Figure 5.6: Economic Activity of 18–20 Year Olds Not in Full-time Education, UK, 1993–2009



Source: LPC estimates based on LFS Microdata, quarterly, four-quarter moving average, UK, 1992–2009.

5.35 Despite high total employment levels, it is unclear why young people's employment prospects have deteriorated in the recent past compared with other age groups. One theory is that, as the rate of education participation has increased, the skill level of those not in FTE as a group has diminished. However, data from the LFS suggest that most young people not in FTE have good qualifications (GCSEs grade A* to C or above) and less than 10 per cent have no qualifications. Another theory is that young people have been substituted with older workers or migrants, but there is little robust evidence to substantiate this. It is unclear whether the minimum wage has been a contributory factor.

5.36 In a wide-ranging cross-country review of the impact of minimum wages, Neumark and Wascher (2008) concluded that on balance the evidence showed that minimum wages reduced the employment of low-skilled workers, particularly teenagers. They did note, however, that any employment loss among young people as a result of a minimum wage was reduced in countries with separate (and lower) rates for young people. In contrast, other research from the United States, such as Card and Krueger (1995 and 2000), had found zero or positive effects of the minimum wage on youth employment. The evidence from the UK is more ambiguous with no study finding conclusive negative effects of the minimum wage on youth employment.

5.37 Given that young people have continued to do less well in the labour market than older workers, we believe that lower National Minimum Wage rates for these young people are still justified in order to protect employment and at the same time reflect the training element attached to younger workers.

Conclusion

5.38 The Commission has again reviewed the position of 21 year olds in the labour market, looking at those in employment and those seeking work. Taking account of both long-term trends and the latest evidence on earnings and employment, the Commission continues to believe that the adult rate should start at age 21.

5.39 Overall, the relative position of young people aged 16–20 in the labour market has been worsening for a number of years. Median pay levels have not increased at the same rate as those of older workers, so while the bite of the minimum wage for older workers has stabilised over the last four years, the bite for young people has continued to rise.

5.40 Over and above this longer-term decline, the position of young people in the labour market has been adversely affected by the recession. Employment of young people has fallen significantly faster than that of their older counterparts, and employers are making increased use of the youth rates for those aged under 21. Whereas the employment prospects for adults appear to be improving, those of young people do not. We make recommendations for the youth rates in Chapter 8 and now go on to look at apprentices in Chapter 6.

Chapter 6
Apprentice Minimum Wage Rate

Introduction

6.1 In this chapter we present the evidence and make our recommendations on the rate and arrangements for an apprentice minimum wage. We commence by giving the background to our remit from the Government and explaining how we went about our task. Information is then provided on current UK apprenticeship schemes, the number of apprenticeships and government apprenticeship targets. The chapter moves on to look at the possible structure, and then the rate, for the apprentice minimum wage. In both these sections the available evidence is presented, including stakeholder views, and we set out our recommendations. Later sections cover transitional arrangements for when the wage is introduced, as well as considering how the new wage rate fits within the existing National Minimum Wage framework. We conclude by giving our views on how the wage should be reviewed and evaluated.

Background

6.2 The current National Minimum Wage Regulations provide for certain categories of apprentice to be exempt from the National Minimum Wage. For the purpose of the National Minimum Wage, an apprentice is a worker who either has a contract of apprenticeship or is taking part in a specified government apprenticeship scheme. The exemption applies to apprentices aged under 19 and those aged 19 or over in the first 12 months of their training.

6.3 As part of the terms of reference for our last report the Government asked us to consider whether the apprentice exemptions were still appropriate. We recommended that:

- apprentices should still receive special treatment under the National Minimum Wage;

- a minimum wage for apprentices should be introduced under the National Minimum Wage framework; and
- the Government should ask us, as part of our work for the 2010 Report, to consider the detailed arrangements for an apprentice minimum wage under the National Minimum Wage framework, and to recommend the rate and arrangements that should replace the existing exemptions, together with the timing for its introduction.

6.4 In reaching these recommendations the Commission referred to a number of factors, including:

- the need to recognise the particular costs and benefits involved in the provision of apprenticeships;
- that applying the current age-related minimum wage rates to apprentices would give rise to unrealistic and unaffordable increased costs to employers;
- that an apprentice minimum wage would be a floor, set below the National Minimum Wage; and
- that the apprentice minimum wage should operate under the National Minimum Wage framework and, in line with the other minimum wage rates, should apply across the UK.

6.5 We also saw a number of benefits from introducing a UK-wide National Minimum Wage for apprentices: reduced complexity; helping to minimise any exploitation; and better enforcement arrangements. The Government accepted our recommendations and included further consideration of the rate and arrangements in our remit for this report.

Our Approach

6.6 Our full terms of reference for this report, including those on the apprentice wage, are set out in Chapter 1. We have been asked to recommend the rate and arrangements for an apprentice minimum wage, which would replace the existing exemptions from the National Minimum Wage. In making our recommendations we are required to have regard to:

- the issues and groups to which we have regard when reviewing the established rates;

- the need to ensure sufficient volume, quality and sectoral variety of apprenticeship places to meet government targets;
- the education and training participation age, as it rises in England from 16 to 18 between 2013 and 2015;
- the effective functioning of the education market and young people's choices; and
- the timing for introduction of the apprentice minimum wage.

6.7 In conducting our work we gathered and considered evidence from a number of sources, similar to those used for our work in the 2009 Report, and this evidence has provided the basis for our considerations and recommendations.

- **Labour Force Survey (LFS) data:** While this information has limitations it did help us look at how apprentice pay varied and its distribution across the UK.
- **The DIUS apprentice pay survey, 2007:** Although it is three years old and only covers England, it remains a key source of information on apprentice pay.
- **Findings of independent research:** In our last report we reviewed existing research on apprentices and commissioned research from the Institute for Employment Studies (IES, 2009) looking primarily at employers' use of the apprentice exemptions. For this report we commissioned further research which in particular considered how apprentice pay affects young people's decisions to take up and complete apprenticeships (Lawton and Norris, 2010).
- **Information on apprenticeship numbers and programmes:** Provided by the UK administrations and departments with responsibilities for apprenticeships.
- **Evidence from stakeholders:** Received through our written consultation, oral evidence sessions, Commission visits around the UK and our Secretariat's meetings with key stakeholders.

6.8 We noted in our 2009 Report that available data on apprentice pay were limited. We therefore wrote to the Government and the devolved administrations last year urging them to collect better data and offering to work with them in developing this. We received a positive response from all the administrations and we are now working with them, with the objective of improved data on apprentice pay for our future reports. For this report, however, we have had to work with existing data sources, and have extracted available pay data from both the LFS and the Department for Innovation, Universities and Skills (DIUS) pay survey.

6.9 In designing the apprentice wage we adhered to the aims the Commission identified when it considered the introductory arrangements for the National Minimum Wage itself. We adopted these as our guiding principles for reaching recommendations on the apprentice wage rate and arrangements. These principles remain relevant today in the context of an apprentice wage that should:

- **support a competitive economy** – ensure the apprentice wage is supportive of developing a skilled workforce;
- **be set at a prudent level** – the precise impact of introducing the apprentice wage is uncertain, and having a prudent approach, minimising the risk to apprenticeship places, is important;
- **be simple and straightforward** – the wage needs to be simple so it can be easily understood, implemented and enforced; and
- **make a difference** – to provide a UK-wide wage floor for apprentices with improved protection from exploitation.

6.10 We used these principles, believing that an apprentice wage that follows them is most likely to match the successful introduction and endurance of the National Minimum Wage. We also identified that, in addition to the wage rate itself, there were a number of key issues that we needed to address and make recommendations on in respect of the structure of the wage:

- whether the wage should be an hourly or weekly rate;
- whether the wage should be a single rate and apply to all apprentices, or whether it should vary by age, level, duration or some other factor;
- the duration for the wage; and
- the treatment of non-employed, unwaged apprentices.

6.11 We next present the evidence we received and the conclusions and recommendations we reached. We start by looking at the current apprenticeship schemes in the UK and support arrangements for apprentices.

Apprenticeship Schemes, Numbers and Targets

6.12 This section first provides a very brief overview of the types of schemes and categories of apprentices that currently operate in the UK, together with information on wage and allowance arrangements. We then go on to look at data on current volumes, with information on the distribution of places by sector and groups of apprentices, as well as the duration of apprenticeship training. We conclude by considering government targets for apprenticeships.

Current Apprenticeship Schemes and Wage Arrangements

6.13 We reported in detail on government-supported apprenticeship schemes in our 2009 Report. Updated information is provided in Table 6.1. Government-supported apprenticeship programmes are available across the UK, with apprenticeships available at either Level 2 (equivalent to GCSEs grades A*–C) or Level 3 (equivalent to A levels). In addition, there is government support for a more limited range of higher (Level 4) apprenticeships, mainly covering managerial and higher technical work. It is the Level 2 and Level 3 schemes that are covered by the exemption from the minimum wage.

Table 6.1: Apprenticeship Schemes and Financial Support, by Country, 2009/10

	Level 2	Level 3
England	***Apprenticeship***	***Advanced Apprenticeship***
	Minimum wage of £95 per week if employed. EMA if non-employed programme-led.[a]	Minimum wage of £95 per week if employed. EMA if non-employed programme-led.[a]
Northern Ireland	***Apprenticeships NI***	***Apprenticeships NI***
	Employed apprentices must be waged. Encouragement of payment commensurate with the industry rate for the job. EMA if non-employed programme-led.[b]	Employed apprentices must be waged. Encouragement of payment commensurate with the industry rate for the job.
Scotland	***Skillseekers & Modern Apprenticeship***	***Modern Apprenticeship***
	Skillseekers: Minimum £55 per week training allowance if non-employed/unwaged. Modern Apprenticeship: Employed and waged.	Employed and Waged. Encouragement of payment of the National Minimum Wage.
Wales	***Foundation Modern Apprenticeship***	***Modern Apprenticeship***
	Minimum £50 per week training allowance if non-employed/unwaged.	All are employed and waged.

Source: UK administrations.
Notes:
a. Education Maintenance Allowance (EMA), available to 16–18 year olds, is means tested and currently a maximum of £30 per week.
b. In Northern Ireland a non means-tested EMA of £40 per week is payable for those in unwaged training. In addition to the EMA, contributions in respect of travel, childcare and lodgings may be payable.

6.14 There is also an exemption from the National Minimum Wage for certain government-funded pre-apprenticeship Level 1 schemes – see our 2009 Report for further details. We considered such schemes in our last report and found no support for removing their exemption from the National Minimum Wage. We believe their exemption should continue following the introduction of the apprentice minimum wage.

6.15 Primarily as a response to the impact of the recession, all the UK administrations have added special measures to their standard apprenticeship programmes. The general aim is to help retain and expand the volume of apprenticeships and help those apprentices facing the premature ending of their training programmes. These measures include the 'Adopt an Apprentice Scheme' in Scotland, where employers can recruit a redundant apprentice and receive £2,000 support from the Scottish Government, and the 'ReAct' and 'ProAct' Programmes in Wales, giving wage and training subsidies to employers to retain apprentices and take on redundant workers.

Wage Arrangements for Employed Apprentices

6.16 Table 6.1 also shows that there are differences between the UK administrations with respect to the wage arrangements offered to apprentices. Only in England is there a contractual minimum weekly payment to employed apprentices (£95) on government-funded apprenticeship training. When introduced in 2005 (at £80), the weekly payment reflected the value of the benefits package that young people could receive if they were in college. In the other administrations there is no such contractual minimum payment to employed apprentices, although there is a general requirement that they are waged.

Wage Arrangements for Non-employed Apprentices

6.17 The vast majority of apprentices in each country of the UK are employed and receive a wage. There are, however, a small proportion who are not, at least initially, employed. The UK administrations are moving towards all-employed, waged Level 2 and 3 apprenticeships, but non-employed, unwaged provision continues to have a role, such as where an employed place is not immediately available, particularly during the recession. These non-employed apprentices receive an allowance, paid by the state, instead of a wage (see Table 6.1). In Scotland and Wales they receive a training allowance, and in England there is payment of a means-tested EMA to programme-led apprentices. Northern Ireland has recently supplemented its all-employed apprentice programme by introducing a programme-led scheme. Apprentices on this scheme are paid a non means-tested EMA.

6.18 Some stakeholders raised with us the treatment of programme-led apprentices under a new apprentice minimum wage. The Association of Learning Providers said we needed to consider how they would fit into the apprentice minimum wage system. Barnardo's, Rathbone and the YWCA recommended removing means testing for EMA eligibility for young people on programme-led apprenticeships. They said that this contrasted with a newly introduced EMA Guarantee for young people on Entry to Employment courses. The £30 for programme-led apprentices was also contrasted by stakeholders with the £95 for employed apprentices, even though they could be doing similar work. They said the treatment of programme-led apprentices could create financial hardship. UNISON said that programme-led apprentices should receive the National Minimum Wage if they do actual work with employers.

6.19 Although there has been some evidence of programme-led apprentices spending periods in the workplace without either a wage or an allowance (OFSTED, 2008), introducing the cost of an apprentice minimum wage for employers offering work experience would likely have an adverse impact on the provision of such opportunities. And non-employed, unwaged apprentices are eligible for financial support. In England, 16–18 year old programme-led apprentices are in scope for the means-tested EMA, and the same broad package of support as other learners – including parents' eligibility for non means-tested Child Benefit and possibly for Child Tax Credits. In other parts of the UK, unwaged apprentices receive either a non means-tested EMA or a training allowance. Our conclusion is that as these unwaged apprentices are not employed, it is not appropriate to include them under the apprentice minimum wage. **We recommend that non-employed apprentices are excluded from the apprentice minimum wage and continue to be exempt from the National Minimum Wage**. This exclusion would cover programme-led apprentices on schemes in England and Northern Ireland and those in receipt of a training allowance on schemes in Wales and Scotland.

6.20 We will, however, wish to monitor the impact of this on non-employed apprentices, particularly in respect of two areas. First, that there is not an increased use of non-employed, unwaged apprentice arrangements, leading to a reduction in employed apprentice places. Second, to ensure that non-employed programmes continue as a route to training and progression onto employed apprenticeships, and not as a source for exploitation.

Numbers of Apprentices and Government Targets

6.21 This section provides information on the current numbers of apprenticeship places and how these are distributed across the UK administrations, sectors of the economy, and particular groups of apprentices. Data are also given on how the duration of an apprenticeship varies by sector and level. The section then goes on to consider targets on apprenticeships set by the respective UK administrations.

Current Volumes by Country

6.22 The latest available data on apprenticeship starts by country are shown in Table 6.2. Comparable data across countries were not generally available, but we have been able to calculate approximate UK figures for 2007/08 and provisional ones for 2008/09. Overall, there was an increase of 9,000 (3 per cent) in apprentice starts in the UK between 2007/08 and 2008/09, although not all countries experienced an increase.

6.23 The 2008/09 data for England show that the number of apprenticeship starts was higher than in 2007/08 (up 15,100 to 239,900). Northern Ireland introduced its Apprenticeships NI in 2007/08 and, since then, the total number of apprenticeship starts has increased. Scotland saw a fall in Modern Apprenticeship starts in 2008/09 to 10,600, however, as we have a limited data series it is not possible to draw conclusions about the trend. Provisional 2008/09 figures for Wales also show a small decrease in the number of starts to 18,300.

Table 6.2: Number of Apprenticeship Starts, by Country, 2003/04–2008/09[a]

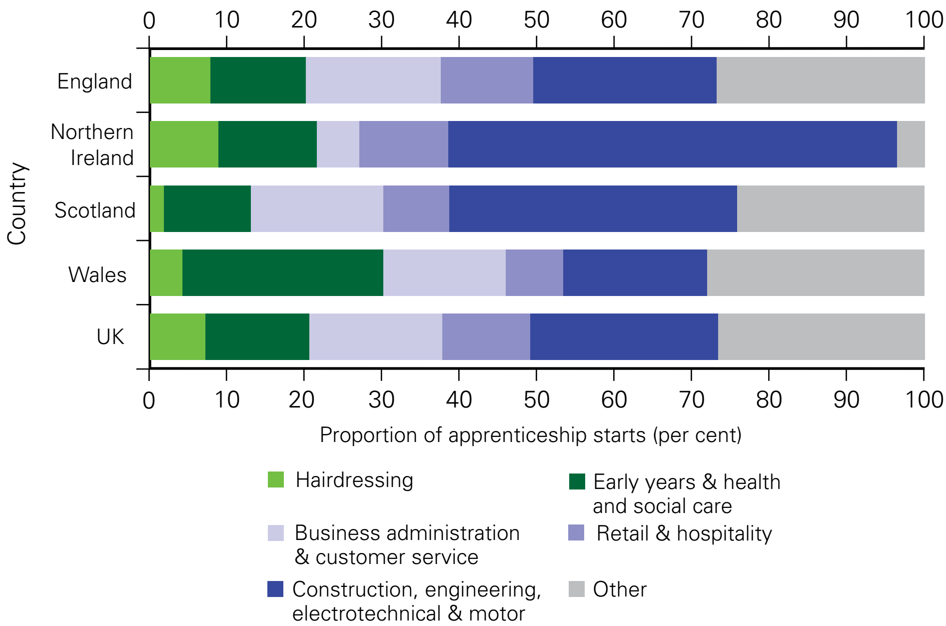
Thousands	UK	England	Northern Ireland[b]	Scotland[c]	Wales
2003/04		193.6	3.5		
2004/05		189.0	3.4		24.6
2005/06		175.0	3.3		28.1
2006/07		184.4	3.3		19.6
2007/08	266.6	224.8	5.5	14.7	21.6
2008/09	275.9	239.9	7.1	10.6	18.3

Source: UK administrations, 2003–2009.
Notes:
a. England and Wales figures are for the academic year; Northern Ireland and Scotland figures are for the financial year.
b. In Northern Ireland, Apprenticeships NI replaced Modern Apprenticeships in September 2007, hence the figures from 2007/08 are the sum of these two schemes.
c. Figures for Scotland are only available for Modern Apprenticeships, which will not include all those at Level 2.

Sectoral Distribution

6.24 Figure 6.1 shows how the sectoral distribution of apprenticeship starts varied across the UK. England and Northern Ireland contained similar proportions of apprentices in the low-paying sectors of hairdressing, early years and social care (around 20 per cent), Wales had a higher proportion (30 per cent), and in Scotland only 13 per cent of apprentices were in these sectors. We know that in these sectors, particularly hairdressing, a high proportion of employers are small and micro businesses. Although retail and hospitality are regarded as low-paying sectors, they do not tend to be the lowest-paying sectors with regards to apprentices – we cover apprentice pay data in more detail later in the chapter.

Figure 6.1: Distribution of Apprenticeship Starts, by Sector and Country, 2007/08



Source: UK administrations, 2007/08.
Note: England and Wales figures are for the academic year; Northern Ireland and Scotland figures are for the financial year. Some definitions for sectors differ, but we have used the closest matches possible.

6.25 A large proportion of apprentices in Scotland and Northern Ireland were within the more traditional apprenticeship sectors. These included engineering (highest proportion in Scotland) and construction (highest proportion in Northern Ireland).

Distribution by Gender, Ethnicity and Disability

6.26 In 2007/08, just under half of English apprenticeship starts were female and just over half were female in Wales. At the same time there was more of a gender imbalance in other parts of the UK. Only around a third of apprenticeship starts in Scotland were female, and the proportion was even smaller, at less than a quarter, in Northern Ireland (gender data are only available for Modern Apprenticeships, not Apprenticeships NI). This picture hides very substantial gender segregation by sector, which has implications for apprentice pay (and is looked at in a later section).

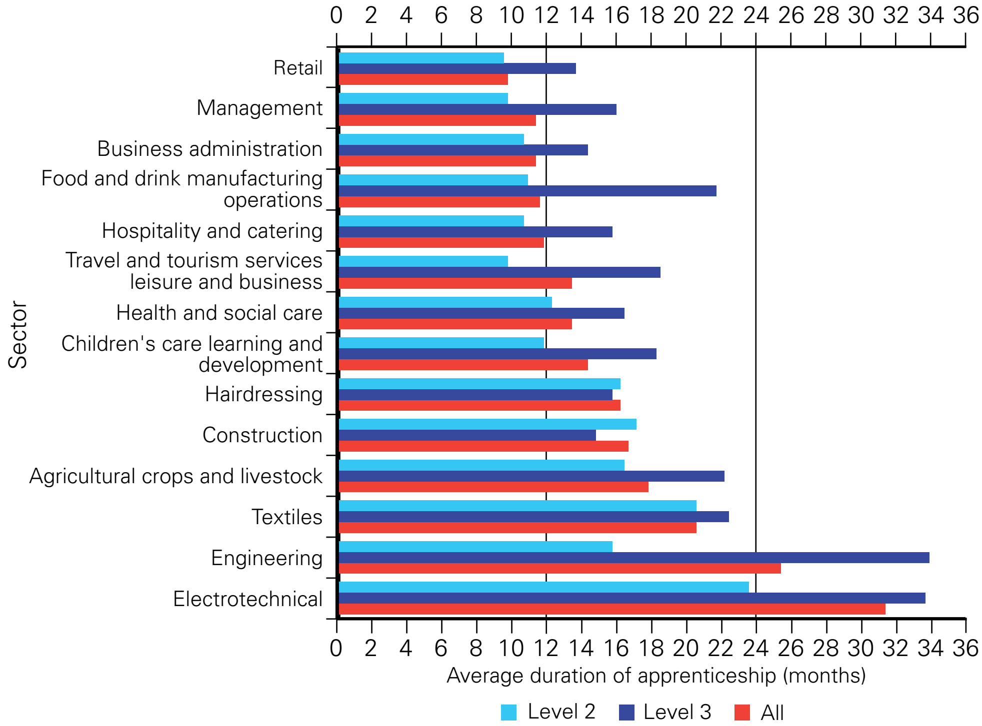
6.27 For ethnic minority groups, we only have limited data for some parts of the UK. In those administrations for which we have some data (England, Northern Ireland and Wales), 6 per cent or fewer apprentices were from ethnic minority groups in 2007/08. This was smaller than the proportion of ethnic minorities in the UK working age population around that time. In Northern Ireland (ethnicity data only available for Modern Apprenticeships) and Wales, the proportions of apprentices from ethnic minorities are broadly similar to those for their working age populations; in England they are proportionally under-represented.

6.28 We also had difficulty obtaining information on the disability status of apprentices, with varying definitions and incomplete data across the UK. The proportion of apprentices in England who declared themselves as having a disability, learning disability or health problem in 2007/08 (11.5 per cent) was higher than the proportion of UK workers with a work-limiting disability around that time (7.5 per cent in the fourth quarter of 2008). In Northern Ireland (disability data are only available for Modern Apprenticeships) and Wales, the proportions declaring a disability were much smaller at around 1.5–2.5 per cent.

Duration of Apprenticeships

6.29 We next consider evidence on how the length of an apprenticeship varies. Figure 6.2 shows that the average apprenticeship duration in 2006/07 in England varied by sector and by apprenticeship level. Within the selected sectors, an average Level 2 apprenticeship ranged from nine months in retail to two years in some of the more traditional subjects such as electrotechnical. An average Level 3 apprenticeship took longer than a year but less than two, except for the traditional sectors, which could take up to three years. It needs to be borne in mind that these are average lengths and they include early leavers.

Figure 6.2: Average Duration of Apprenticeships, by Sector and Level, England, 2006/07



Source: National Apprenticeship Service, England, 2006/07.

6.30 In its evidence the Government stated that the data showed the length of stay of apprentices varied significantly, depending on age and level of framework. Level 2 frameworks generally took one to two years and Level 3 took two to three years. It said that the length of time young people spent on the programme before completion was much longer than for adults.

6.31 While submissions to us by some stakeholders gave an explicit view of how long the wage should be paid, much of the evidence on duration was inferred from the apprentice wage models they put forward. Some linked the wage to the duration of the current apprentice exemptions from the National Minimum Wage and/or the National Minimum Wage age structure and rates. Others thought the wage should simply be applied for the entire duration of the training.

Government Targets

6.32 Our remit required us to take into consideration government targets on apprenticeships. Each UK administration has its own targets for apprenticeships and training places. Key targets for the respective UK administrations are as follows.

- **England:** An increase to 250,000 individuals per annum starting an apprenticeship by 2020, with 440,000 in training. In addition, the Apprenticeships, Skills, Children and Learning Act 2009 provides for a guarantee by 2013 of an apprenticeship place for all suitably qualified young people aged 16–18. The Government anticipates that one in five of all young people will be undertaking an apprenticeship within the next decade.
- **Northern Ireland:** An increase to 10,000 apprenticeship places by 2010.
- **Scotland:** An increase in the number of appropriate training places to 50,000 by December 2010.
- **Wales:** To significantly increase apprenticeships.

6.33 As well as taking numerical targets into account, we were also required by our remit to consider the rise in the education and training participation age in England from 16 to 18 between 2013 and 2015. It should be noted, therefore, that the increase in the number of apprenticeship starts in England during 2008/09 (shown in Table 6.2) was not reflected in all age groups. The rise was driven by a doubling in the number of apprenticeships aged 25 and above (up from 27,200 to 55,900). Falls occurred in apprenticeship starts for both the under 19 age group (down 8 per cent to 99,400) and the 19–24 age group (down 6 per cent to 84,700). Starts for these age groups were also down on planned volumes. This shortfall could be an impact of the recession and reflect the vulnerable labour market position of young people.

Structure for the Apprentice Minimum Wage

6.34 This chapter now looks at the available data and research evidence on apprentice pay and the implications of this for the structure of the apprentice minimum wage. It also presents the stakeholder evidence we received on wage structure. Our views are given on the implications of all this evidence and we set out our recommendations.

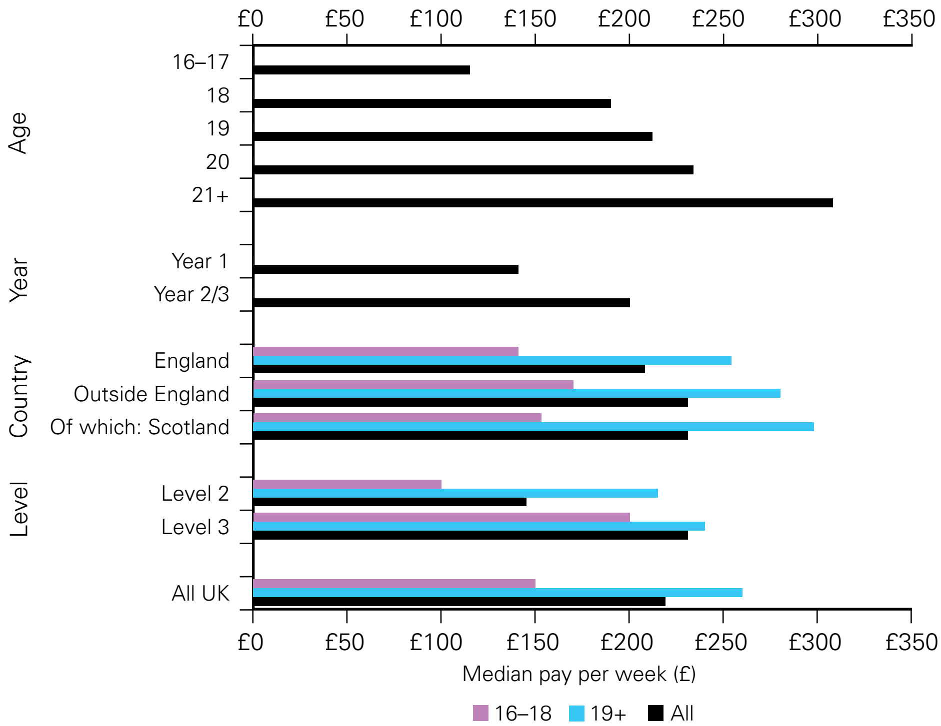
Varying the Apprentice Minimum Wage Rate

6.35 This section looks at the relationship between existing apprentice pay rates and a number of factors, such as age, level and duration of apprenticeship. It then considers whether the apprentice minimum wage should vary according to one or more of these factors.

Variation in Apprentice Pay

6.36 Figure 6.3 uses LFS data for the UK to show how median weekly pay for apprentices varies by different factors. As expected, pay increases with year of study, age and level. Both the DIUS 2007 survey and research by IES (2009) for our 2009 Report showed that apprentice pay increased with duration of time in the apprenticeship.

Figure 6.3: Median Weekly Pay for Apprentices, by Country, Age, Level and Year of Study, UK, 2008/09



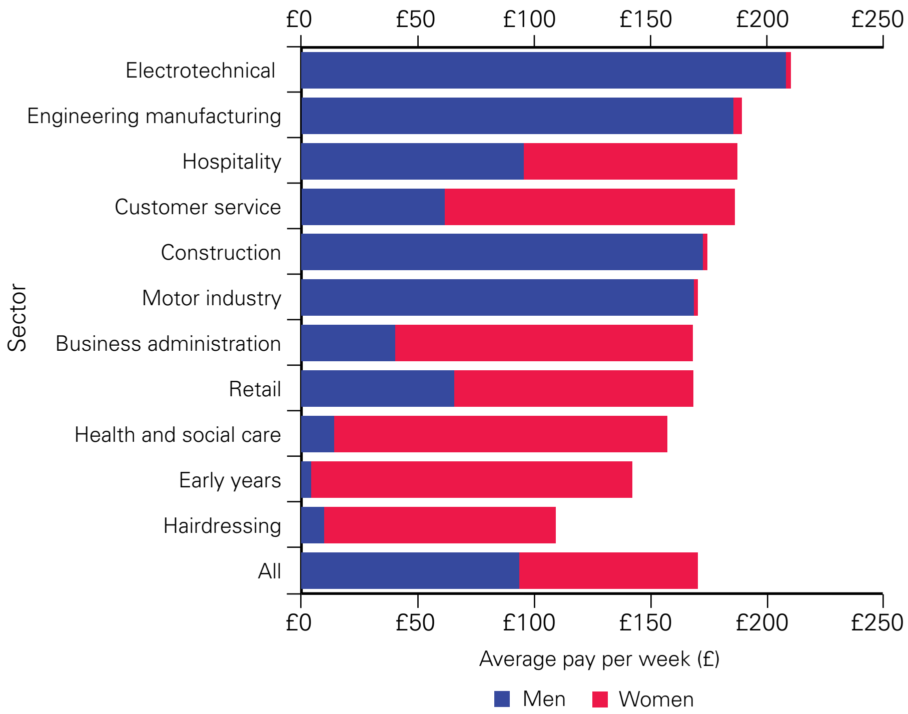
Source: LPC estimates based on LFS Microdata, quarterly, four-quarter average, UK, Q4 2008–Q3 2009.
Note: Sample sizes were too small to present further breakdowns.

6.37 Pay also varies by gender. The median gender pay gap for the whole economy in April 2007 (based on the Annual Survey of Hours and Earnings) was 11 per cent. The gender pay gap for apprentices found by the DIUS survey for 2007 was 21 per cent. The average male apprentice earned £186 per week in 2007 compared with £147 for the average female apprentice. The gender pay gap may largely be explained by the gender segregation that occurs between sectors, as shown for England in Figure 6.4. Our research for this report (Lawton and Norris, 2010) found that a minimum wage for apprentices would have most impact on the low-paying sectors, especially hairdressing, which had a high proportion of female apprentices.

'The full NMW should apply through the entire duration of apprenticeships.'

Communication Workers Union (CWU) evidence

Figure 6.4: Average Apprentice Pay Rates and Gender Split, by Sector, England, 2007



Source: DIUS Pay Survey, England, 2007 (Fong and Phelps, 2008).
Note: The bars show average pay rates by sector and the shading in each bar represents the percentage of male and female apprentices in that sector.

Stakeholder Views on Varying the Apprentice Wage Rate

6.38 The majority of stakeholders responding to the consultation suggested varying either the apprentice minimum wage rate or how the rate was applied. Age was most commonly cited by those stakeholders as the factor that should be used to vary the wage rate or its application.

6.39 Those suggesting that the wage rate should vary by age fell into two categories: the apprentice wage should equal the current National Minimum Wage rates; or the apprentice wage should reflect the age bands of the National Minimum Wage but at discounted rates. Other stakeholders saw the wage as being a single rate but that its duration could vary by age, mirroring the current apprentice exemption age

'We would like to see the apprentice NMW replicate the age-banding currently in place for the NMW…'

Equality and Human Rights Commission (EHRC) evidence

bands. A further group supported a single rate and no variation in its application. Only a minority of stakeholders favoured linking the apprentice minimum wage to the level of apprenticeship.

'...we would like to see the new National Apprenticeship Rate set at around 90 per cent of the relevant National Minimum Wage Rate...'

Usdaw evidence

6.40 The British Hospitality Association (BHA) was among those stakeholders who suggested that the apprentice wage follow the National Minimum Wage age banding. While UNISON favoured removal of the 16–17 Year Old and Youth Development Rates, it thought the simplest approach would be to pay apprentices the age rates of the National Minimum Wage.

6.41 Some trade unions, led by the Trades Union Congress (TUC), favoured having an apprentice wage based around the existing National Minimum Wage age bands, but with a discount. It saw the wage as only applying to those apprentices currently exempt from the National Minimum Wage. The Union of Shop, Distributive and Allied Workers (Usdaw), also proposed a discounted approach, based on the age bands.

'The Society of British Aerospace Companies (SBAC) recommends... applying higher wage levels to Level 3 apprentices.'

SBAC evidence

6.42 Other stakeholders did not favour linking the wage rate to age. They were generally divided between those who argued for a flat or single rate for the wage, close to the Learning and Skills Council (LSC) weekly contractual rate, and those who argued for all workers and apprentices to be paid at the adult rate of the National Minimum Wage. The CBI, favouring the flat rate approach, thought that varying the wage would make the regime unwieldy and complicated, and it did not regard age as an effective proxy for productivity. The British Furniture Manufacturers also argued for one minimum level, on grounds of simplicity. The National Hairdressers' Federation (NHF) said apprenticeships should be open to all and subject to the same wage requirements regardless of age. A number of trade unions, such as the National Union of Rail, Maritime and Transport Workers (RMT), and some youth organisations such as the British Youth Council, believed that the apprentice wage should be equal to the adult National Minimum Wage.

6.43 Some employer stakeholders thought that there was a need to give encouragement to apprentices to complete. The Newspaper Society (NS) suggested that there may be some justification in increasing rates during the training period, but related to skills acquisition, not time served. The Association of Learning Providers said the wage should not be varied by age but by level of competence. The Employers Forum on Age thought that if there were a case for maintenance of an exemption, then this should be available only for small employers in respect of apprentices aged 16–18, not those aged 19 and over or on Level 3 schemes. In all other circumstances apprentices aged 16–18 should be paid at a discount from the youth rates, and those aged 19 and over should be paid at a rate set as a replacement for the Youth Development Rate.

'Apprentices aged 18 and above have fewer opportunities as they are expensive in year two, hence an apprentice minimum wage should not vary by age.'

Hairdressers Commission visit to Liverpool

6.44 Research by Lawton and Norris (2010) found that apprentices preferred rates of pay based on ability, qualification, or year of apprenticeship, rather than age. The researchers found that of the employers interviewed (all were in the hairdressing and childcare sectors) who made use of the existing exemptions, there was a preference for a flat rate of (weekly) pay, and also for a single rate regardless of level or year of study.

Our Recommendations on Varying the Apprentice Wage Rate

6.45 Age was a factor we needed to consider in designing the wage. We were required by our terms of reference to take into account government targets for apprenticeships, and the increase in the education and training participation age from 16 to 18 in England between 2013 and 2015. There will be a need to encourage greater provision of apprenticeship places for this age group.

6.46 The current apprentice exemptions from the National Minimum Wage already vary by age. Those apprentices aged under 19 are exempt from the minimum wage for up to 3 years, while those aged 19 and over are only subject to the exemption for the first 12 months of their training. We were mindful not to introduce an apprentice wage that would have the effect of reducing apprentices' current expectations for entitlement to the National Minimum Wage.

6.47 The evidence shows that age, as well as level, year of study, and duration, are all factors that seem to explain differences and changes in pay rates for apprentices, but that on their own none is a good proxy for the differences. While most employers will wish to have a pay system that rewards achievement, acquisition of skills and higher productivity, such decisions are probably best left to local discussions, negotiations and determination. Any statutory wage system that sought to incorporate all this would be more difficult to administer, and be counter to our stated principle of making the apprentice wage simple and straightforward.

6.48 The apprentice minimum wage could be either a single rate or, as suggested by a number of stakeholders, vary by age in its application to apprentices. Many suggested mimicking the existing National Minimum Wage age bands, giving three rates. As with a single wage floor for apprentices, the key would be to identify the appropriate discount from the National Minimum Wage. This could either be a common 'discount' from the respective National Minimum Wage rates or a variable discount rate. But we saw a number of problems with either approach.

6.49 If a common discount rate is adopted, then this could have a disproportionate effect on current levels of pay by age. If a smaller discount on minimum wage rates is judged appropriate, then adult apprentice pay rates could increase to levels that would be likely to have an impact on provision. A larger discount, which would prevent older apprentices from becoming disproportionately expensive, could see younger apprentices on very low wages. If a varied discount rate was used, it could iron out some of these bumps but would add to the complexity of the wage and could be hard to justify in terms of the labour market position of the different age groups. There is a danger that the different discount rates could be seen as arbitrary and that having more than one rate would also add to complexity. We therefore saw merit in a single rate for the wage.

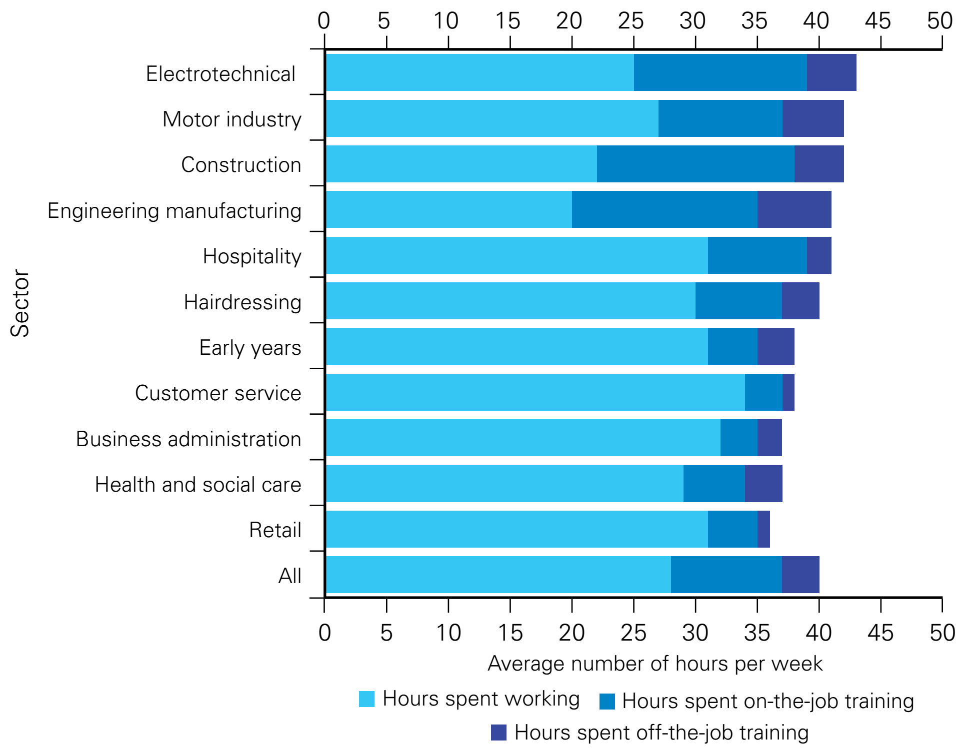
6.50 Taking the evidence and the above considerations into account **we recommend that the apprentice minimum wage be applied as a single rate to those apprentices currently exempt from the National Minimum Wage. That is all those under the age of 19 and those aged 19 and over in the first 12 months of their apprenticeship. The wage should cover both those employed on traditional contracts of apprenticeship and employed apprentices on government-supported Level 2 and 3 schemes.**

Treatment of Training Hours

6.51 The DIUS pay survey for England estimated that on average apprentices spent 40 hours a week working and training. Our own estimate for the UK, based on the LFS, was that most apprentices worked and trained between 38 and 40 hours per week. It should be noted that young people, under the age of 18, cannot by law usually work for more than 8 hours per day or 40 hours per week.

6.52 As shown in Figure 6.5, the DIUS pay survey estimated that the average time spent by apprentices in England undertaking off-the-job training was three hours a week. This varied, from one hour a week in retail to six hours a week in engineering manufacturing. In the low-paying sectors, the most off-the-job training occurred in hairdressing, early years, and health and social care, at three hours a week. The amount of on-the-job training also varied considerably but it is unclear how different sectors define different types of training. Studies have also found that the quality of training varies by sector, with the highest paying usually having the highest quality (House of Lords, 2007; and Hughes and Monteiro, 2005).

Figure 6.5: Apprenticeship Hours Spent Working and Training (On- and Off-the-job), England, 2007



Source: DIUS Pay Survey, England, 2007 (Fong and Phelps, 2008).

'Many nurseries... report that they could not afford to pay an apprentice an hourly rate when training in the early stages, especially if they needed to pay this both when in the nursery and when attending college.'

National Day Nurseries Association evidence

6.53 Some apprentices are already entitled to a statutory minimum hourly rate of pay, and must be paid for training hours. That is, those aged 19 and over who have completed the first year of their apprenticeship, who are entitled to be paid at least the National Minimum Wage. Under the National Minimum Wage rules, a worker must be paid the minimum wage for time spent training in connection with their employment, at or away from their place of work.

6.54 The majority of stakeholders responding on this issue saw training, whether on- or off-the-job, as an integral part of an apprenticeship. Most saw the need for all such time to be covered by the wage, but some were concerned that making employers pay for off-the-job training may adversely affect the volume of such activity. Those favouring a weekly rate saw this as a mechanism to help avoid the complications and complexities, which they thought could arise if an enforcement regime needed to account for, and differentiate between, different types of training.

6.55 The Welsh Assembly Government (WAG) said that there should not be different rates for on- and off-the-job training. The UK Government said that any new arrangement should, like the current weekly rate in England, apply to all aspects of the apprenticeship framework, including work, and both on- and off-the-job training. It was concerned that other activities connected with an apprenticeship framework, such as being assessed or taking exams, might be affected if the wage was set on an hourly rather than a weekly basis and appropriate measures were not in place.

'Most organisations [responding to an IMI questionnaire] considered that if a minimum wage for apprentices covered both time in the workplace and off-the-job training, employer participation in the apprenticeship programme would stay the same.'

Institute of the Motor Industry (IMI) evidence

6.56 Those who thought that all training and work time should be treated the same and counted for the wage also included the trade unions CWU, Unite and the GMB. The Apprenticeship Ambassadors Network saw no need to differentiate between on- and off-the-job training, while the Sector Skills Council for Science Engineering and Manufacturing Technologies said both should be paid at the same rate. Among employer groups the Federation of Small Businesses (FSB) said apprentices should be paid while on training. Lawton and Norris (2010) found that the majority of employers interviewed who currently use the apprentice exemptions saw little benefit in not having to pay apprentices for time spent training off-the-job, although they mainly supported a weekly wage.

6.57 Stakeholders who thought that off-the-job training should be treated differently included the BHA. It supported having the apprentice rates at the same level and on the same basis as the age-related National Minimum Wage rates, but thought on-the-job training should be treated as paid working time and off-the-job training as not paid working time.

Our Recommendations on Treatment of Training Hours

6.58 While excluding some or all training from the apprentice wage would allow employers to offset the cost of the time apprentices spend away from the workplace, it would, we believe, be contrary to the concept that training is an integral part of an apprenticeship. It would also be difficult to distinguish in some instances what is on- and off-the-job training, and so would be hard to enforce. For this reason we do not favour different rates of pay for different types of training. Some stakeholders believed that unless off-the-job training was excluded or at a lower rate of pay, then a number of employers could not afford it and would cut back on training. We believe such an approach would add considerably to the complexity of the wage arrangements.

6.59 Including all hours of training, whether on- or off-the-job, would help to keep the system simple and should not present a significant burden to employers in the low-paying sectors, as off-the-job training time is generally more limited in these than in the higher-paying apprentice sectors. At present the weekly contractual wage in England already covers training and working time. Including all training hours would also be consistent with the current treatment of apprentices and workers entitled to the National Minimum Wage. There was widespread support from our consultation for this approach. **We recommend that all hours of work and training (relating to both on-the-job and off-the-job) under an apprenticeship should be counted as hours for which the apprentice minimum wage must be paid. All hours should be paid at the same wage rate**. We see training as including other related activities, such as being assessed or sitting exams.

Weekly or Hourly Pay

Stakeholder Views

6.60 The majority of consultation responses favoured an hourly wage. Trade unions that supported this approach generally based their view on the belief that the apprentice wage should either equal the current minimum wage age rates; be based on a discounted age rate; or reflect the hourly basis of the adult minimum wage. The TUC said pay should be by the hour as it would be fair to both employers and apprentices to link pay to actual working time.

'...some sectors which are dominated by women... are less likely to offer payment for overtime.... It is important that the NMW for apprentices is paid at an hourly rate as it will help to address the gender pay gap.'

EHRC evidence

'There is evidence of some employers not paying for off-the-job training. Weekly pay gives the message that all work and training is covered.'

Department for Employment and Learning Northern Ireland oral evidence

6.61 Employer groups supporting an hourly wage saw it as consistent with the current minimum wage regime and having the attraction of simplicity and ease of administration. The British Retail Consortium, FSB and Business In Sport and Leisure supported an hourly rather than a weekly rate. The BHA supported an hourly wage if the apprentice rate was linked in some way to the National Minimum Wage. The majority of members responding to an Institute of Payroll Professionals survey also favoured an hourly rate.

6.62 The WAG said that the rules need to be easy for employers to administer. It favoured rates on an hourly basis. The UK Government said it was concerned that a move from a weekly wage (as in England) to an hourly rate would raise certain risks, such as employers only paying apprentices for hours engaged in productive employment. It advised us to address these risks in our recommendations.

6.63 The CBI was among those stakeholders that argued for a weekly rate, believing that an hourly rate would be more complex to enforce. A weekly rate removed the need for any differentiation between working and training. It emphasised that employers could only afford to pay for productive work. The British Chambers of Commerce (BCC) argued that the nature of apprenticeships did not lend itself to an hourly wage. This was due to the training and off-site work involved. It thought that employers might be put off taking on apprentices if calculating the wage becomes too complex.

6.64 Lawton and Norris (2010) found a strong preference among apprentices for hourly rather than weekly pay. Conversely, they found the employers interviewed favoured weekly pay. But very few of the employers said they would change the amount of training (on- or off-the-job) in response to an apprentice minimum wage, even if it was paid on an hourly basis.

Our Recommendations on an Hourly or Weekly Apprentice Wage

6.65 Our remit asked us to consider arrangements for an apprentice minimum wage under the National Minimum Wage framework. Rates of pay under this framework are set on an hourly basis. To do otherwise for the apprentice minimum wage would require a change to primary legislation. We nevertheless considered the possible benefits of setting a weekly rate, but concluded that an hourly rate was the right approach. Apprentices aged 19 and over and who have completed the first 12 months of their apprenticeship are already entitled, under the existing regulations, to the hourly National Minimum Wage. A weekly statutory payment to a different group of apprentices would differ from the existing National Minimum Wage regime. An hourly wage would also provide a link between apprentice hours and pay and should help minimise any possible exploitation through apprentices being asked to work excessive overtime. **We recommend that the apprentice minimum wage be set at an hourly rate.**

Rate for the Apprentice Minimum Wage

6.66 In this section we look at how the distribution of pay varies between different sectors, age groups, and training levels. We also consider research evidence on the role of pay in incentivising individuals to start and complete apprenticeships, as well as employers to provide them. We set out stakeholder views on the rate and conclude by giving our recommendations on the rate and the timing for introduction of the apprentice wage.

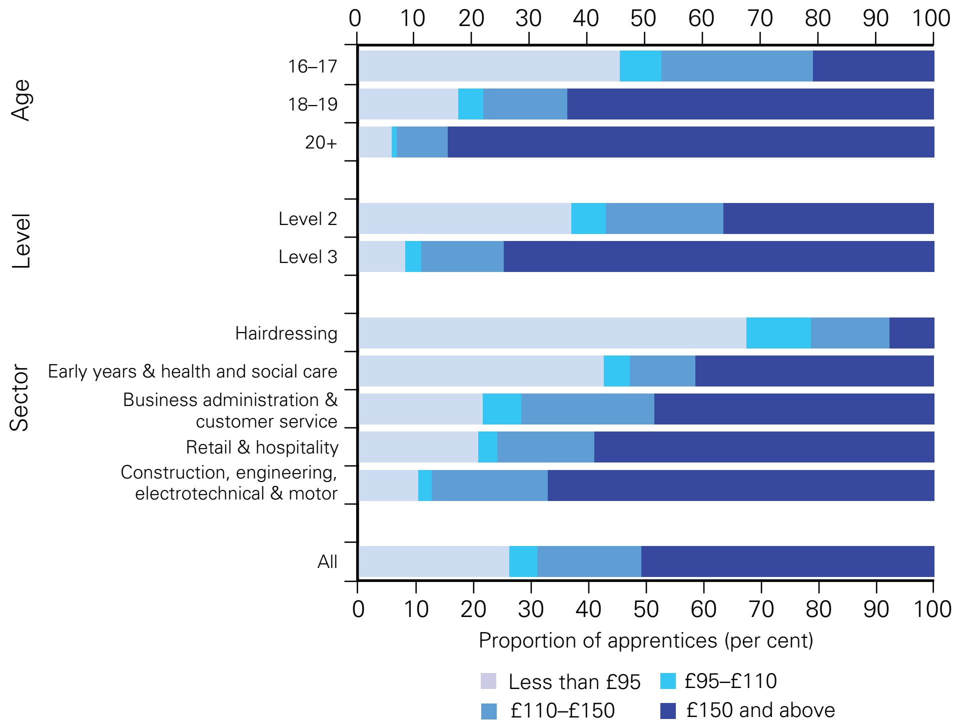
Distribution of Apprentice Pay

6.67 In Figures 6.3 and 6.4, we showed how the average wages of apprentices vary across age, levels, year of study, and sector. But we are also interested in the distribution of pay, particularly at the bottom end of that distribution, in order to estimate the potential impact of a new minimum wage rate for apprentices. Using LFS data and the number of apprenticeship starts from administrative data, we estimate that around 38,000 (11 per cent) and 52,000 (14 per cent) of apprentices in the UK were paid below £95 and £110 per week respectively in the 2008/09 National Minimum Wage year. But this is likely to be an overestimate of current numbers as the annual data period includes only two months when the LSC rate in England was £95 per week (in the other ten months it was £80).

6.68 Figure 6.6 shows how, for England, the pay distribution of apprentices varied by age, level and sector in 2007. In particular, the overall proportion of apprentices paid less than £95 per week was 26 per cent, but the figure was as high as 67 per cent for hairdressers, 45 per cent for 16–17 year olds, 43 per cent for care workers, and 37 per cent for those at Level 2 (£80 per week was the contractual minimum at the time of the survey).

6.69 It will be the apprentices at the lower end of the wage distribution who will be affected by the apprentice minimum wage. As we have seen, that will generally be those who are younger, and in the hairdressing and early years low-paying sectors in particular. We therefore need to consider the impact on apprentices in these groups and sectors, remembering that younger apprentices saw a fall in the number of starts in England during 2008/09. The apprentice wage will have little impact on apprentices in the more traditional higher-paying sectors such as engineering and electrotechnical.

Figure 6.6: Distribution of Apprentice Weekly Gross Pay, by Age, Level and Sector, England, 2007



Source: LPC estimates based on DIUS Pay Survey, England, 2007.

'A lot of young women in the area are looking at hairdressing as a career and likely to start as apprentices. They needed protection from exploitation.'

Rhyl City Strategy Group Commission Visit to Rhyl

6.70 The DIUS survey (Fong and Phelps, 2008) found that around 5 per cent of apprentices did not receive their entitlement to be paid at least the (then) £80 weekly wage, with the proportions higher in the lowest-paying apprentice sectors. Lawton and Norris (2010) discovered a lack of clarity and participant understanding around minimum wage rules for apprentices. The researchers concluded that introducing apprentice pay within the National Minimum Wage framework could help simplify pay arrangements and improve understanding and compliance.

Pay and Incentives for Young People

6.71 In addition to the pay data there are also research findings on apprentice pay and how this acts as an incentive for young people to take up and complete apprenticeships. We undertook an extensive literature review of existing research for our last report and commissioned our own research (IES, 2009). We have kept abreast of developments since then and also commissioned further research on apprenticeships (Lawton and Norris, 2010).

6.72 Apprenticeships involve a trade-off for young people between lower apprentice wages in the short term and higher wages and improved employment prospects in the longer term. A number of studies have substantiated the existence of these benefits for young people (McIntosh, 2007; and LSC, 2008 and 2009a).

'Views from one group of unemployed young people were mixed. Whilst some felt that apprentices should be paid at the same rate as other workers, others thought paying apprentices a full wage could lead to fewer apprenticeship opportunities.'

Young People (Prince's Trust) Commission visit to Cambridge

6.73 Pay is one factor influencing people to take up an apprenticeship (LSC, 2006 and 2008; and Wiseman, Roe and Boothby, 2003), but far from being the only or most important one, and a complex set of factors are at work in explaining completion rates (IFF Research, 2000; West, 2005; and LSC, 2008). Lawton and Norris (2010) found that although receiving a wage was a motivating factor for many young people starting an apprenticeship, it was rarely the only or main reason: for most, other factors, such as family influences, had a greater impact. Where apprentices considered pay important, Lawton and Norris found that it was the existence of a wage rather than its level that was important. The EMA was most commonly used as a point of comparison and apprentices would be satisfied if they received more in work than in full-time education.

6.74 Lawton and Norris (2010) suggested that there did not appear to be a strong case for introducing a minimum wage in order to increase demand from young people for apprenticeships: most places were oversubscribed. However, some evidence was found that a minimum wage might help to increase apprenticeship completion rates. Although low pay was not the primary reason for leaving, it was one factor when alongside low job satisfaction and poor quality training.

Pay and Incentives for Employers

6.75 In our 2009 Report we identified a number of studies that had looked at apprentice pay and the incentives for employers to invest in this type of training. Some sectors made widespread use of the current apprentice exemptions (LPC, 2009; and IES, 2009). Pay tended to be lower in these sectors, and any rise in wage costs would be likely to have an adverse impact on the number of apprentice places provided by these employers. Our 2008 Survey of Employers (LPC, 2009) found that, while for three-quarters of respondents the apprentice exemptions did not affect their decision to employ apprentices, hairdressing (53 per cent) and childcare (34 per cent) had the largest proportion of firms that were more likely to employ apprentices because of the exemptions. IES (2009) found that for some hairdressing employers their business model was heavily dependent on the ability to pay apprentices lower wages.

6.76 Lawton and Norris (2010) found that among the hairdressing and childcare employers interviewed, current pay levels were not seen as a barrier to the provision of apprenticeship places, but there was disagreement over whether low levels of pay contributed to relatively low completion rates. In hairdressing, employers were clear that a minimum wage for apprentices would reduce the number of places they offered (assuming a higher rate than currently exists).

6.77 While apprenticeships can be cost-effective (Hogarth, Hasluck and Daniel, 2005), the experience varies by sector. Some sectors had quicker returns on their investment than others. Later research (Hasluck, Hogarth, Baldauf and Briscoe, 2008) found that the net investment cost was greatest in engineering with a payback in less than three years, while it was least in retail with a payback in less than two years.

6.78 Cambridge Policy Consultants (2006) researched schemes in Scotland and found that the main impact of apprenticeships for employers was in relation to increased productivity. The research by McIntosh (2007) also provided an indication of higher future productivity returns, greatly exceeding the investment costs of employers and the state.

Stakeholder Views on the Rate

6.79 Four main approaches emerged from the stakeholder evidence we received: that the apprentice minimum wage should be a flat weekly rate, at or around the current LSC rate in England; that the wage should be a discounted rate of the National Minimum Wage age rates; that the apprentice minimum wage should equal the age rates of the National Minimum Wage; or that it should equal the adult rate of the National Minimum Wage (and in some circumstances be higher). The first approach was mainly supported by employer groups. Some trade unions, youth organisations, and a few employer bodies favoured the second approach. The majority of trade unions and youth organisations favoured either paying the age-related National Minimum Wage rates, or the adult rate of the minimum wage. Some employer groups were supportive of the apprentice rate being linked to the age rates. A few stakeholders suggested an hourly wage set at the 16–17 Year Old Rate of the minimum wage. A number of stakeholders did not give a specific rate.

'The Modern Apprenticeship minimum payment of £95pw in England…in effect provides a good practical guideline for the Apprentice National Minimum Wage.'

NHF evidence

6.80 None of the UK administrations expressed a view on the actual rate for the apprentice minimum wage in their written submissions, although in oral evidence the Government indicated that the increase in the contractual rate in England to £95 a week had been broadly supported. In written evidence, the Government said at a time of economic downturn it was important that employers were not discouraged from continuing to invest in training. It said the rise in the education and training participation age would require a significant commitment by employers to ensure that an apprenticeship was maintained as a mainstream option for all 16–18 year olds. The Government believed that in many respects the comparison for apprenticeship pay for young people was with the education and training market rather than the labour market.

'There is a clear need for a significant increase and a greater equalisation between the current recommended LSC rate and the National Minimum Wage rates…'

Usdaw evidence

6.81 The WAG said that there was a fine balance between ensuring a fair rate of pay for apprentices and not deterring employers from offering places. The Scottish Government previously called for removal of the exemptions and encouraged payment of the minimum wage to apprentices in Scotland. In evidence, the Scottish Government recognised the need to consider an apprentice minimum wage that reflected the in-training status of apprentices, but it would not want this to mean them living in poverty.

6.82 Among the stakeholders that suggested setting the apprentice wage at or around the current LSC rate was the BCC. It called for a rate of £100

'Since the Learning and Skills Council apprentice minimum has already increased from £80/ week to £95 this year (19%), with likely damaging effects on apprentice slots we advise against any further increase.'

Unquoted Companies Group evidence

per week for the coming year, to be reviewed thereafter at the same time as the National Minimum Wage. The CBI supported a very similar approach, proposing an apprentice rate of £95 a week. It emphasised the sensitivity of employer involvement to additional costs, noting that demand for places outstripped supply. It thought the Commission should take into account the impact of the apprentice wage on the training and employment opportunities for vulnerable young people.

6.83 The TUC was among those stakeholders that called for a discounted wage based on 85–90 per cent of the existing National Minimum Wage age rates. This would produce £3.00–£3.18 at age 16–17; £4.05–£4.29 at age 18 (plus age 19 and 20 in their first year of apprenticeship training); and £4.87–£5.15 at age 21 and above (first year of apprenticeship training only). Usdaw supported a discounted rate, at around 90 per cent of the age rates. Rathbone also proposed setting the wage as a set percentage of the National Minimum Wage rates, but at a discount which would produce a weekly wage around the level of the current £95 in England.

6.84 Some trade unions and other stakeholders called for apprentices to be paid the age rates of the National Minimum Wage. The YWCA preferred one rate long-term, but, until a time when the youth rates were removed, it said the fairest and simplest step would be to align the apprentice rates with the existing age rates of the National Minimum Wage. Among employer organisations, the FSB suggested paying all apprentices the 16–17 Year Old Rate of £3.57 an hour, while the NS said the apprentice rate should not be set above this level.

'…the LPC should recommend the establishment of 3 new age-based hourly rates…set slightly below the existing NMW rates'

TUC evidence

6.85 A number of stakeholders, including the RMT, Unite, the CWU, the National Union of Students, the National Youth Council for Voluntary Services and the youth committee of the Scottish Trades Union Congress called for apprentices to be paid the adult National Minimum Wage, without any age variation. GMB suggested rates that varied by age and rose over time in the apprenticeship, with some eventually reaching well above the adult minimum wage rate.

6.86 Some stakeholders explicitly raised the issue of the timing for introduction of the wage. The BHA was concerned that as the adult minimum wage will apply to 21 year olds from October 2010 (a 20 per cent pay increase for some), the apprentice minimum wage should be delayed until 2011 in order to avoid a second change at the same time.

Usdaw argued that Britain would be out of recession by the time of introduction in October 2010, and that for apprenticeships to be appealing they needed a decent minimum rate.

Recommendations on the Rate

6.87 In earlier sections we recommended that the wage be set as a single hourly rate. In reaching our recommendations on what that rate should be, we were mindful of the range of evidence we have received over the past couple of years, including pay data, administrative data, research, government targets, and submissions from stakeholders. We were also focused on our remit from the Government, which included a requirement for us to take into account the need to ensure that a sufficient volume, quality and sectoral variety of apprenticeship places was available in order to meet government targets. This would be a particular priority in England for the youngest age group as the education and training participation age rises from 16 to 18 between 2013 and 2015. We were also required to take into account the effective functioning of the education market and young people's choices, and how their apprentice wage entitlement would in future compare with the payment that could be expected through other learning routes.

6.88 Given our remit, the evidence we have on the likely impact of the apprentice wage, and that no minimum wage for apprentices currently exists outside of government-funded schemes in England, we decided that it was appropriate to take a prudent approach. **We recommend the apprentice minimum wage is set at a rate of £2.50 per hour and is introduced from October 2010**.

6.89 We do, however, recognise that there will need to be transitional arrangements put in place as apprentices in England move from a weekly to an hourly-based system. These are outlined below.

Transitional Arrangements

6.90 In its evidence the Government said we should consider the position of current apprentices who may be worse off when any new arrangements were implemented and consider appropriate transitional arrangements. In moving from a weekly-based to an hourly-based wage some current apprentices in England, in receipt of the existing minimum £95 wage, may find their weekly wage changes. This depends on the number of hours they currently work.

6.91 Some may find their weekly wage increases. One benefit of moving to an hourly rate is that apprentices who work long hours would be paid for their additional time. This should help address any exploitation of apprentices. And some stakeholders highlighted to us how unpaid overtime was often used in sectors over-represented by female apprentices.

6.92 However, other apprentices, currently receiving £95, could find their weekly wage reduces, again depending on the number of hours they currently work. This only affects apprentices in England (as no other country in the UK has a contractual minimum wage) and the overwhelming majority of apprentices are paid far more than the LSC minimum rate. It is our intention, however, that all current apprentices in England should receive at least their current entitlement to £95 per week. No current apprentice should be worse off. **We recommend that in England transitional arrangements are put in place so that current apprentices retain a contractual entitlement to a minimum of £95 a week for the remainder of their apprenticeship or until they are entitled to the National Minimum Wage**.

Apprentice Rate and the National Minimum Wage Framework

6.93 We have set out our recommendations on the rate and arrangements that apply to the apprentice minimum wage. The wage rate will operate within the National Minimum Wage framework, and like the other three minimum wage rates, will be regulated by those arrangements. Such arrangements include the treatment of what counts as minimum wage pay, the hours of work for which the wage must be paid, and the treatment of benefits-in-kind and accommodation. It also includes the handling of tips, which should not, in line with existing minimum wage regulations, count towards the apprentice minimum wage.

6.94 The apprentice minimum wage rate is a UK-wide wage floor for apprentices, below which no one's pay should fall. Employers are free to pay more and many currently do, often through collectively agreed arrangements with their workforce. The Government and the UK devolved administrations can also, if they wish, specify better conditions in any contractual arrangements they have with training providers and employers.

6.95 We will of course wish to monitor the impact of the apprentice minimum wage rate, including how it operates within the broader National Minimum Wage framework. Our views on how we should review and evaluate the wage are given below.

Reviewing and Evaluating the Wage

6.96 We have designed what we judge to be a simple and robust framework for the apprentice minimum wage that will be straightforward to administer. We will wish to monitor its impact, including on the provision, take-up and completion of apprenticeships. It is appropriate that we keep the wage under review and we think it right to undertake this on an annual basis at the same time we look at and report on the other National Minimum Wage rates. **We recommend that the Government includes the review of the apprentice minimum wage rate and arrangements in our annual terms of reference**.

6.97 When reviewing the wage we will wish to use a number of monitoring measures. While data for some of these measures are available, for many they are either not available for all the countries of the UK or not available on the same basis across all administrations. As outlined in paragraph 6.8, we are working with the UK administrations to improve the available data on apprentice pay, and the work resulting from this should help fill many of these data gaps. For some measures, however, better collection of administrative data will be required. We therefore urge the UK administrations to look again at their current information on apprenticeships to see if they can assist by generating the data we will require. The range of measures we will wish to look at include:

- number of apprentice starts;
- amount of on- and off-the-job training;
- total hours of work and training;
- duration of apprenticeships;
- completion rates;

- level of apprenticeships undertaken;
- weekly pay of apprentices;
- levels of paid and unpaid overtime;
- sector breakdowns of all measures;
- race, gender and disability breakdowns of all measures; and
- whether employers are receiving a government wage subsidy.

6.98 We will also wish to gather, in line with how we monitor the other minimum wage rates, evidence on the awareness and understanding of the wage by employers and apprentices, as well as the effectiveness of the enforcement regime.

Conclusion

6.99 We have carefully set out the evidence, and our resulting conclusions and recommendations for an apprentice minimum wage. The available data on apprentice pay are limited and we are working with the Government and the UK administrations to improve it. But the data that are available suggest that we needed to be prudent in recommending the introductory level in respect of the likely impact of the wage in particular sectors and parts of the UK, which at present do not have any minimum apprentice wage arrangement.

6.100 The wage marks an important extension to minimum wage protection across the UK. It is one that we intend to closely review and evaluate alongside the other minimum rates in our subsequent reports. In the next chapter we look at compliance and enforcement of existing wage protection under the National Minimum Wage.

Chapter 7
Compliance and Enforcement

Introduction

7.1 We have always held the view that a rigorous compliance and enforcement strategy is essential to the success of the minimum wage. This continues to be our view. Those who are dependent on work paid at or around the National Minimum Wage will be some of the lowest earners in the UK. As has already been shown in earlier chapters, many will be vulnerable to exploitation. There will always be a minority of employers who try to exploit their workers through non-compliance with the minimum wage and other legislation and there is a greater risk of this during an economic downturn.

7.2 Since the introduction of the minimum wage over 10 years ago, we have made 20 recommendations on awareness and enforcement in our reports. The Government has made a number of changes to the enforcement regime in light of these recommendations and has also made changes in other areas where it believed the regime needed strengthening. We acknowledge that some progress has been made in strengthening the enforcement regime over the last 10 years, although this progress needs to be maintained and bolstered in the coming years.

7.3 In this chapter we briefly look back at how the enforcement regime has evolved and at changes that have been made. We look at how HM Revenue & Customs (HMRC) operates in its role as enforcer and its interaction with other enforcement agencies and the Department for Business, Innovation and Skills (BIS). We report on changes that have taken place over the last year, particularly in response to recommendations made in our last report, and look at enforcement in relation to groups that are particularly vulnerable. In doing this, we draw on the written and oral evidence we have received and also our visits programme.

Enforcement Regime

7.4 HMRC is the body contracted by the Government to enforce the National Minimum Wage, and has been undertaking this role since the minimum wage was introduced. It is contracted to undertake this role through a Service Level Agreement with BIS and works within the terms of this agreement. HMRC has a number of compliance teams located around the UK, along with a central team. All complaints are directed to the central team which is responsible for allocating them to the correct compliance team. To date, every complaint of underpayment received has been investigated. The capacity that remains once complaints have been investigated is used by HMRC to investigate further cases arising from its risk assessment.

7.5 The activities and processes of HMRC have changed and been refined over the years, as its experience of enforcing the minimum wage legislation has increased. Its staffing levels have also increased as a result of additional funding allocated in 2007, and a new Rapid Response Team will be introduced as a consequence of funding received from the Migration Impacts Fund, which we cover later in this chapter.

Progress on Enforcement

7.6 In the early days of the minimum wage, the Commission reported on, among other things, the importance of raising awareness of the minimum wage and the need for co-operation between the Government's enforcement agencies. Ten years on, progress has been made on targeting awareness-raising campaigns at those who most need the support. Other areas where the enforcement regime has evolved over the last ten years are:

- setting up two pilot schemes to look at ways of improving advice and support to vulnerable workers (leading indirectly to the work of the Vulnerable Worker Enforcement Forum (VWEF));
- establishing a prosecution strategy;
- undertaking a programme of targeted enforcement in some of the low-paying sectors;
- instigating cases for HMRC's Compliance Officers to investigate on the basis of risk assessment;

- improving inter-agency co-operation through the Fair Employment Enforcement Board (FEEB);
- introducing a new penalties and fair arrears regime in 2009; and
- increasing funding for enforcement by £2.9m each year from 2007 to 2011.

7.7 Some of these initiatives have had a positive impact, for example the targeted awareness-raising campaigns, and in 2008/09, nearly £4.5 million of arrears were identified through investigations. In other areas, though, concerns remain. For example, in spite of a prosecution strategy, there have only been six successful prosecutions over the lifetime of the minimum wage, and the targeted enforcement programme has now ended. It is vital that the Government's new compliance strategy, which we report on later in this chapter, builds on the successes of past initiatives and uses them to support and inform a long-term strategic approach to enforcement.

Scale of Non-compliance

7.8 It remains very difficult to get an accurate picture of the level of non-compliance. Official statistics estimate that around 242,000 jobs were paid below the minimum wage in April 2009. This figure cannot be used to determine non-compliance, though, as there are legitimate reasons for paying below the minimum wage, for example the exemption for apprentices or deductions for the accommodation offset.

7.9 While some may legitimately be paid less than the minimum wage, there will also be workers who are not receiving the minimum wage and who do not show up in the official statistics, such as those working in the informal economy. These workers are likely to be the most vulnerable to underpayment and exploitation.

7.10 Table 7.1 shows that nearly 35,000 enquiries were received by HMRC's helpline during 2008/09. This was a reduction of 26 per cent on 2007/08 and a reduction of 33 per cent on 2006/07. It is not clear why there was such a substantial reduction in 2008/09. One reason is likely to be greater use of technology in disseminating guidance (minimum wage guidance is now on the Directgov and Business Link websites) and the introduction of an online decision-making tool and National Minimum Wage calculator.

7.11 In 2008/09 the number of cases closed decreased marginally on the previous year but the number of cases of non-compliance increased slightly. There was an increase in the strike rate (the percentage of cases investigated where non-compliance was found) from 36 per cent in 2007/08 to 40 per cent in 2008/09. The average arrears per worker for all cases in 2008/09 was £193. This was slightly down on 2007/08, even though the total arrears identified increased by 15 per cent over the same period. Although the cases of non-compliance increased by only 6 per cent in 2008/09, the number of workers not paid the minimum wage increased by 21 per cent. This indicates that there was a greater proportion of cases of non-payment covering large numbers of workers.

Table 7.1: National Minimum Wage Enquiries and Complaints to HMRC, Enforcement Action Taken, and Incidence of Non-compliance Identified, UK, 2006/07–2008/09

	2006/07	2007/08	2008/09
Enquiries received by the helpline	52,078	46,849	34,704
Complaints of underpayment	2,210	3,231	2,521
Enquiries completeda	4,500	4,525	4,317
Cases of non-compliance	1,523	1,650	1,746
Strike rate (per cent)b	34	36	40
Enforcement notices issued	71	59	96
Penalty notices issued	2	25	30
Value of underpayments identified (£ million)	3.0	3.9	4.5
Average arrears per worker (£)	214	202	193
No. of male workers	4,989	10,475	11,757
No. of female workers	9,200	8,789	11,490
Total workers	14,189	19,264	23,247

Source: HMRC, UK, 2006–2009.
Notes:
a. Enquiries completed are the number of cases closed after an inspection has been made.
b. The strike rate is the percentage of the cases investigated where non-compliance was found.

7.12 It is difficult to draw any firm conclusions about the extent of non-compliance from these data. Other than a dramatic fall in the number of calls received by the helpline in 2008/09, the figures remained relatively constant. The strike rate was between 34 and 40 per cent, the number of enquiries completed was constant and the average arrears per worker were around £200 (although the total arrears and number of workers fluctuated).

7.13 The data supplied by the Government provide an overview of the outputs of the enforcement activity of HMRC. However, there has not been any assessment as to the actual extent of non-compliance, either in the formal or informal economy. We believe that the Government's new compliance strategy should be founded upon a clear understanding of which are the low-paying sectors and jobs, and who are the lowest paid and most vulnerable workers. This can then be used to inform the measures of compliance and the success of the enforcement regime.

'It is essential that non-compliance is punished and seen to be punished by appropriate and proportionate means.'

CBI evidence

Recommendations in the 2009 Report and Further Action

7.14 In our 2009 Report, we made three recommendations to the Government on enforcement. The Government accepted two of these: that a 'name and shame' policy should be put in place to expose those employers who show a wilful disregard for the minimum wage; and that the Government gives urgent consideration to measures that can be taken to effectively tackle employers in the informal economy. The Government noted the third recommendation: that the Government allocates sufficient resources to HMRC to increase significantly the number of errant employers prosecuted in a criminal court.

Naming and Shaming

7.15 In its evidence to us this year, the Government said that it agreed that more should be done to expose those employers who showed a wilful disregard for the National Minimum Wage. It believed greater transparency of enforcement was appropriate, particularly as the minimum wage had been in place for ten years and was an established part of labour rights. In collaboration with HMRC, BIS is currently developing the policy for a greater transparency strategy.

7.16 We welcome the Government's acceptance of this recommendation and look forward to seeing details of the policy when it has been developed. We believe that effective publicity of non-compliance can act as a strong deterrent to others. The Government will need to give careful consideration to the criteria for who will be named, and also to how the impact of naming and shaming can be maximised. This process, we believe, should be undertaken as part of the new compliance strategy, which we report on later in this chapter.

'Cost pressures on the cleaning industry mean there is always the spectre of the informal economy.'

Cleaning and Support Services Association evidence

Informal Economy

7.17 We have previously raised concerns about the extent to which enforcement activity has tackled those in the informal economy who pay less than the minimum wage. We recognise that tackling those who operate in the informal economy requires extra time and resources and the results may not always reflect the effort put in. It is also understood that there is a small core of employers who deliberately do not comply with the minimum wage and, most likely, a range of other employment and tax requirements.

7.18 In its evidence this year, the Government advised that HMRC's National Minimum Wage Unit had been pro-active in sharing information with other parts of HMRC. It had been working with HMRC's Hidden Economy Group to develop a more focused approach to sharing information on the hidden economy. Procedures had been put into place to enable both teams to monitor and report on the outcomes of referrals. In addition, the National Minimum Wage Unit was building links with specialised units within HMRC, to share best practice and to look at the benefits of joint visits. It had also built up relationships with other regulators and the UK Border Agency.

'The present economic crisis may make more employers think they can avoid their statutory responsibilities over wages.'

Union of Shop, Distributive and Allied Workers (Usdaw) evidence

7.19 The Association of Labour Providers (ALP) told us that the informal economy was thriving because of the lack of enforcement. It believed there needed to be better joined-up enforcement. It also said that HMRC's enforcement concentrated on businesses that had records to inspect and where transgressions were often technical, rather than on areas or targets likely to be engaged in real evasion. The Association of Convenience Stores (ACS) said there was a strong informal economy, usually in family-run businesses. The Recruitment and Employment Confederation (REC) believed HMRC needed to take a more targeted approach to enforcement among businesses on the margins of legality rather than trying to find technical breaches in more visible sectors. Anecdotal evidence given to the Secretariat suggested there was an increase in cash-in-hand business, especially in the hairdressing sector.

7.20 As we have previously noted, the lure of the informal economy becomes greater during an economic downturn. We have not, however, received a lot of specific evidence this year about the extent of the activity in the informal economy. We welcome the efforts HMRC's National Minimum Wage Unit is making to work more closely with other parts of HMRC, and look forward to seeing the outcomes of this work. As the informal economy is an area that includes workers who are particularly vulnerable to underpayment and exploitation, we will continue to monitor closely what is reported, both from official sources and stakeholders.

Prosecutions

7.21 In noting the recommendation made in our 2009 Report, the Government recognised the importance of the role criminal prosecutions played in enforcing the minimum wage. It stated that prosecutions were focused on cases that would do most to promote compliance with the law by deterring employers who deliberately disregard minimum wage requirements.

7.22 In its evidence this year, the Government said that prosecutions were widely perceived to have a deterrent effect and that the right balance was needed between this form of deterrence and other forms, such as civil enforcement and greater transparency in cases of non-compliance. As part of its work on a new compliance strategy, the Government was looking at whether it was possible and appropriate to prosecute more National Minimum Wage offences. The Government was also examining its policy on civil and criminal enforcement to ensure that it gets the greatest impact from the budget available for enforcement.

7.23 In its evidence this year, Usdaw said there should be more high profile prosecutions and the Public and Commercial Services Union (PCS) said more prosecutions would send a stronger message to employers who tried to evade the law. The Trades Union Congress (TUC) wanted to see the number of prosecutions increased in order to raise employer awareness of the risks of getting caught cheating their workers out of the minimum wage. The CBI said the number of penalties and prosecutions should be increased over the next two years.

7.24 Our belief that it is necessary to see more criminal prosecutions for offences under the minimum wage legislation is well documented in previous reports and culminated in the recommendation we made last year. While we understand the Government is reviewing the mix of criminal and civil enforcement, we believe there remains a strong case to increase the number of prosecutions.

New Penalties and Fair Arrears Regime

7.25 Changes to the National Minimum Wage enforcement regime introduced by the Employment Act 2008 came into force on 6 April 2009. The aim of these changes was to improve and strengthen the minimum wage enforcement regime by providing more effective penalties to deter non-compliance, and a fairer way of dealing with minimum wage arrears. In our 2009 Report, we welcomed the introduction of these new provisions, as they resulted from previous recommendations we had made. Stakeholders also welcomed them and the fact that workers who had not been paid their minimum wage entitlement would receive fair arrears.

7.26 The Government reported that it was too early to evaluate the new regime, in particular how successful the new penalties and method of calculating arrears have been in influencing the behaviour of employers. Initial feedback it had received suggested that implementation of the new regime had not led to delays in completing cases and identifying arrears for workers paid less than the minimum wage.

7.27 The ACS expressed its support for a strong enforcement regime. However, it thought there should be some discretion with regard to the imposition of fines, for example, if it was a genuine mistake. The CBI also supported these new provisions and wanted the enforcement regime to incentivise compliance as well as providing disincentives to non-compliance. PCS, the trade union that represents HMRC's Compliance Officers, said that it was possible that HMRC's strike rate would drop under these new provisions; not because fewer employers were underpaying but because of the increased bureaucracy. Previously, arrears were agreed informally between HMRC and the employer, whereas now a formal Notice of Underpayment had to be made. We have also had a number of discussions with Compliance Officers during our visits around the UK and they confirmed that their flexibility to agree the amount of any arrears with employers had been removed.

7.28 It is early days for the new regime and some time will be needed for Compliance Officers to accustom themselves to the new arrangements. We would like, however, to see a firm commitment from the Government as to when it will undertake an evaluation of the new regime. In the meantime, the regime must be rigorously implemented and the desirability of any changes should only be considered if there is compelling evidence that changes are required, following a detailed review.

Compliance Strategy

7.29 As we have already noted, the Government's approach to compliance and enforcement has evolved over the last ten years in an effort to improve and enhance the enforcement regime. While these changes are welcome, what has become apparent this year is that while there is widespread support for effective enforcement, there is little understanding of the Government's regime and actions it is taking. A frequent criticism is that HMRC focuses on the easy targets and that it does not publicise what it is actually doing in relation to enforcement. While we support the Government's efforts to improve the enforcement regime, we believe it is time to review the overall strategy for enforcing the minimum wage.

7.30 We welcome, therefore, the Government's decision to take stock of its compliance activities, against the backdrop of the introduction of the new penalties and fair arrears regime. The Government said it wanted to look at the mix of activities undertaken by HMRC to ensure that it continued to get maximum impact from the resources and tools that it had available. BIS has, therefore, started work on a new compliance strategy, which will cover both enforcement and awareness-raising activities. Its work on this is ongoing and covers, among other things:

- the balance between civil enforcement and criminal prosecutions;
- the balance between reactive enforcement (responding to complaints) and proactive enforcement (investigating complaints identified by HMRC's risk assessment);
- the balance between initial enforcement and 'follow-up' activity;

- HMRC's risk assessment; and
- best practice in other enforcement areas.

7.31 It is important for the Government to consider carefully the balance between reactive and proactive enforcement and whether the level of resources put into investigating all complaints could be better used. The Government should also consider whether unannounced checks on employers, like those conducted by other government enforcement agencies, have a role to play in detecting non-compliance. In addition, we believe the risk assessment activity might be further refined to target areas of non-compliance more accurately, with the result that the activity of Compliance Officers will be redirected to greater effect. The TUC said this year that there was a strong case for shifting the emphasis more onto investing in enforcement so that complaints could be dealt with more swiftly and more inspections could be conducted on the basis of risk assessments.

'Enforcement action takes too long… many workers have moved jobs or left the country before a case can be completed.'

Unite oral evidence

7.32 While enforcement must be a key element of the new compliance strategy, this has to be inter-linked with actions taken to raise awareness among workers and employers of their rights and obligations under the National Minimum Wage Act. We believe there is generally good awareness of the minimum wage, but the Government should be proactive in targeting the areas where the most vulnerable workers are, and this has to be part of the new compliance strategy. We look at actions the Government has taken in raising awareness later in this chapter.

7.33 We understand that there is a need for confidentiality, particularly in relation to employers who may be exonerated after an investigation. We believe, however, there is scope for HMRC and the Government to be more open about what they are doing in relation to enforcement. At the moment, individuals report that they feel information provided to HMRC falls into a 'black hole'. As individuals are a vital source of intelligence, it is important that they understand that HMRC will make the best possible use of any information provided. As we noted earlier in this chapter, the Government itself believes greater transparency of enforcement is appropriate, particularly as the minimum wage has been in place for ten years.

7.34 We believe that the Government's review of its compliance strategy is timely and we have welcomed the opportunity to contribute to that review. We look forward to seeing the strategy set out clearly and publicly how the Government will use its resources to ensure all workers receive their entitlement to the National Minimum Wage. Looking ahead, we believe success for the Government will be shown by:

- its strategy for compliance and its enforcement activity being visible and widely understood;
- a free flow of information between enforcement bodies, which informs the strategy;
- an enforcement regime capable of tackling systemic and sectoral issues, as well as detecting individual businesses that do not comply;
- enforcement success being widely publicised to demonstrate that non-compliance is not tolerated; and
- annual statistics and evidence showing a measurable reduction in non-compliance as a result of Government action.

Resourcing Enforcement Activities

7.35 It is crucial that BIS and HMRC, give careful consideration to the best use of resources, to ensure that they are targeted where they will have the most impact. In 2006, the Government announced that funding for monitoring and enforcement of the minimum wage would be increased by 50 per cent (an additional £2.9 million) in each of the next 4 years.

7.36 In July 2009, the Communities Secretary announced that nearly 200 projects were to be supported over the next 2 years by the £70 million Migration Impacts Fund (MIF). Although mainly aimed at helping communities and local public services deal with the short-term pressures of migration, he also announced that the fund would be used to help protect existing workers through enforcing the National Minimum Wage. In December, the Government announced that MIF would resource a Dynamic Response Team for HMRC, which would work on the most high profile and complicated National Minimum Wage cases, particularly in areas where some employers were exploiting migrant labour to undercut legitimate businesses.

7.37 A number of trade union stakeholders have raised concerns this year regarding the funding for enforcement. Usdaw felt that the current economic circumstances might make employers think they could avoid their statutory responsibilities over wages and, as a result, called for more spending on enforcement. UNISON wanted additional funding to allow for more proactive and targeted enforcement. PCS wanted to see additional funding to allow for better policing and joined-up enforcement, as well as for more prosecutions.

'Funding for enforcement and awareness must be entrenched and increased...'

National Union of Students evidence

7.38 The TUC called for the 50 per cent increase in funding to be consolidated in the next spending period. The CBI, supporting our call for compliance and enforcement to continue to be a high priority for government, wanted to see the 50 per cent increase continue until 2011 so that companies that comply with the requirements of the National Minimum Wage Act were not undercut by unscrupulous organisations. The CBI also reported that its members view effective and thorough compliance checks and enforcement actions as vital to the success of the minimum wage regime.

7.39 We have received only anecdotal evidence that the recession has increased non-compliance with the minimum wage legislation. We know that the recession has had an impact on businesses and, in a move to reduce costs, some unscrupulous business owners might be lured into not complying with the minimum wage (and other employment) legislation.

7.40 Against this backdrop, and with the new regime in its earliest days, we believe it is imperative that resources allocated to enforcement activities are maintained. We therefore **recommend that the Government commits, as a minimum, to maintaining current funding in real terms for monitoring and enforcement of the National Minimum Wage until at least March 2014**.

7.41 We now go on to look at some of the other issues around enforcement on which we have received evidence this year.

Awareness

7.42 An important part of compliance with the minimum wage is ensuring that employers know what their legal obligations are and that workers are aware of their rights. We have previously made a number of recommendations in relation to awareness and these have been acted on by the Government.

7.43 This year, the Government reported that the overall aim for its 2008/09 publicity campaign was to increase minimum wage compliance. Some of the specific objectives were to: increase awareness of the minimum wage among workers, particularly new entrants to the employment market; promote the minimum wage helpline, including an explanation of its functions; and inform employers about the changes to minimum wage enforcement, in particular the new penalties and fair arrears regime. The campaign focused on workers and employers in low-paying sectors, young people and migrant workers. It included online advertising aimed at young workers, a direct mail-out and online campaign for employers, community messaging, washroom posters, and ATM advertising. The Government spent £850,000 across the range of campaigns.

7.44 Research undertaken for the Government studied the effectiveness of the 2008/09 campaign and compared it with the results of similar research for the 2007/08 campaign. It found that, despite a lower spend (£850,000 compared with £1.2 million in 2007/08), the total level of campaign recognition was not significantly lower than in 2007/08.

7.45 The Government advised that the 2009/10 campaign would run in conjunction with the vulnerable workers' campaign, whose objective was to raise awareness of all government-enforced employment rights to vulnerable workers. One important part of this was raising awareness of the new Pay and Work Rights Helpline as a source of additional information on these rights. The Government believed that working in conjunction with the vulnerable workers' campaign would produce a greater impact on the target audience by providing a more coherent package of messages.

7.46 In evidence this year, the GMB said the Government should use social networking sites and websites/organisations aimed at migrant workers to help raise awareness of the Pay and Work Rights Helpline. Usdaw said there was a lack of knowledge of minimum wage rates and that there should be a more vigorous awareness campaign. The YWCA would like to see more action around education of the minimum wage to ensure that young people and vulnerable workers were not exploited.

7.47 We are pleased to see that the Government continues to target its awareness-raising messages at those who need them. Efforts to raise awareness must continue to be focused on those groups which are particularly vulnerable and those which are hardest to reach. As we have noted earlier in this chapter, raising awareness will be an important element of the new compliance strategy. We note the work undertaken in this area and will continue to monitor progress.

Migrant Workers and Vulnerable Workers

7.48 In Chapter 4 we looked at the labour market position of migrant workers from European accession countries. Migrant workers have been identified as a group at particular risk of being paid less than the minimum wage. Over a number of years, the Government has taken specific steps in relation to enforcement to address the issues faced by migrant and vulnerable workers, particularly in relation to its awareness-raising campaigns. We have commented on the steps taken in previous reports.

7.49 We welcome that the Government is working on joined-up enforcement as we believe this will greatly benefit vulnerable workers. The VWEF reported in August 2008 and, since then, the Government has been implementing a programme to improve enforcement and awareness of basic employment rights for vulnerable workers, including the National Minimum Wage, under the backing of FEEB. FEEB brings the workplace enforcement bodies together with key external stakeholders on a regular basis to take forward work on the vulnerable worker programme.

7.50 There are a number of elements of the Government's programme, including the following.

- **A Single Enforcement Helpline.** Previously, there were five separate helplines about government-enforced employment rights, operated by five enforcement bodies. The new helpline has simplified and streamlined access to these bodies.

- **Joint working between the Workplace Enforcement Bodies.** The helpline operators are able to diagnose and refer issues that may be of relevance to more than one enforcement body. Enforcement bodies have been working more closely on multi-issue complaints, and considering joint investigations wherever possible.

- **Best Practice Group.** This was established in autumn 2008 to provide more collaboration at working level across the five enforcement bodies and build on the work of the 'single points of contact' network that had already been established. The group discusses operational issues relating to how the bodies work together on complaints referred by the new helpline, together with forward planning, training, and improving understanding of each other's functions, activities, and priorities.

- **Working with Local Authorities.** HMRC and the Employment Agency Standards Inspectorate (EAS) ran a 12-month pilot with Newham Borough Council to encourage local council inspectors to pass on suspicions of non-compliance with the minimum wage and employment agency standards. As a result of the evaluation, HMRC is working with Newham Borough Council on shadowing opportunities for the inspectors to improve their understanding of the potential indicators of non-compliance with the minimum wage.

7.51 We welcome the actions the Government is taking to protect vulnerable workers from exploitation. We will monitor progress on these actions over the coming year and we urge the Government to keep these high on its agenda.

Agency Workers and the Employment Agency Standards Inspectorate

7.52 In Chapter 4 we reported on some of the issues around agency workers. In this section we look again at agency workers, specifically in relation to enforcement.

7.53 The EAS enforces employment agency legislation. The Conduct of Employment Agencies and Employment Business Regulations 2003 (The Regulations) require agencies, among other things, to ensure that agency workers are paid in full and on time.

7.54 In our 2009 Report we commented on a number of changes that were happening, which would have an impact on the treatment of agency workers. The number of EAS inspectors had doubled, from 12 to 24, and changes that came into force through the Employment Act 2008 increased the EAS's powers of investigation (e.g. access to bank and other financial records) and the ability to issue stronger penalties.

'The law is good in principle but it is not working. It is being abused on a scale that has become accepted as the norm.'

Broadcasting Entertainment Cinematograph and Theatre Union oral evidence

7.55 The Government advised this year that it had received a number of complaints regarding the changes to The Regulations that came into force in April 2008. The changes banned entertainment and modelling agencies taking fees on the day or during a casting session, and introduced a seven-day cooling-off period, during which time a work-seeker could withdraw from any contract. In response to these complaints, the Government launched a consultation proposing either to ban up-front fees or to tighten The Regulations. In November 2009, the Government announced that, as a result of its consultation, it would ban agencies charging up-front fees and that new regulations introducing this would come into force in October 2010.

7.56 The Government also advised that, as a result of the increase in the number of EAS inspectors and the changes to their powers, inspectors carried out regular blitzes on agencies operating in high risk sectors. So far in 2009/10, the EAS has prosecuted one person and retrieved £125,000 of workers' wages. This is more than double the amount of money retrieved in 2008/09.

7.57 Oxfam told us that there needed to be a stronger enforcement process and the current situation with four bodies dealing with employment law was confusing. It recommended that there should be a single labour inspectorate, incorporating the EAS into the Gangmasters Licensing Authority (GLA) or failing that, the remit of the GLA should be extended to cover the care, construction and hospitality sectors. The TUC said that a disproportionate number of minimum wage problems seemed to be associated with the practices of the less scrupulous employment agencies. While the regulation of most of these falls to the EAS, the TUC said the Commission should consider how the EAS and HMRC were currently working together to ensure that the minimum wage was fully enforced in this sector.

7.58 In Chapter 4 we have explained the problems faced by those employed by agencies, particularly in the entertainment and hotel cleaning sectors. From the evidence we have received, we do not believe that changes to the minimum wage legislation are required. Instead, as we have recommended, guidance should be issued for those in the entertainment sector and HMRC should focus its enforcement activity in the hotel cleaning sector. More generally, we believe that as a result of the forthcoming compliance strategy, HMRC should be able to be more adaptable and responsive in enforcing the existing legislation, particularly where problems are highlighted (for example, in relation to unpaid work experience).

Gangmasters Licensing Authority

7.59 The GLA was set up in April 2005 to curb the exploitation of workers in the agricultural, horticultural, shellfish gathering and associated processing and packing industries. The GLA has been processing applications for licences from labour providers since April 2006. It became an offence to operate without a licence in October 2006 and there are stiff penalties for doing so.

7.60 The GLA's Licensing Standards, against which licence applications and subsequent compliance inspections are assessed, were revised and updated in April 2009. They include key areas of interest to us, such as the payment of wages, improper deductions and workers' accommodation. In addition to its own compliance teams, the GLA works closely with other government departments and agencies to share intelligence to ensure legal requirements are met and enforced.

7.61 Since it began operations, the GLA has licensed around 1,200 labour providers. Over 100 licenses have been revoked (8 with immediate effect). There have been 4 prosecutions for operating without a licence and 1 prosecution for using an unlicensed gangmaster. The GLA has advised more prosecutions will be forthcoming.

7.62 At a meeting with the Secretariat, the ALP said it would like to see the GLA given the job of enforcing the National Minimum Wage, as in practice it was doing a better job than HMRC among the businesses it licensed. UNISON said the remit of the GLA should be widened to include other sectors with a high proportion of migrant and/or vulnerable workers. Unite said the GLA's remit should be extended into construction, hospitality, social care and the betting and gaming sectors.

7.63 There has been a positive impact from the GLA on the sectors it regulates in a relatively short period of time. Its impact, however, goes wider than this, with organisations again this year calling for the GLA's remit to be extended to other sectors. We welcome the wide publicity the GLA gives to its activities, for example, frequent press notices regarding operations it has undertaken or details of licences revoked.

The GLA is a member of FEEB and the sharing of information and best practice as a result of the work of this group will, we believe, be of great benefit to other enforcement bodies.

Conclusion

7.64 The National Minimum Wage has been in existence for ten years and since it was introduced, HMRC has been undertaking the enforcement function on behalf of the Government. During this time we have made a number of recommendations on ways to enhance and improve the enforcement regime and the Government has reacted positively to what we have said.

7.65 In this chapter we have recognised and highlighted some positive developments that have taken place in relation to compliance and enforcement, in particular the work being done to increase awareness. We have also highlighted a number of concerns that have arisen as we have gathered evidence this year. Some of these concerns relate to how HMRC is perceived to be operating, rather than specific functions it is carrying out.

7.66 Given what we have seen and been told this year, the Government's decision to establish and publicise a new compliance strategy is welcome. To be effective, we believe the strategy should clearly set out how the Government will use its resources to ensure all workers receive their entitlement to the National Minimum Wage. In future years, as a result of the strategy, the Commission believes there should be: a more flexible enforcement regime which can tackle systemic and sectoral issues; wider publicity of enforcement success; and a measurable reduction in non-compliance through government action. We will monitor closely the effectiveness of the actions taken by the Government as a result of the new strategy.

7.67 It is important that the new strategy is publicised, along with an annual report of actions taken by HMRC, to increase transparency of the enforcement regime. In addition to issues highlighted in para 7.31, we believe it should be possible to provide more information on what is being done, and that greater openness and transparency could be achieved without compromising confidentiality.

7.68 Linked to the work on the new strategy, we look forward to seeing in the coming year the Government's policy on naming and shaming and the outcomes of the work to tackle the informal economy. We remain concerned at the low number of prosecutions and believe it is important that a timescale is given as to when an evaluation of the new penalties and fair arrears regime will be undertaken.

7.69 To underpin all this work, it will be necessary for sufficient funding to be in place. This is why we have recommended that funding for enforcement is maintained in real terms at its current level until at least 2014.

7.70 In the next chapter, we conclude our report with our analysis of the economic climate and stakeholder views on the minimum wage rates for 2010. We close with our recommendations on the adult minimum wage, Youth Development Rate, 16–17 Year Old Rate, and the level of the accommodation offset.

Chapter 8
Setting the Rates

8.1 In recommending the rates for 2010, in addition to our analysis of the recession and the impact of the minimum wage on earnings, employment and competitiveness, we have taken account of the prospects for the economy, international comparisons of the minimum wage, the views of stakeholders, and forthcoming changes to government regulations.

Impact of the National Minimum Wage and the Recession

8.2 In the first five chapters, we have given our analysis of the impact of the recession on the economy and investigated how firms and workers had been affected by changes in the minimum wage.

8.3 We noted that the UK has suffered its longest and deepest recession since at least the 1930s with a total loss of gross domestic product (GDP) of around 6 per cent since the first quarter of 2008. Expenditure has been weak across the economy with business investment declining sharply, consumer spending falling and the growth in government spending slowing. The recession has been spread across the economy but manufacturing has been worse hit. Although the distribution sector has been adversely affected, retail sales, particularly for food stores and online shopping, have held up. Hospitality, on the other hand, has been severely hit as consumers switch from eating and drinking in restaurants and bars to consuming food and drink at home.

8.4 In contrast to previous recessions, when the percentage falls in employment and hours were around twice the fall in output, the labour market this time has been remarkably resilient with employment and hours not falling as fast as output. This has therefore led to productivity falling sharply and unit wage costs rising. While this might suggest that firms still need to make further adjustments, the labour market actually started to show signs of improvement in the second half of 2009. Employment and total hours worked appear to have bottomed out; vacancies are no longer falling and have started to increase; both the ILO and claimant count measures of unemployment have stopped rising; and redundancies have fallen back sharply, although they remain higher than before the recession started.

8.5 Firms appear to have retained labour and have financed this by restricting wage growth, running down inventories and cutting investment. Real wage growth had been weak leading up to the recession and remains so, depending on the price comparator. Compared with previous recessions, private sector firms' financial balances are much healthier; profits, albeit lower than at the start of this recession, are higher; and there have been fewer insolvencies.

8.6 As with previous minimum wage upratings, the distribution of earnings was again affected by the minimum wage increase in October 2008 with the numbers paid at the adult minimum wage rising to a record high of nearly 750,000. The bite (the value of the minimum wage relative to the median) remained at just under 51 per cent. Our commissioned research found that the minimum wage did affect the earnings of the lowest paid but that the evidence on differentials was mixed with Stewart (2009) finding smaller effects than Butcher, Dickens and Manning (2009). As few data were available, we were unable to assess fully the impact of the 2009 minimum wage upratings. The 1.2 per cent increase was in line with median pay settlements, private sector and whole economy average earnings growth (including and excluding bonuses) and was between the increases in the two main measures of inflation (Consumer Prices Index (CPI) and Retail Prices Index (RPI)).

8.7 Our analysis, and commissioned research from Incomes Data Services (IDS, 2009b), showed that the minimum wage continued to be an important determinant of wages in the low-paying sectors and small firms. Overall, the decline in low-paying sector jobs was slower than in the whole economy throughout the recession, although there were variations across sectors. The falls in retail and hospitality jobs tended to follow a slightly shallower path than the whole economy. But the declines in jobs in cleaning and the manufacture of textiles and clothing were much deeper. In contrast, the number of jobs in social care, childcare and hairdressing increased.

8.8 Although the labour market has performed better than expected in the recession, young people have continued to fare badly. Relative to adults, the labour market activity of young people generally has been deteriorating since 2001, and since 1998 for 16–17 year olds. This decline has been exacerbated in this recession by greater falls in employment and increases in unemployment for young people than for older workers. There was also evidence that employers were making greater use of youth minimum wage rates for those aged under 21. Our analysis of other groups of vulnerable workers (women, ethnic minorities, migrants, disabled people and older workers) showed few signs of them being more adversely affected by the recession than workers in general. The one exception was those with no qualifications. Their labour market performance has followed a remarkably similar pattern to that of young workers, with a marked deterioration after 2001 made worse by this recession.

Economic Prospects

8.9 At our meeting in January 2010, the economy had been in recession for six consecutive quarters and the outlook remained uncertain. However, most indicators suggested that the economy was likely to have come out of recession in the fourth quarter of 2009.[1] The National Institute of Economic and Social Research (NIESR) estimated that the UK economy would grow by 0.3 per cent in the final quarter of 2009, but noted that this would still represent a fall in output of 4.8 per cent in 2009. It claimed that this would be a larger fall than in any one year during the Great Depression and the largest annual fall since 1921.[2]

World Economic Outlook

8.10 The world has suffered the most sustained and deepest global recession since World War II, with both advanced and developing economies affected. World economic growth was poor in 2009 with the International Monetary Fund (IMF) forecasting that world output will have fallen by 1.1 per cent and the Organisation for Economic

1 At the time we met, official data for the fourth quarter of 2009 had not been published.
2 Official quarterly data for GDP growth are not available before 1955. Pre-war annual data are estimates from NIESR.

Co-operation and Development (OECD) forecasting that world trade will have fallen by 12.5 per cent.

8.11 The United States, Japan and the largest countries in the Eurozone (Germany, France and Italy) are now out of recession after massive fiscal and monetary boosts to the system and a pick up in trade, as growth rates in China and India have returned to those prior to the recession. However, in the third quarter of 2009, the UK (like Spain, Greece and Iceland) was still in recession. IMF and OECD expected world growth to pick up in 2010 but with growth below trend in the United States (1.5–2.5 per cent) and weak in Europe (0.3–0.9 per cent). IMF forecasts UK output growth of 0.9 per cent in 2010, while OECD suggests that a pick up in investment and trade will lead to growth of 1.2 per cent in 2010 and growth of 2.2 per cent in 2011, supported by consumer spending.

UK Outlook for Economic Growth and Employment

8.12 This improvement in growth prospects was also reflected in the latest forecasts for the UK from the Bank of England and HM Treasury. In its November Inflation Report, the Bank of England forecast that the economy would come out of recession in the last quarter of 2009, and that growth would pick up towards trend by the end of 2010 and be above trend in 2011. This was in line with the latest HM Treasury forecasts as set out in the 2009 Pre-Budget Report (PBR), where the Government expected growth to pick up to 1–1.5 per cent in 2010 and 3.25–3.75 per cent in 2011. These forecasts squared with the consensus of City and independent forecasts for 2010 but were much higher than the current consensus for 2011 (around 2.0 per cent), as shown in Table 8.1.

8.13 The consensus outlook for 2010 is much brighter than for 2009 and it has improved over time. At the time of making our recommendations for the 2009 minimum wage upratings, the consensus forecast was that the economy would barely grow in 2010 after suffering a fall of over 3 per cent in 2009. As it turned out, the economy is likely to have shrunk by nearly 5 per cent in 2009 but forecasters have become more optimistic about the strength of recovery in 2010.

8.14 Despite rising optimism about the outlook for growth in 2010 it is still expected to be modest and may be volatile quarter-on-quarter. Two factors, in particular, could act to dampen the recovery. Unlike previous post-war recessions, this latest recession was driven by a financial crisis that has led banks to seek to rebuild their balance sheets, in turn reducing the finance available to business and domestic consumers. Although this particular drag on the economy should ease over time as banks' finances are restored, possible future actions to rein back the public deficit, for example by cutting public spending and/or increasing taxes, could also dampen demand.

8.15 On the other hand, there may be some offsetting upward pressures on private activity. Growth in 2010 is expected to be robust in the major developing economies and to return towards trend in the United States. This should benefit the UK as a major international financial and business centre. Furthermore, sterling is at a very competitive rate against the euro, and Europe is the UK's main export market. As the European economy recovers, British exporters should be particular beneficiaries. On balance, these are likely to be more important influences in 2011, when the consensus forecast is for growth to rise to around 2.0 per cent.

8.16 Overall, the immediate future outlook is for comparatively weak growth in 2010, strengthening somewhat in 2011. However, the future path is extremely uncertain, partly because of the factors mentioned above, but also because the eventual effect of the unprecedented global monetary easing of the last two years remains difficult to assess.

Table 8.1: Independent Forecasts and Actual Outturn, UK, 2009–2011

Per cent	Forecasts used in 2009 Report (March 2009)		2009 actual outturn	2010 latest forecasts (January 2010)	2011 latest forecasts (November 2009)[a]
	2009	2010			
Average earnings growth over the year	**2.7**	2.6	**1.3**[b]	**2.2**	
RPI inflation in the fourth quarter	**-2.1**	2.2	**0.6**	**2.9**	2.6
CPI inflation in the fourth quarter	**0.4**	1.5	**2.1**	**1.8**	1.6
RPIX inflation in the fourth quarter	**-0.1**	1.9	**2.8**	**2.4**	
GDP growth over the year	**-3.1**	0.4	**-4.8**[c]	**1.3**	2.0
Employment growth over the year	**-2.6**	-1.6	**-2.1**	**-0.7**	
Claimant unemployment total (millions) in the fourth quarter	**1.98**	2.36	**1.62**	**1.82**	1.88

Source: HM Treasury (March 2009 (median of forecasts for 2009 and 2010), January 2010 (median of forecasts for 2010) and November 2009 (median of forecasts for 2011)) and ONS, GDP growth (ABMI); AEI including bonuses (LNNC); total employment as measured by workforce jobs (DYDC); claimant unemployment (BCJD), seasonally adjusted, RPI (CZBH); RPIX (CDKQ); and CPI (D7G7), not seasonally adjusted, UK (GB for AEI), 2008–2009.
Notes:

a. 2011 forecasts for average earnings growth, employment growth and RPIX not available.
b. Estimate of average earnings growth based on January to November 2009 compared with the same period a year earlier.
c. Estimate of economic growth based on NIESR estimates, current forecasts and LPC extrapolations.

8.17 Although we have noted that the labour market appears to be recovering, the latest consensus forecasts are that the slow growth expected in 2010 may not be accompanied by a pick up in employment or reduction in unemployment in the short-run. Employment, as measured by workforce jobs, fell by 2.1 per cent in 2009 and the median forecast is for a further 0.7 per cent fall in 2010, despite the expected upturn in growth. This fall of around 215,000 jobs is in line with the anticipated increase in unemployment from 1.62 million to 1.82 million. However, the median forecasts for 2010 have been revised downwards over the year and no longer predict claimant count unemployment rising above 2 million. Further, the latest forecasts diverge widely and may not reflect the improvement in the labour market towards the end of 2009.

UK Outlook for Prices and Pay

8.18 Looking at the outlook for prices and pay, we noted in Chapter 2 that inflation on all the main measures fell during the early part of 2009, but started to rise again from June onwards in the case of RPI and RPIX (RPI excluding mortgage interest payments), and from September onwards in the case of CPI. Two factors explain this upturn and are likely to continue to be influential in determining inflation rates in 2010. First, the effects of downward pressures on the indices in 2009 from lower energy and transport prices, the Value Added Tax (VAT) reduction, and, in the case of RPI, cheaper housing costs, will steadily weaken. Second, prices have started to rise again across a broad range of areas; in fact, prices rose in 10 of the 12 components making up the CPI in December. In addition, the reduction in VAT in December 2008 was reversed from 1 January 2010 and could add up to 1.5 percentage points to the rate of CPI inflation (or 0.9 percentage points in the case of RPI). This will depend on the extent to which the increase is passed on to customers. A survey of retail and leisure firms by the Bank of England regional agents found that most were not intending to pass on the full increase.

8.19 Inflation is consequently expected to rise in the first half of 2010. It is, however, then expected to fall back later in the year. In the case of CPI, the Governor of the Bank of England (King, 2010) said that the impact of technical and price effects could push CPI above 3 per cent for a while – or even higher – before easing. The consensus median of independent forecasts collected by HM Treasury has CPI at 1.8 per cent for the fourth quarter of 2010, close to HM Treasury's own forecast contained in the December PBR. RPI is expected to rise more sharply and to move above CPI, peaking in the summer. It is also expected to fall back later in the year, with the median forecast for the fourth quarter at 2.9 per cent (above HM Treasury's PBR forecast of 2.5 per cent). In part, the forecast paths for these measures reflect the steady decline in the various recent upward pressures on the indices as the year progresses, thereby mirroring the waning downward pressures on the indices apparent from last summer onwards. However, recent price volatility, continued economic uncertainty, and the, as yet, unclear implications of the Bank of England's quantitive easing programme, make forecasting inflation rates particularly difficult this year.

8.20 Inflation plays a role, along with affordability and considerations of retention and recruitment needs, in determining basic pay awards. Earnings depend not only on these awards but also on factors such as progression, hours worked, overtime and other pay premia. We start our analysis by looking at pay settlement data, which measure increases in basic pay rates. We then go on to look at prospects for earnings. Although there are no forecasts for settlements, a number of commentators have carried out surveys of employers' pay expectations in 2010. The general message of most of these surveys was that, where private sector employers were able to give an indication of their 2010 award, they expected some pick up in settlement levels, and the proportion implementing pay freezes would be lower than that registered late last year for the economy as a whole (a quarter to a third of all awards). Responses to surveys by IDS and Industrial Relations Services in the latter half of 2009 suggested that the median of private sector settlements in 2010 could fall in the range of 2–3 per cent, somewhat above the 1–2 per cent range they reported in the final quarter of 2009. A CBI survey published in November 2009 found that nearly half of respondents planned a pay freeze – a slightly lower proportion than in its 2008 survey – with only a quarter expecting an award at or above inflation. The Bank of England's agents reported in January 2010 that the pay outlook remained subdued, with many employers planning a pay freeze in 2010, but that there was a marginal increase in the proportion planning a positive award.

8.21 Discussions with pay researchers in January 2010 indicated that very few pay awards had yet been agreed for 2010, and that most of those were pre-determined stages of long-term pay deals. Researchers also noted that many pay bargainers were still undecided on the nature and level of their pay awards. It was, therefore, not possible to draw any firm conclusions about the shape and level of pay awards in 2010 from the existing settlement data.

8.22 The latest average earnings figures showed a marked difference in growth between the public and private sectors, with the former at 2.7 per cent for the three months to November 2009 and the latter at 1.3 per cent. The inclusion or exclusion of bonus effects made little difference to these figures. Historical analysis shows that public sector earnings growth might be expected to exceed that of the private sector at this stage of the economic cycle. However, the relationship should reverse as the economy picks up. Pay researchers suggested that settlement levels in the public sector would decline from this year, bringing down the rate of earnings growth. On the other hand, earnings growth in the private sector would rise if higher pay settlement expectations were realised. Some economic analysts anticipated a partial restoration of variable payments this year, particularly in the finance sector, which would lead to an increase in the earnings index including bonuses, particularly in the first few months of the year. Overall, forecasts suggested that whole economy earnings growth would be higher in 2010 than last year, with a median consensus expectation of 2.2 per cent for the year as a whole. This compares with an average rate of earnings growth of 1.3 per cent in the 11 months to November 2009. For the reasons outlined above, however, we would not be surprised if average earnings growth in 2010 turned out a little higher than currently forecast.

Implications of the Forecasts for Setting the Rates

8.23 The National Minimum Wage for adults increased in October 2009 to £5.80 per hour. If it increased further in October 2010 by the anticipated growth in average earnings (2.2 per cent over the year in 2010), it would rise to £5.93 per hour. If, instead, the minimum wage were to rise in line with the expected increase in prices (1.8 per cent (CPI) or 2.9 per cent (RPI) in the year to the fourth quarter of 2010), the adult minimum wage would be somewhere between £5.90 and £5.97 an hour, depending on the price index used. If the adult minimum wage were to rise in line with current median pay settlements (around 1.5–2.0 per cent in December 2010), it would rise to between £5.89 and £5.92 per hour in October 2010.

International Comparisons

8.24 In our deliberations, we also took account of the value of the UK minimum wage relative to that of other OECD countries with minimum wages. Any change in this value depends on three main factors – the degree to which countries raise their minimum wages; the extent of any change in exchange rates; and relative inflation rates. In terms of comparisons with other OECD countries in the last two years, these three factors have all contributed to a fall in the relative value of the UK minimum wage.

8.25 We start by looking at the increase in the minimum wage in terms of national currencies. The UK minimum wage rose by 1.2 per cent in 2009, similar to France and Japan (1.3 and 1.4 per cent respectively), but significantly lower than most other OECD nations. The largest increases occurred in Belgium (11.4 per cent), the United States (10.6 per cent) and Canada (7.8 per cent). A further 5 countries had increases ranging from 3.0 per cent in the Netherlands to 5.7 per cent in Portugal. In contrast, the minimum wage was frozen in both Australia and Ireland in 2009.

8.26 Since 2007, sterling has depreciated by over 20 per cent against a general basket of currencies (the Bank of England Exchange Rate Index). Over the year to December 2009, sterling has appreciated but still remains below its value in mid-2008 against the dollar, the euro and the yen. As a consequence, the value of the UK minimum wage in common currency has fallen relative to many other countries since we last looked at this comparison in our 2009 Report. For example, although the Irish have frozen their minimum wage since 2007, its value in pounds sterling using the exchange rate rose by 7.4 per cent from £7.18 to £7.71. Accounting for exchange rate movements, only Japan (with a 1.3 per cent rise from 701 to 713 yen) had a smaller minimum wage increase than the UK at 1.1 per cent. The highest increase was in Australia (23 per cent), despite a freeze (in AU$ terms), with the next highest in New Zealand (22 per cent), which increased its minimum wage by 4.2 per cent (in NZ$ terms).

8.27 Exchange rate comparisons do not fully reflect inflation in the various countries. Purchasing power parity (PPP) does take inflation into account. In terms of PPP, the Irish minimum wage increased its value in pounds sterling by 6.7 per cent from £5.09 to £5.43. In PPP terms, the UK had the lowest increase (1.2 per cent) with the next lowest Australia (1.5 per cent) and then France (2.6 per cent). The highest increases were in Belgium (12.8 per cent) and the United States (10.7 per cent).

8.28 In summary, the increase in the minimum wage in the UK relative to that of other countries tended to be at the lower end, whether we looked at national currencies or adjusted for exchange rates and inflation. The level of the UK minimum wage, however, remained towards the upper end in all these comparisons.

8.29 Another measure that is useful for international comparisons is the degree to which the minimum wage bites (its value relative to the mean or median) in different countries. On this measure the UK minimum wage has changed little in recent years and remains roughly in the middle of the 13 OECD countries that we study. Further details of minimum wages in other countries can be found in Appendix 3 (and Appendix 5 in our 2009 Report).

Stakeholder Views

8.30 We continue to seek views on the minimum wage from stakeholders including employers and their representative organisations, trade unions, and youth organisations. We conducted a formal written consultation over the summer of 2009 that was in two parts. The first part was on issues surrounding an apprentice minimum wage including an appropriate rate. The second part focused on the minimum wage, the rates for October 2010, and whether we should make provisional arrangements for 2011. In addition, we undertook a comprehensive programme of visits to individuals and organisations at eight locations in the UK. We heard oral evidence from key interest groups over two days in October 2009, and the Secretariat held informal meetings with interested parties throughout the year.

8.31 We received 59 responses to our general consultation and 52 to the apprentice consultation. Views were received from a broad range of sectors, from worker and employer representatives, from individuals, and from all the countries within the UK. A list of individuals and organisations that responded to our consultation, and gave consent for us to publish their names, can be found in Appendix 1. We pay considerable attention to the evidence gathered from our consultation exercise and this, alongside our analysis of macroeconomic and labour market data and commissioned research, helps inform our deliberations.

8.32 There were divergent views on the appropriate level of the adult minimum wage for October 2010. Of the 59 responses received on the general consultation, 36 gave a view on what the rate should be. Employers and their representatives asked us to exercise caution in reviewing the rates, given the current economic situation, with 12 recommending a freeze. Others, mainly unions and independent lobby groups, argued that minimum wage increases needed to be higher than inflation to help maintain or increase the real value of the income of the low paid. Most submissions remained silent on whether we should make a recommendation for the adult minimum wage in 2011, but of those who expressed a preference, all but Unite and the Communication Workers Union thought that it would be undesirable.

'…businesses cannot afford any increase in the National Minimum Wage, and any increase above zero per cent risks adding to the unemployment total.'

BCC evidence

8.33 A number of employer organisations recommended freezing the minimum wage because of economic conditions. The Association of Convenience Stores claimed any further increase in 2010 would be funded through hours being reduced or job cuts. The Federation of Small Businesses in its oral evidence said that the minimum wage should not be set at a level that deterred employment or growth and called for a freeze. The Association of Licensed Multiple Retailers (ALMR) said that there was real evidence of harm from minimum wage upratings. It proposed that the minimum wage should be frozen in 2010 and said it was not appropriate to recommend a rate for 2011. The British Chambers of Commerce (BCC) called for a freeze. It said that the minimum wage had to respond to the labour market and current economic conditions and a year of solid recovery was required before additional costs could be imposed on businesses. The Scottish Licensed Trade Association called for a freeze until there were 'green shoots of recovery'.

'Caution is required in the face of the worst labour market situation in many years – no rise is the right choice for workers and employers in 2010.'

CBI evidence

8.34 The CBI reported that the recession was comparable in severity to the 1980s and continued weakness in the banking sector could act as a drag on the economy over the coming years. It thought that the economic and unemployment outlook strongly supported the case for a freeze in the minimum wage. It added that we should avoid making decisions for 2011 due to current economic volatility.

8.35 The British Hospitality Association (BHA), British Beer & Pub Association (BBPA) and Business In Sport and Leisure (BISL) said that the hospitality and leisure sectors continued to be affected by the downturn with lower sales and employment levels. In oral evidence the associations said that some small businesses were struggling to pay wages and were heavily indebted. They called for a minimal increase in the minimum wage in 2010 arguing that any recommendations must assume that the climb from recession will be long and hard. They said no provisional rate should be set for 2011. The Food and Drink Federation argued that we should adopt a cautious approach when making our recommendations due to the uncertain economic climate.

8.36 The British Retail Consortium (BRC) said that although it appeared the worse of the recession was now over, the outlook for the retail sector in 2010 was still challenging with consumer spending expected to continue to fall well into 2010. It called for any increase in the minimum wage to be kept to no more than 0–1 per cent and proposed that it should not exceed 1.2 per cent. Morrisons urged us to keep any rise in the minimum wage consistent with inflation to help guard against the narrowing of differentials. It said any increase should not exceed 1 per cent.

8.37 In summary, submissions to us from employers were cautious regarding any rise in the minimum wage, because of the worsening economic situation. Some business organisations foresaw a fragile recovery in the economy; many cited subdued business investment and consumer spending as possible constraints to recovery. When employers proposed a particular figure for an increase in their written evidence, this generally ranged from a freeze to a 1 per cent increase. As we took oral evidence in October 2009, an increasing number of employer organisations proposed no increase in the minimum wage, citing ongoing difficult economic conditions. One organisation, the Unquoted Companies Group, recommended a reduction in the minimum wage of 1 per cent.

8.38 Trade unions recognised the slowdown in the economy but were more positive about economic recovery. Submissions from unions cited forecasts that predicted the economy would rise out of recession in 2010 and the peak of unemployment would have passed. In its written evidence, the Trades Union Congress (TUC) reported that the low-paying sectors, other than retail and hospitality, had performed better than the economy as a whole through the recession. It added that unemployment should have improved by late 2010 and that there were signs the retail sector was starting to recover. The TUC believed that, with the exception of the retail sector, the recession had most affected the finance, construction and manufacturing sectors and that minimum wage workers were spread thinly in these sectors.

'A target increase of 3.5 per cent could easily be managed without any detrimental economic or employment side effects.'

TUC evidence

8.39 The TUC thought that the adult rate of the minimum wage should be increased to £6.00 an hour in 2010. This would take into account average earnings, an increase in consumer demand and combating in-work poverty. It believed that the increase in the minimum wage could be managed without risking any detrimental economic or employment side effects. It said that there was a danger in setting the minimum wage too low, as well as too high, as this would create unnecessary in-work poverty, would have an impact on public finance, and restrain consumer demand which would otherwise aid recovery.

8.40 The TUC argued that although there had been reports of pay freezes, this had not been the general experience across the economy with the current crop of pay freezes largely confined to the finance, construction and manufacturing sectors. It said that despite the constraints on public sector pay, its members had negotiated pay settlements significantly higher than average earnings. It believed pay settlements and average earnings growth had been unusually low in 2009 but that the situation would change in 2010 as GDP growth was accompanied by a return to moderate inflation. It said that the Commission should wait until next year before recommending an increase for 2011.

'By increasing the wages of the lowest paid, money is being put in the pockets of those most likely to spend any additional income.'

Usdaw evidence

8.41 The Union of Shop, Distributive and Allied Workers (Usdaw) said that despite the recession, the overwhelming number of companies it had an agreement with continued to award pay rises. It believed that retail remained a vibrant sector of the economy where opportunities for employment continued to rise. It called for a 3.5 per cent increase in the adult minimum wage to £6.00 per hour in 2010. Usdaw said that increasing the minimum wage would be a small but important stimulus to boosting consumer spending at a time when the UK would be coming out of recession.

8.42 The GMB called for an above-earnings growth increase in the adult minimum wage in order to narrow pay inequality and help eradicate child poverty. It said that ideally the minimum wage should be increased to £7.00 an hour in October 2010 but in the current economic conditions it endorsed the £6.00 per hour recommended by the TUC.

8.43 Unite said that the fall in employment in the low-paying sectors was in line with that for the whole economy. It believed that the negative effects on the labour market were due to the recession and not the minimum wage. It called for the adult minimum wage to increase to

£6.69 an hour by October 2010 and close to £6.85 an hour by October 2011. These increases, it argued, would make up for previous small rises in the minimum wage. In its oral evidence Unite said that the rise should be at least higher than the average earnings growth forecasts in 2010, if the gap between the lowest-paid and average-paid workers in our society was not going to grow.

8.44 UNISON argued that in a recession the most vulnerable workers needed to be supported and the temptation to apply downward pressure on wages by freezing or restraining increases in the minimum wage should be avoided. It called for an adult minimum wage of £7.45 per hour arguing that the adult minimum wage should be set at a level to ensure an adequate standard of living for all workers.

8.45 The National Union of Rail, Maritime and Transport Workers (RMT) said that the minimum wage must be set at a significantly higher level to ensure that all workers were kept out of poverty. It wanted the minimum wage to be set at half male median earnings. The Public and Commercial Services Union said that as economic growth was due to return in 2010, an increase in the minimum wage could be absorbed by employers. It called for a minimum adult wage of £8.25 per hour, which it reported was around two-thirds of average pay.

8.46 In summary, trade unions argued that because the economic forecasts for the UK were positive in 2010, employers could afford a further increase in the minimum wage. Where specific rates were proposed by unions in their written evidence in summer 2009, they ranged from £6.00 to £8.25. Unions were keen to point out that the recession was not caused by the minimum wage. Some said that the minimum wage was not a talking point this year given the impact of the recession on the economy. Unions noted that the 1.2 per cent increase in the minimum wage in October 2009 was below average earnings growth and CPI inflation. Any decision to freeze the minimum wage would be regarded by trade unions as unfair when most employees continued to receive pay rises during the recession.

8.47 We received little evidence from employers and their representatives on youth rates this year. The BCC said that the recession had affected the employment of 16–17 year olds and proposed a separate consultation on whether a decrease in the 16–17 Year Old Rate would increase employment or training for this group. The BRC in its oral evidence said that although the Youth Development Rate was not heavily used there was evidence retailers were falling back on it during the recession. It said removing the youth rates would not have a large impact on the cost of employment but would affect some retailers' flexibility. The ALMR argued that youth and development rates gave members the incentive to embark on in-house training and it wanted youth rates to be retained. However, Morrisons said that the Youth Development Rate led to confusion and called for it to be abolished. It paid all employees over the age of 18 the same rate.

8.48 Trade unions and organisations representing young people called for the abolition of youth rates. The TUC called for an increase in the Youth Development Rate to £5.00 per hour and an increase in the 16–17 Year Old Rate to £3.69 per hour. It said that a modest increase in the youth rates would be unlikely to have any negative effect on young people's employment prospects. UNISON welcomed the move entitling 21 year olds to receive the adult minimum wage in October 2010 but called for the adult rate to start at age 16. It argued that lower age rates were discriminatory and did not reflect the value of the work young people did. The GMB called for the adult minimum wage to be paid at age 18. Unite said that ultimately it would like the adult minimum wage to be paid at age 16, and as a move in the right direction the adult minimum wage should start at age 20. The RMT called for the full adult rate of the minimum wage to be paid at age 16.

8.49 The YWCA said that the lower youth rates assumed that all young people had a family to support them, which was not always the case. It thought everyone from age 16 should receive the adult minimum wage in the long term. The British Youth Council said that youth rates did not take into account that young people have the same costs and responsibilities as others. It wanted a minimum wage to be paid to everyone aged over 16. The National Union of Students thought that all workers regardless of age should receive the adult minimum wage. It did not support the view that 16–17 year olds were less productive than older workers.

8.50 A number of employer organisations commented on the rate of the accommodation offset in their evidence. In its oral evidence the BHA, BBPA and BISL said that the current offset was too low and should be doubled to reflect the true cost of providing accommodation. The 50

Horticultural Employers' Association argued that it was vital to find a mechanism where investment could be made in accommodation to reflect the true cost of providing it. The National Farmers' Union called for the offset rate to be substantially increased to raise the standard of the accommodation provided. The Association of Labour Providers claimed that the current offset arrangements had resulted in most labour providers no longer providing accommodation as it was not economically viable. The ALMR wanted the rate to rise to £60 per week, arguing that the current disparity between the amount that can be deducted and that which would be available commercially acted as a disincentive to employers to provide accommodation. In contrast, the TUC and trade unions including Usdaw called for the increase in the accommodation offset to be in line with the increase in the adult minimum wage.

Consideration of Other Government Legislation

8.51 A number of employer organisations brought to our attention details of statutory changes which had been or are due to be implemented and that will affect their costs. These organisations said we should take these changes, and the pressures they will put on businesses, into account when considering increases to the minimum wage. Some of the regulatory changes referred to are listed below and we took these into account in our deliberations where appropriate.

- The 0.5 per cent increase in employer National Insurance Contributions in April 2011 (subsequently increased by another 0.5 per cent in the PBR in December 2009).
- The introduction of Personal Pension Accounts. These will commence in October 2012 and the scheme will be fully implemented by 2017.
- The implementation of the Agency Workers Directive (but this has been delayed by the Government and will not now be introduced until October 2011).
- The increase in statutory annual leave (although the last increase was in April 2009).
- Changes to the tips regime, which came into force in October 2009.

- The requirement for workers in some sectors to register with the Independent Safeguarding Authority.

Recommended Rates

8.52 Our report last year was published at a time of great volatility in the economy and labour market. Our recommendations reflected our caution in the face of that volatility. This year, uncertainty remains on many indicators. Forecasts for average earnings growth anticipate increased earnings, but while some commentators predict both increased earnings and a return to bonuses, others foresee continued wage constraint. It is judged that there will be volatility in inflation through 2010, with rises early in the year followed by falls in the latter part of the year, and inflation flat or falling in 2011. Opinion varies too on the speed of economic recovery. Although the consensus among forecasters now is that there will be economic growth in 2010 and 2011, the predicted strength of that growth varies considerably.

8.53 In discussion on this year's adult rate, the argument was made that the recession had been long and deep, with a significant downturn in the labour market. The return to growth was uncertain and could be weak at best. The fall in employment relative to output had not been as great as in previous recessions, so productivity had fallen and unit wage costs had risen. Business investment had been cut back significantly, which might hold back economic recovery. While tax deferrals had helped some businesses weather the storm, those payments would come due in the future, which would increase financial pressures. In addition, attention was drawn to the fact that wage freezes still formed a third of settlements and that there was wage constraint in the private sector.

8.54 On the other hand, it was argued that the low-paying sectors had performed better than the economy as a whole. Unemployment remained significantly below forecasts, and employment and hours had held up better than in previous recessions. Business confidence was rising and profits had held up comparatively well. Labour market indicators showed that the worst was behind us, with average hours and vacancies rising, and redundancies falling. Growth forecasts suggested the recession was over, with modest growth likely in 2010 and a more confident return to growth from 2011. Inflation was rising, as were average earnings. As inflation had hit the lowest paid harder, a significant increase to the minimum wage would ensure they would not suffer a real terms pay cut.

8.55 **On balance, we therefore recommend that the adult minimum wage should increase from £5.80 to £5.93 from October 2010.**

8.56 Although in long-term decline, the position of young people in the labour market has been adversely affected by the recession, with employment of young people falling significantly faster than that of their older counterparts. While the earnings of 21 year olds have continued to hold up strongly, the use of youth rates has increased for those aged under 21, and more young people than ever are falling within the coverage of the minimum wage. We judge it appropriate to treat young people differently to adults. **We therefore recommend that the Youth Development Rate should increase from £4.83 to £4.92 and that the 16–17 Year Old Rate should increase from £3.57 to £3.64 from October 2010.**

8.57 Historically, the relationship between the adult rate and youth rates has varied, but in the last two years the youth rates have increased in line with the National Minimum Wage. It has become increasingly evident that the employment prospects for younger workers have deteriorated consistently over a period of years, with a more substantial decline during the recession. The reasons for this long-term decline are complex and doubtless multi-faceted. The position of young people will be affected not only by their skill level and relative productivity, but also by the success of government programmes and social policy changes. The extent to which the minimum wage may have been a contributory factor remains unclear. However, coverage of young people within the youth rates has almost doubled in the last five years and young people's rates of pay have increased more slowly than those of adults. We are commissioning new research for our 2011 Report to enable us to understand better what is happening in these youth labour markets. The results of this research will importantly inform our recommendations in the future. At this time, without clearer evidence, we concluded that a larger change in the relationship between the youth and adult rates was not to be recommended.

8.58 In our invitation to provide evidence this year, we asked for more detailed information on the operation of the accommodation offset. Nothing was received that led us to conclude that substantial change to the current arrangements was necessary or desirable. We therefore believe that the offset should increase in line with the adult rate. **We recommend that the accommodation offset should increase from £4.51 to £4.61 per day from October 2010**.

8.59 In addition to recommendations for 2010, our remit this year asked us to make provisional rate recommendations as appropriate for 2011. In consultation, of those who expressed a view on whether a recommendation should be made for 2011, the overwhelming majority believed it was not appropriate at this time. When the Commission met in January there was emerging evidence that the economy was moving out of recession. The outlook remains uncertain but the consensus forecasts are that the rate of growth will increase in 2010 and 2011 and the labour market will improve. We do not yet believe that the trajectory is clear enough that we can confidently recommend the rates for 2011 and ask that we be given a new remit to consider those rates. In making those recommendations, the Commission's judgement will, as ever, be driven by the prevailing economic evidence.

Implications of the Recommended Rates

8.60 In assessing the likely impact of our minimum wage recommendations, we have looked at various factors, including coverage and bite (its value relative to average earnings), as well as changes to household income, wage bills and the Exchequer.

Coverage

8.61 The recommended increase in the adult minimum wage rate from October 2010, at around 2.2 per cent, is in line with the forecast increase in average earnings. The increases in the two youth rates are in line with the forecast change in consumer prices. If implemented, these changes are likely to cover a larger proportion of jobs compared with the proportion covered by the 2009 upratings (assuming earnings for low-paid workers grow in line with average earnings) and a smaller proportion compared with previous years when the upratings exceeded the growth in average earnings.

8.62 In April 2009, according to the Annual Survey of Hours and Earnings (ASHE), there were around 1.44 million jobs that paid less than the minimum wage rates we are recommending for October 2010. These were made up of 1.29 million jobs held by those aged 21 and over (5.3 per cent), 126,000 jobs held by 18–20 year olds (10.6 per cent), and 30,000 jobs held by 16–17 year olds (8.8 per cent).

8.63 In order to estimate coverage, we need to make assumptions about how the wages of the low paid would have changed in the absence of any minimum wage upratings. In other words, we need to estimate the real value of the October 2010 minimum wage rates at April 2009 (the date of the latest earnings data) by downrating using estimated wage growth. We use actual and forecast changes in prices or earnings to estimate this growth.

8.64 Assuming that 21 year olds would be entitled to the adult minimum wage from October 2010, in line with government announcements, and that the wages of the lowest paid would increase in line with forecast average earnings, we estimate that about 853,000 jobs or 3.5 per cent of all jobs held by those aged 21 and over would be covered by the new rate of £5.93 in October 2010, as shown in Table 8.2. If we assume instead that the wage growth of the lowest paid would match forecast price inflation, a smaller number of jobs would be estimated to be covered (as the growth in prices between April 2009 and October 2010 is expected to be higher than that of earnings) – between 177,000 and 741,000 jobs (0.7 to 3.1 per cent) held by the adult workforce, depending on the price index used. Using the earnings assumption, we estimate that the new adult rate for the minimum wage will achieve a slightly higher level of coverage than the £5.80 uprating in October 2009 (when 768,000 or 3.2 per cent of jobs held by those aged 22 and over were covered). Alternatively using prices, estimated coverage of the new adult rate would also be higher than for the previous year (136,000 to 170,000 jobs or 0.6 to 0.7 per cent using RPI or CPI respectively).

8.65 We have recommended increases for the Youth Development Rate and the 16–17 Year Old Rate from October 2010 that are slightly lower than our recommendation for the adult minimum wage: 1.9 per cent and 2.0 per cent for the Youth Development Rate and the 16–17 Year Old Rate respectively. These increases are roughly in line with the forecast increase in consumer prices.

8.66 Assuming that young workers' wages would increase in line with average earnings, we estimate that 91,000 jobs held by those aged

18–20 would be covered by the October 2010 Youth Development Rate, representing around 7.7 per cent of jobs held by these young workers. Based on the price assumption, the coverage would be lower and our estimates range from 31,000 to 38,000 jobs (between 2.6 and 3.2 per cent of all jobs held by that age group).

8.67 We estimate, based on the earnings assumption, that 23,000 jobs (6.7 per cent) held by 16–17 year olds would be covered by the October 2010 uprating. Using the price assumption, the coverage would decrease to between 12,000 and 14,000 jobs for this age group (between 3.5 and 4.0 per cent of jobs).

8.68 Overall, we estimate, therefore, that the total coverage of the recommended October 2010 upratings would be just under 1 million jobs (3.8 per cent of all jobs), if the wages of the low paid were to increase by the forecast growth in average earnings between April 2009 and October 2010. If they were to increase in line with predicted prices, we estimate coverage of between 220,000 jobs (0.9 per cent of all jobs) and 793,000 jobs (3.1 per cent of all jobs).

Table 8.2: Estimated Number and Percentage of Jobs Covered by the Recommended October 2010 National Minimum Wage Upratings, UK, 2010

October 2010 hourly minimum wage rates		Earnings basis	Price basis	
		AEI including bonuses	RPI	CPI
Adult rate (aged 21 and over)	**£5.93**	853,000	177,000	741,000
		3.5%	0.7%	3.1%
Youth Development Rate (18–20 year olds)	**£4.92**	91,000	31,000	38,000
		7.7%	2.6%	3.2%
16–17 Year Old Rate	**£3.64**	23,000	12,000	14,000
		6.7%	3.5%	4.0%
Total		967,000	220,000	793,000
		3.8%	0.9%	3.1%

Source: LPC estimates based on ASHE 2007 methodology, low-pay weights, UK, April 2009; ONS, AEI including bonuses (LNNC), seasonally adjusted, RPI (CZBH) and CPI (D7G7), not seasonally adjusted, UK (GB for AEI), April 2009 to October 2009; and HM Treasury (January 2010), UK, 2010.

8.69 As we discussed in Chapter 4, women were more likely than men to be working in low-paid jobs. Based on the earnings assumption, we estimate that the October 2010 adult minimum wage would cover around 310,000 jobs (2.5 per cent) held by men and 544,000 jobs (4.5

per cent) held by women. Using our alternative price assumption, we expect that up to 269,000 jobs (2.2 per cent) held by men and 472,000 (3.9 per cent) jobs held by women would be covered by the increase to £5.93. On all measures, jobs held by women aged 21 and over would be expected to make up just under two-thirds of all jobs covered by the 2010 October increase in the adult rate.

Position Relative to Average Earnings

8.70 The 'bite' of the minimum wage, that is its relationship to average earnings (measured at the median or the mean), is another way of assessing the impact of the minimum wage on the earnings distribution. In April 2009, according to ASHE, the median gross hourly earnings (excluding overtime) of all employees aged 21 and over (full and part-time) was £11.15 an hour. In order to properly compare median earnings with the October 2010 adult rate, we need to uprate it by the growth in average earnings (including bonuses), both actual and predicted. On that basis, the adult rate of £5.93 is expected to be about 51.7 per cent of estimated median earnings for those aged 21 and over (£11.48) in October 2010. This is slightly higher than the bite of the October 2009 rate of £5.80 for employees aged 22 and above (51.0 per cent), reflecting the impact of including 21 year olds in the adult rate. Without including 21 year olds, we estimate that the bite would remain the same (51.0 per cent).

8.71 Using the mean, we estimate that the bite in October 2010 would be around 40.0 per cent for employees aged 21 and over based on the earnings assumption. This is 0.3 percentage points higher than the bite at the mean for the October 2009 adult rate and the highest it has been since the introduction of the minimum wage. This again reflects the addition of 21 year olds to the adult rate. If it had continued to apply from age 22, the bite would have remained the same as last year.

Impact on Household Income

8.72 When the adult minimum wage increased to £5.80 in October 2009, gross weekly income would have been £203.00 for a 35 hour week. Using HM Treasury estimates for the 2009/10 tax year, this gross income would have been equivalent to a net income of £197.30 for a single person working full-time with no children (a net wage of £5.64 an hour for a 35 hour week). The corresponding amount for a couple with one child (one partner working and the other not) would have been around £306.41 (equivalent to a wage of £8.75 an hour for a 35 hour week).

8.73 Again assuming a 35 hour week, gross weekly income would increase by £4.55 to £207.55 following the minimum wage increase to £5.93 in October 2010. Taking into account the minimum wage uprating and the 2010/11 tax year, the net weekly income for a single person would rise by £2.29 to £199.59. For the one-child family, net income would rise by £4.34 to £310.75 (their gains would be higher including housing and council tax benefits). The effective hourly rate for the single person would be £5.70 and for a one-child family would be £8.88 an hour. In conclusion, a low-paid one-child family is expected to keep the increase in their gross pay in their take-home pay, whereas a single person is expected to lose around half. At this stage we are unable to assess the impact of the changes to the tax and benefit regime for 2011/12.

Wage Bills

8.74 We anticipate that the direct impact of our recommendations on the wage bill is likely to be limited as the recommended increase in the minimum wage is in line with the predicted rise in average earnings.

8.75 The lowest rates of pay in the public sector tend to be above minimum wage levels and, as we saw in Chapter 3, very few jobs in the public sector are paid at the minimum wage. We therefore expect a very small direct impact on the public sector wage bill from the recommended October 2010 rates. Given that many public bodies employ private sector firms under contract to provide services such as cleaning, our recommended increase may lead to a small indirect impact.

Exchequer Impact

8.76 An increase in the minimum wage can also affect the public sector through savings to the Exchequer resulting from increased tax receipts and reduced benefits. Table 8.3 is based on information supplied by the Government and illustrates our best estimates of the effects of the 13 pence increase in the adult rate of the minimum wage.[3] We estimate

3 The Government provided us with estimates of yield and savings for hypothetical increases to the minimum wage of 10 pence and 20 pence.

that in total the Government would gain around £238 million from the 2010 minimum wage uprating, nearly two-thirds of which consists of additional yield from income tax (£101 million) and National Insurance Contributions (£53 million) as the earnings of minimum wage employees increase. The Government would also stand to make savings from a reduction in Working Tax Credits (£35 million) and other benefits (around £48 million in total).

Table 8.3: Estimated Exchequer Yield and Savings from the Recommended 2010 Adult National Minimum Wage Uprating, UK, 2010/11

£ million	Exchequer yield and savings from the increase in the minimum wage to £5.93 in October 2010
Income Tax	101
National Insurance Contributions	53
Working Tax Credit	35
Child Tax Credit	13
Income Support	9
Housing Benefit	20
Council Tax Benefit	7
Total	**238**

Source: LPC estimates extrapolated from HM Treasury calculations using 10 pence increases based on Family Resources Survey 2007/08, uprated to 2010/11, UK, tax year 2010/11.

Notes:

a. The Family Resources Survey derives hourly wages from weekly income and hours worked, which overestimates the number of individuals on the minimum wage. As a result the Exchequer savings presented above are also likely to be overestimated.

b. These figures take account of changes in tax credits, benefits, taxes and National Insurance Contributions but do not take any account of likely behavioural change caused by an increase in hourly pay, such as changed levels of employment or hours worked.

c. The figures take no account of wage changes for those paid just above the National Minimum Wage or changes in Exchequer yield from business or indirect taxes.

d. The figures do not include the effect of the £25,000 disregard in tax credits, which allows income to rise between one year and the next by up to £25,000 before tax credits begin to be withdrawn. This means that the reductions in tax credits would in practice be significantly smaller, at least in the initial tax year.

Conclusion

8.77 Following two years of economic volatility, the outlook for 2010 and 2011 remains uncertain. Our recommendations this year have been guided by the evidence we have received and the data available to us. We continue to believe that the Commission's open and evidence-based approach is a strength and has contributed importantly to the success of the National Minimum Wage. We look forward to receiving our remit from the Government for future years.

Appendix 1
Consultation

We are grateful to all those people and organisations that helped us by providing oral and written evidence, and by organising or participating in visits and meetings. All organisations that participated, and gave consent for us to publish their names, are listed below.

50 Club Horticultural Employers' Association

A La Carte Recruitment Ltd

A/D/S Group

Agricultural Wages Board for England and Wales

Agricultural Wages Board for Northern Ireland

Alliance of Sector Skills Councils

Andrew Collinge Holdings Ltd

Anti Poverty Network Cymru

Apprenticeship Ambassadors Network

Association of Convenience Stores

Association of Labour Providers

Association of Learning Providers

Association of Licensed Multiple Retailers

B&Q

Bank of England

Barker Ross Recruitment

Barnado's

Batemans Brewery

BCA London

Bizzkidz Nursery

Blue Bell Public House Leicester

Brighton & Hove City Council

British Apparel & Textile Confederation

British Beer & Pub Association

British Beer & Pub Association Midland Counties

British Chambers of Commerce

British Furniture Manufacturers

British Hospitality Association

British Retail Consortium

British Security Industry Association

British Shops and Stores Association

British Youth Council

Broadcasting Entertainment Cinematograph and Theatre Union

BUPA Care Homes

Business In Sport and Leisure

Careers Wales

CBI

Central Council of Physical Recreation

Chamber of Shipping

Children's Rights Alliance for England

Citizens Advice Northern Ireland

Cleaning and Support Services Association

Clive Hurst

Clwyd Coast Credit Union

Communication Workers Union

Co-operative Travel

County Hotel Llandudno

Cross-Industry Construction Apprenticeship Task Force

Deganwy Quay Hotel Llandudno

Department for Employment and Learning Northern Ireland

Department of Enterprise, Trade and Investment Northern Ireland

Domestic Care Group

Donald Hirsch

Dr Michele Javary

Driver Hire

Dunoon Hotel Llandudno

EEF the manufacturers' organisation

Elgood's Brewery

Employers Forum on Age

English Community Care Association

Enterprise Inns

Equality and Human Rights Commission

Equity

Everards Brewery Ltd

Extra Care

Federation of Small Businesses

Food and Drink Federation

Forum of Private Business

Gangmasters Licensing Authority

GMB

Greggs Plc

Habia

Haze@No. 10

Her Majesty's Government

Highland Home Carers Limited

Imperial Hotel Llandudno

Independent Retailers Confederation

Institute of the Motor Industry

Institute of Payroll Professionals

Interns Anonymous

Inverness Chamber of Commerce

Inverness Citizens Advice Bureau

Irish Congress of Trade Unions

Ladkins Limited

Llandudno Hospitality Association

Local Government Employers

Londis

London Chamber of Commerce and Industry

London Citizens

Marine Hotel Llandudno

Mark Watson

MD Healthcare

Merseyside Employment Law

MITIE Cleaning and Environmental Services Ltd

Mr L A Spencer

NASUWT

National Apprenticeship Service

National Association of Master Bakers

National Care Forum

National Council for Voluntary Youth Services

National Council for Work Experience

National Day Nurseries Association

National Farmers' Union

National Farmers' Union Group North West Region

National Hairdressers' Federation

National Hairdressers' Federation West of Scotland Area

National Institute of Economic and Social Research

National Union of Journalists

National Union of Rail, Maritime and Transport Workers

National Union of Students

National Union of Teachers

Newspaper Society

No. 4 Hair Boutique

Northern Ireland Hotels Federation

Old School House Day Nursery

Oxfam

Poundland

Pound Road Stores

Primark Stores Limited

Prince's Trust

Public and Commercial Services Union

Rathbone

Recruitment & Employment Confederation

Rhyl City Strategy Community Interest Company

Robin Manners

Rural Shops Alliance

Scottish Association of Master Bakers

Scottish Council for Voluntary Organisations

Scottish Government

Scottish Grocers' Federation

Scottish Licensed Trade Association

Scottish Trades Union Congress

Semta

Shearings

Society of British Aerospace Companies

Southern Cross Care Home

South West Rhyl Communities First

Spotless UK

Staffline Group Plc

Strand Cleaning

Tesco Stores Ltd

Together Creating Communities

Total Labour Solutions

Trades Union Congress

UK Commission for Employment and Skills

UK Fashion and Textile Association

Ulster Farmers' Union

Union of Shop, Distributive and Allied Workers

UNISON

Unite

United Kingdom Home Care Association

Unquoted Companies Group

Wagon and Horses Public House Cambridge

Wales Council for Voluntary Action

Wales TUC Cymru

Welsh Assembly Government

West Rhyl Community Company

White Horse Child Care Ltd

Wm Morrison Supermarkets PLC

Yours Sincerely

YWCA England & Wales

Appendix 2
Low Pay Commission Research Reports

Overview

1 For this report, we commissioned nine research projects that covered: the impact of the latest increases in the minimum wage; the factors influencing young people's take-up of apprenticeships; the impact of the introduction of the 16–17 Year Old Rate; an investigation of the age-related aspects of the minimum wage; the interaction of the minimum wage with the tax and benefit system; the impact of the minimum wage on wage growth and differentials; and an investigation into the potential use of alternative modelling strategies to identify the impact of the minimum wage.

2 In previous reports, we have commissioned research to monitor and evaluate the impact of the latest National Minimum Wage upratings across firms in low-paying sectors, as well as assessing the potential impact of announced increases. The latest research by Incomes Data Services (IDS, 2009b) noted that over the past year employers had focused more on the impact of the recession than on increases in the minimum wage. Only a few employers noted the additional burdens on labour costs in the adverse economic climate. Hotels and the leisure sector appeared to have been most affected by the recession. IDS reported that many employers continued to move towards paying the adult rate at age 18 across many sectors, although youth rates continued to be used extensively in some sectors such as fast food, pubs and restaurants. That sector was also found to have been most affected by the increase in statutory annual leave entitlement.

3 IDS reported that, as a result of the minimum wage squeezing differentials, many retail firms had reduced the number of zones in their location-based pay structures. Among other firms surveyed, around a third claimed to have raised wages further up the pay scale to maintain differentials. However, in its panel of large organisations, where differentials had been squeezed sharply between 1999 and 2006, IDS found that the recent moderate increases in the minimum wage had enabled these large employers to widen differentials. It also noted that the long-term trend to incorporate premium payments into basic pay had continued.

4 Much of our research for this report was focused on the labour market behaviour of young people. Lawton and Norris (2010) investigated the pay of apprentices using focus groups of young people, and interviews with employers, training providers and careers advisers. They found wide variations in apprentice pay, with particularly low rates of pay for hairdressers, but noted that the current level of starting wages for apprenticeships did not appear to be a problem, as most apprentice places were oversubscribed. Indeed, most of the apprentices interviewed in this research used the Education Maintenance Allowance as a pay benchmark rather than the minimum wage. But pay was a common reason for non-completion, when alongside other factors such as the poor quality of training and low job satisfaction. Most apprentices, however, recognised the trade-off between low wages now and higher wages later on.

5 Some employers, particularly in hairdressing, claimed that a minimum wage for apprentices set above current levels would reduce the number of places offered, but the researchers argued it could raise the quality of training, if implemented alongside other reforms to the apprenticeship system. Further, the researchers believed that women would benefit more from an increase in apprentice pay as they tended to undertake apprenticeships in the lowest-paying sectors, such as social care and hairdressing.

6 Building on the econometric modelling in previously commissioned work by Dickerson and Jones (2004), De Coulon, Meschi, Swaffield, Vignoles and Wadsworth (2010) estimated the impact of the introduction of the 16–17 Year Old Rate in October 2004, and its subsequent large increase in October 2006, on the education, training and employment decisions of young people. They found no evidence of reduced participation in education in low-wage Local Authority areas compared with high-wage ones.

7 They also found little evidence that local wages played a role in the decision to remain in full-time education or start an apprenticeship. There was some limited evidence that young men with low qualifications may be more sensitive to wage changes but the decision to stay on in education or training depended mainly on academic ability, social class and other personal and family characteristics. Unemployment was also found to be a factor that acted to increase participation in education. They concluded that the decision to remain in education for 16–17 year olds had not been affected by the introduction of a minimum wage for this age group.

8 Dickens, Riley and Wilkinson (2010) used a regression discontinuity approach to examine the impact of the legislated wage increases at age 18 and 22. They compared labour market outcomes for those just a few months above and below the age of 18 and 22. Individuals a few months either side of these age thresholds are similar, except that those who cross the threshold are eligible for a higher minimum wage.

9 They found robust evidence that the employment rate increased at age 22, mirrored by falls in unemployment and inactivity. However, it was not entirely clear what mechanism was driving these results. The researchers suggested that this was a labour supply effect. When individuals turned 22 and became eligible for the adult minimum wage, which is around 20 per cent higher than the Youth Development Rate, they increased their effective labour supply. They concluded that implementing the adult rate at age 21 would be unlikely to have any adverse impact on employment for those aged 21.

10 Brewer, May and Phillips (2009) investigated the characteristics of minimum wage recipients and generally confirmed the findings of Bryan and Taylor (2004, 2006) and previous Low Pay Commission reports. Namely, minimum wage workers tended to be female, aged under 25, less educated, disabled, from a minority ethnic background (particularly Bangladeshi or Pakistani), living in social housing, and living in the north of England, Wales or Northern Ireland. They also tended to be part-time and concentrated in certain sectors such as hospitality or retail. As in previous research, this study also found that families with minimum wage workers were unlikely to be found at the very bottom of the working age income distribution, which was dominated by workless families. But for those families where the minimum wage was the main source of earned income (around 60 per cent of all families with a minimum wage earner), they were concentrated towards the bottom of the income distribution.

11 The main focus of their work was on the interaction of the minimum wage with the tax and benefit system. They found that significant numbers of minimum wage earners might benefit little in terms of additional income from increases in the minimum wage as they were subject to high marginal effective tax rates. As their incomes increase, benefits and tax credits were withdrawn. This was found to be particularly true for those towards the bottom of the income distribution. On the other hand, those with zero or low marginal effective tax rates (generally the very poorest and second earners in couples) kept more of any gains from minimum wage increases. The research also found that families with minimum wage earners gained more than other working families from reforms to the tax and benefit system between 1999 and 2007. Changes to the tax system between 2007 and 2011 were again expected to benefit minimum wage families, but the gains, compared with those for other working families, were likely to be much smaller than previously.

12 Another area of focus this year was the impact of the minimum wage on earnings. Building on the analysis in Swaffield (2008) that looked at the impact of the minimum wage on the wage growth of low-paid employees, Swaffield (2009) extended and updated this research to look at the impact of the October 2006 upratings. She found that, when the minimum wage increases were above average earnings, wage growth was raised above what it would have been without a minimum wage. However, when the minimum wage increase was smaller, employers managed to hold down wages and wage growth was less than it would have been in the absence of a minimum wage. She concluded that her results were consistent with the minimum wage regulating the annual wage growth afforded to low-paid workers.

13 Stewart (2009) investigated whether increases in the National Minimum Wage had effects on wages beyond those required to bring workers up to the new minimum. He used three different methods to identify these spill-over effects – individual wage changes, a comparison of wage quantiles and a comparison of estimated wage distributions. In each of these approaches, the observed wage distribution after the minimum wage increase was compared with a counterfactual distribution with no such increase. Analysing individual wage changes, he found that there was little evidence of any spill-over effects. However, he did find evidence of significant but limited spill-overs up to the lowest decile in 2001, from his comparison of wage quantiles before and after an increase in the minimum wage. Surprisingly, perhaps, he also found spill-over effects up to the 20th percentile for the October 2002 upratings.

14 Finally, he estimated wage distribution functions before and after an increase in the minimum wage. He assumed that, in the absence of the minimum wage, all wages would have increased by the observed growth in median earnings. Using a variety of robustness checks, he again found evidence of significant spill-overs from the October 2002 minimum wage upratings but not for other upratings. He placed less weight on these results and concluded that the first two approaches provided the most useful insights.

15 Butcher, Dickens and Manning (2009), in their analysis of the impact of the minimum wage on the wage distribution, found clear evidence that inequality had been falling at the bottom of the wage distribution since the introduction of the minimum wage. For the UK as a whole, over the period between 1998 and 2007, the researchers found modest spill-over effects. The minimum wage directly affected up to the 6th percentile, at which the spill-over effect was largest, raising wages by about 7 per cent more than in the absence of the minimum wage. This effect stretched up the pay distribution (wages were raised by about 4 per cent at the 10th percentile and still over 1 per cent at the 17th percentile). The effect was larger for women than men. Disaggregating these affects by area, they found that areas most affected by the minimum wage had even larger spill-over effects. In contrast to Stewart (2009), this suggests that spill-over effects may be larger than previously thought.

16 Most existing empirical work involves a comparison of labour market outcomes for those workers directly affected (the treatment group) with those for similar workers who are not affected (the control group). This approach typically assumes that there are no spill-over effects of the minimum wage to workers paid just above the minimum wage. Recent work on wage differentials suggests that this may not be the case. We therefore commissioned research that investigated alternative ways of modelling the impact of the minimum wage. Chowdry, Meghir and Shaw

(2009) provided a comprehensive literature review of structural equilibrium search models and investigated how the impact of the minimum wage on employment might be explored in such a set-up. They examined wage-posting models, and matching and bargaining models. The study found that such models had not focused on estimating the impact of the minimum wage in the UK.

17 The researchers noted that there was little to be learned from international experience as only two studies had allowed for ambiguous effects of the impact of the minimum wage. They then attempted to lay the foundations for future work in this area by specifying the desirable features of such models and exploring the available data that would be required to implement such a model. The study concluded that, despite limitations, sufficient data were available to estimate such a model in the UK.

Table A2.1: Low Pay Commission Research Projects for the 2010 Report

<table>
<tr><th>Project title and researchers</th><th>Aims and methodology</th><th>Key findings and results</th></tr>
<tr><td>Monitoring the Impact of the National Minimum Wage
Angela Bowring, Alastair Hatchett, Laura James, Simone Melis, Ken Mulkearn, Anna Warberg, Lois Wiggins and Louisa Withers
(Incomes Data Services, IDS)</td><td>IDS evaluated the impact of the National Minimum Wage across 173 organisations in 6 low-paying sectors. It looked at recent developments in these sectors, the impact of the increase in the minimum wage in October 2008 and the potential impact of the upratings in October 2009. IDS also looked at the impact of the recession on pay and employment in low-paying sectors. This research built on similar work conducted by IDS for previous Low Pay Commission reports.
The report was written in the autumn of 2009 based on research covering the period from September 2008 to September 2009.
The research methodology included the following.
Surveys of low-paying sectors: retail; housing and social care; childcare; hotels; fast food, pubs and restaurants; and leisure.
Interviews with HR managers in these sectors about pay increases, pay rates, changes to pay structures, and other pay and employment practices.
A time-series analysis of rates of pay for 15 companies since the National Minimum Wage was introduced 10 years ago.
An analysis of the lowest rates of pay in organisations across the economy.</td><td>Key findings included the following.
The fast food, pubs and restaurants sector had the highest proportion of companies setting their lowest rate of pay at the level of the National Minimum Wage.
Around 55 per cent of surveyed organisations had to increase their lowest rate of pay in order to comply with the National Minimum Wage.
Employers focused more on the impact of the recession on their businesses than on the impact of the rise in the National Minimum Wage.
Around a third of surveyed firms claimed that wages had risen further up the pay scale as a result of the minimum wage. In retail, this had led to a reduction in the differential between geographic pay zones.
In its panel of large companies, differentials had risen slightly in the last 2 years to almost 5 per cent in 2008 following moderate increases in the National Minimum Wage.
The long-term trend across most sectors for employers to pay adult rates from age 18 onwards continued, although youth rates continued to be used extensively in some sectors such as fast food, pubs and restaurants.
Few employers said that an increase in the National Minimum Wage had affected training or development negatively.
The long-term trend to incorporate premium payments for bank holidays, weekend work and night work into basic pay continued.
The increase in statutory annual leave affected employers in the fast food, pubs and restaurant sector the most.</td></tr>
<tr><td>A Qualitative Study of Apprenticeship Pay
Kayte Lawton and Emma Norris
(Institute for Public Policy Research, ippr)</td><td>The research looked at how apprentice pay rates affected young people's decisions to start and complete an apprenticeship. It also examined employers' use of minimum wage exemptions and how they might be affected by an apprentice minimum wage. It was a qualitative study which sought to understand the different factors involved in complex decision-making, both by young people and employers. The focus of the research was on industries where apprentices were known to be relatively low-paid. It was conducted between July and September 2009.
It drew on three sources of original data.
Focus group research with current and former apprentices. This comprised 7 focus groups, with a total of 54 participants across various sectors and locations of the UK.
A survey of young people, which complemented the focus group research.
Interviews, with a total of 24 organisations: employers; training providers; careers advisers; and charities working with disadvantaged young people.
The central aims of the project were as follows.
To gain an insight into how apprenticeship pay rates differ across the UK, including by country, apprenticeship level, industry sector, age and gender.
To understand the importance of pay in the take-up and completion of apprenticeships relative to other factors (such as peer effects, family background and careers advice), and how this varies by gender, age, sector and country.
To investigate how employers might respond if there were a national minimum apprentice wage.</td><td>Key findings included the following.
Receiving a wage was a motivating factor for young people starting an apprenticeship, but was rarely the main reason for starting: some other factors, such as family influences, had a greater impact.
Where pay was considered, the EMA was most commonly used as a point of comparison and apprentices were satisfied they would receive more in work than in full-time education.
Most apprentices recognised the trade-off between low pay now and higher pay in the future.
There did not appear to be a strong case for introducing a minimum wage in order to increase demand from young people for apprenticeships: most places were oversubscribed. However, some evidence was found that a minimum wage may help to increase apprenticeship completion rates. Although low pay was not the primary reason for leaving, it was one factor, when alongside low job satisfaction and poor quality training.
A minimum wage for apprentices may also attract different kinds of people into apprenticeships, and may have an effect on the calibre of apprentice candidates.
There was a lack of clarity and understanding around minimum wage rules for apprentices. Introducing apprentice pay within the National Minimum Wage framework could help simplify pay arrangements and improve understanding and compliance.
Employers who made use of the apprentice exemption were very concerned about the potential impact of an apprentice National Minimum Wage on the supply of apprentice places.
A minimum wage for apprentices would have more of an effect on female apprentices and those in the main low-paying sectors, particularly hairdressing.</td></tr>
</table>

Project title and researchers	Aims and methodology	Key findings and results
Minimum Wage and Staying-on Rates in Education for Teenagers Augustin De Coulon, Elena Meschi and Anna Vignoles (Institute of Education), Joanna Swaffield (University of York) and Jonathan Wadsworth (Royal Holloway, London)	This research investigated the impact of the minimum wage on the decisions of young people to stay on in education or participate in work or training. It focused on 16–17 year olds. The researchers used secondary analysis of large data sets (Longitudinal Study of Young People in England; National Pupil Database/Pupil Level Annual School Census; Local Education Authority and School Information Service; Annual Survey of Hours and Earnings (ASHE); and Annual Population Survey). Building on the modelling used by Dickerson and Jones (2004), research we had commissioned for the 2004 Report, they analysed the decision to participate in education and training or to enter the labour market, using a multinomial probit model. They performed robustness checks by using different wage measures, econometric specifications and geographical units of analysis. The research evaluated the impact of the introduction of the 16–17 Year Old Rate using a differential impact approach and exploiting geographical variation. They defined high and low-wage regions, identified whether wages increased for 16–17 year olds (using kernel densities and regression estimates) and then evaluated whether the staying-on rates were affected in geographic areas where wages were lowest. Recognising the potentially conflicting impact of the introduction of the Education Maintenance Allowance (EMA) on 1 September 2004, a month before the introduction of the 16–17 Year Old Rate, they also looked at the large increase in the National Minimum Wage in 2006.	Key findings included the following. • There was no evidence that the introduction of the National Minimum Wage for 16–17 years olds in 2004 had any impact on participation in education. There was also no evidence that the large increase in 2006 had any impact on participation in education. • Overall, the decision to stay on in full-time education did not seem to be driven by the local wage available to 16–17 year olds. Rather the decision was mainly a function of academic ability, social class and other personal/family characteristics. • There was no evidence of reduced participation in general among youths in low-wage areas compared with high-wage areas. • However, in some of their analysis, they found evidence of wages affecting the staying-on decision, especially for males with low GCSE results. Pupils with low ability and from a low socio-economic group tended to be more sensitive to changes in local wages. • There was evidence that some characteristics of the labour market affected participation in education. A higher unemployment rate at the regional level significantly reduced the probability of being in employment and increased the likelihood of staying in education. • Although there was no evidence that the introduction of the 16–17 Year Old Rate had affected the decision to remain in education, the researchers noted that it was difficult to disentangle this effect from the introduction of EMA in September 2004.
The Impact on Employment of the Age Related Increases in the National Minimum Wage Richard Dickens (University of Sussex and Centre for Economic Performance, London School of Economics), Rebecca Riley and David Wilkinson (LLAKES Centre and National Institute of Economic and Social Research, NIESR)	This project revisited the impact of the National Minimum Wage on employment. It proposed a novel approach to exploit the age thresholds of the National Minimum Wage at ages 18 and 22. Some 22 year olds gain a pay rise of up to 20 per cent, and some 18 year olds receive a rise of around 35 per cent, as a result of this legislated change. The research focused on what happened to the probability of employment, unemployment and inactivity at these age thresholds. In this study, they used a regression discontinuity approach to examine the impact of qualifying for a higher minimum wage rate when an individual became either 18 or 22 years old. They compared the labour market outcomes for those just a few months before an age threshold with those just above it. They assumed that those a few months either side of an age threshold were similar, except that those above were entitled to a higher minimum wage than those below it. The research used the quarterly Labour Force Survey (LFS) as it contained the individual's actual birth date and the actual day of the interview. Those who were just above and below the age of 18 and 22 at the time of the survey were identified. The researchers pooled data from 1999–2009 to increase their sample sizes but argued that the relativities between the youth minimum wages and the adult rate had been similar over time. They tested robustness using different age thresholds, gender, skill levels, and data prior to the introduction of the National Minimum Wage.	Key findings included the following. • There was a positive and statistically significant change in probability of employment at the age of 22. Comparison of low-skilled individuals either side of their 22nd birthday, using quasi-experiments on impacts of the minimum wage, suggest a 5 percentage point rise in employment rate on turning age 22, from around 55 per cent to 60 per cent. • A plausible explanation for this result was a labour supply effect as young, unskilled people responded to a large pay rise by entering work more readily. • Around two-fifths of this rise was accounted for by a fall in unemployment and three-fifths by a fall in inactivity. • The results suggested a stronger employment effect for women (around 6 percentage points). The increase in employment for women was mainly achieved from a reduction in inactivity. There was little effect on unemployment. In contrast, the increase in employment for men was a result of declining unemployment rather than inactivity. • These results were robust to various specifications. • No labour market activity effects were found at age 21 or 23, nor was there any effect prior to the introduction of the minimum wage. • Comparison of low-skilled individuals either side of their 18th birthday were inconclusive. There were other regulatory changes that happen at this age and certain jobs were only available to those aged 18 and over. • The research concluded that there would be little harm in legislating to start the adult minimum wage rate at age 21 as the evidence did not suggest this would lead to deterioration in employment rates for young low-skilled people. It may even raise employment rates.

Project title and researchers	Aims and methodology	Key findings and results
Taxes, Benefits and the National Minimum Wage Mike Brewer, Richard May and David Phillips, (Institute for Fiscal Studies, IFS)	This project looked at the interaction of the minimum wage with the tax and benefits system. IFS used the Family Resources Survey (FRS), LFS and TAXBEN (IFS's tax and benefit micro-simulation model) to: • analyse the characteristics of those who earn the National Minimum Wage and families containing such individuals; • investigate the position of families with a National Minimum Wage earner in the working-age income distribution; • investigate the interaction of the National Minimum Wage with the tax and benefits system by calculating marginal effective tax rates (METRs) and participation tax rates (PTRs) for minimum wage earners, and compare these with those of other workers; and • see how reforms to the tax and benefit system in the period 1999 to 2011 affected or will affect National Minimum Wage earners and their families. The main dataset used was the quarterly LFS. The researchers pooled 4 quarters covering the financial year 2007/08. A later year was available but they used this to be consistent with the latest FRS (2007/08). In order to analyse the effect of the minimum wage on net income, information was required on different income sources and housing costs. Many of these were not available in LFS so were imputed from FRS using regression techniques.	Key findings included the following. • National Minimum Wage workers were more likely to be women than men, more likely to be aged under 25, but unlike findings from previous work, not likely to be part of a couple. In addition, they were more likely to be from a ethnic minority background, less educated than other workers and more likely (than other workers) to live in social housing. They also tended to be part-time and work in retail or hospitality. • Families where the main worker was paid the National Minimum Wage for their main job were concentrated towards the bottom of the working-age income distribution. • Workers earning the National Minimum Wage in their main job were more likely to have very low METRs (generally the very poorest or second earners in couples), and more likely to have very high METRs (those subject to means-tested benefits and withdrawal of tax credits), than workers paid more than the minimum wage. • Those with very low METRs gain the most (and those with high METRs the least) from an increase in the minimum wage. • Families containing National Minimum Wage earners gained more from changes in the tax and benefit system between October 1999 and April 2007 than other working families. • The expansion of means-tested tax credits between 1999 and 2007 increased the METRs faced by many minimum wage workers. • Proposed changes to the tax and benefit system between 2007 and 2011 have a much smaller distributional impact than those up to 2007, and so families containing a National Minimum Wage worker do not gain as much, relative to other working families, as they did in the earlier period (1999–2007).
Estimating the Impact of the 7th NMW Uprating on the Wage Growth of Low-wage Workers in Britain Joanna Swaffield (University of York)	This research attempted to address the question of what would have been the wage growth of employees directly affected by the minimum wage if the minimum wage had not been introduced or uprated. It extended and updated the analysis in Swaffield (2008) to the October 2006 upratings. She compared a group of employees that were affected by the minimum wage (treatment group) with a group of employees who were similar to the affected group but who were paid above the minimum wage (control group). Using ASHE and LFS, the researcher estimated difference-in-difference regressions for each of the first seven upratings to the National Minimum Wage. She used three measures of real wage growth – an absolute measure of wage change, a growth (or percentage) measure and a measure of the probability of receiving real wage growth. For each measure, the experience of wage growth of individuals directly affected by the minimum wage was compared (before and after the introduction/uprating of the minimum wage) with the experience of a similar group not affected in this way. The control group was defined as those paid less than 10 per cent above the forthcoming minimum wage. Various definitions of treatment group were used. A variety of sensitivity tests were carried out to check the robustness of her results.	Key findings included the following. • There was strong evidence that the probability of low-wage employees experiencing a real wage increase had been significantly increased over the minimum wage upratings periods compared with before its introduction. • However, whether actual real wage growth had been raised or not depended on the size of the minimum wage upratings in question. • She argued that this was consistent with the minimum wage upratings defining the annual pay review for employees within the lower end of the wage distribution and regulating the annual wage growth afforded to low-wage/minimum wage workers. That is, employers comply with the legally binding minimum wage but hold down or offset the wage growth that they might have awarded in periods of low minimum wage increases, possibly to compensate for future or past minimum wage upratings. • These findings appeared reasonably robust to additional sensitivity checks based on an alternative estimator (where differencing is across groups rather than time) and an alternative construction of the baseline difference-in-difference comparison group. • She concluded there was certainly some evidence to support the argument that the minimum wage upratings were defining the observed annual real wage growth of low-wage workers in Britain. It was important to note that the analysis in this report focussed on real wage changes (or growth) rather than levels. Thus even in periods where the observed real wage growth was found to be less than it may have been in the absence of a minimum wage, such as for the 3rd uprating in October 2002, this did not mean that individuals were worse off in terms of their actual wage levels.

Project title and researchers	Aims and methodology	Key findings and results
Testing for Spill-over Effects of the National Minimum Wage Mark Stewart (University of Warwick)	This research investigated whether the minimum wage upratings have effects on wages beyond the increases required to bring those previously below the new minimum wage up to it, and if so how extensive these 'spill-over' effects were. Three approaches were adopted to look at this issue. • Analysis of individual wage changes – he looked directly at the individual wage changes of those just above the new minimum and compared them with a counterfactual based on price inflation and average earnings increases. • Comparison of wage quantiles before and after an increase in the minimum wage – he used a method similar to Dickens and Manning (2004), comparing quantiles of the observed wage distribution with an estimated counterfactual 'compliance change' distribution. The vertical difference in the percentiles was then used for the quantile regressions that explored 'spill-overs' in greater depth. • Comparison of wage distribution functions before and after an uprating – he used a non-parametric approach to compare the observed wage distribution with an estimated counterfactual distribution constructed by making appropriate adjustments to the observed wage distribution before the increase. Data from ASHE were used to test whether the introduction of the minimum wage and subsequent upratings had led to any spill-over effects.	Key findings included the following. • Stewart found that the definition of the counterfactual wage distribution was crucial to his analysis. He noted that, not surprisingly, the estimates and tests of the spill-over effects were found to depend importantly on the assumptions made for the specification of the counterfactual. • In his analysis of individual wage changes, he found some evidence of spill-over effects when the base year used was 1999–2000 but not when it was 1997–1998. He found no systematic evidence of any spill-over effects and concluded that there was no evidence of spill-over effects at all for models with interaction restrictions. • In his comparison of wage quantiles before and after an increase in the minimum wage, he found significant but limited spill-overs up to the 6th percentile resulting from the introduction of the minimum wage in 1999. There was slightly stronger evidence of spill-overs up to the 11th percentile as a result of the 2001 upratings and up to the 20th percentile in estimates for the October 2002 upratings. Using an alternative counterfactual, the evidence on spill-overs was much reduced but was still around 1 per cent (up to the 20th percentile) for the October 2002 upratings. • Using comparisons based on the estimated wage distribution functions, Stewart found that there was some evidence of significant spill-overs from the October 2002 and October 2004 upratings. Under alternative counterfactual assumptions, the finding for 2004 disappears but significant spill-over effects remain for October 2002. • He expressed concerns about the wage distribution method and concluded that the individual wage and wage quantile approaches were more robust. However, these two approaches obtained conflicting results.
The Impact of the National Minimum Wage on the Wage Distribution Tim Butcher (Low Pay Commission), Richard Dickens (University of Sussex) and Alan Manning (London School of Economics)	Previous work on the impact of the National Minimum Wage on the wage distribution found little effect on differentials. However, more recent evidence (Butcher, 2005) showed relative wage increases for the bottom 20 per cent of workers suggesting some spill-over effects of the National Minimum Wage over a longer horizon or some other factors at work. Other work using the LFS (Dickens and Manning, 2006) also suggested much larger spill-over effects than had originally been found. The researchers investigated this issue further using data from ASHE, which was the only data source providing accurate pay data on a consistent basis over the period of the introduction of the National Minimum Wage. This research built on the model of spill-overs developed by Lee (1999) in looking at the increase in United States wage inequality in the 1980s and 1990s. The researchers estimated direct and spill-over effects at the aggregate level and separately by gender. They then estimated their model for around 135 areas that broadly captured local labour markets.	Key findings included the following. • The National Minimum Wage was introduced 10 years ago and, at about the same time, wage inequality at the bottom of the earnings distribution started to fall, having risen over the preceding 20 years. The falls relative to the median went up to the 25th percentile. It was tempting to assign this to the minimum wage but the minimum wage only directly affects around 5 per cent of employees. • The direct effect of the minimum wage had not been enough to explain the observed fall in wage inequality. However, allowing for modest spill-over effects, their model fitted the decline in inequality at the bottom of labour market reasonably well. • They found that the direct effect was largest at the bottom percentile, raising wages by nearly 30 per cent. This effect rapidly declined and only reached up to the 6th percentile. There were modest spill-over effects. It was largest at the 6th percentile, raising wages by about 7 per cent more than in the absence of the minimum wage, and stretched further up the pay distribution. At the 10th percentile it was 4 per cent and it was still over 1 per cent at the 17th percentile. • For women, the spill-over effect was greater and reached further up the distribution. It was largest at the 8th percentile and small effects were still observed at the 20th percentile. • They also found that areas most affected by the minimum wage, the lowest-paying areas, had the largest spill-overs with effects evident up to the 25th percentile. • They concluded that spill-over effects may be larger than previously thought and were much greater than any purely direct effect.

Project title and researchers	Aims and methodology	Key findings and results
Investigating the Impact of the Minimum Wage Regime on the Labour Market Behaviour of Young Workers: Moving Towards a Structural Dynamic Approach Haroon Chowdry, Costas Meghir and Jonathan Shaw (Institute for Fiscal Studies, IFS)	This research noted that most existing empirical literature into the impact of the minimum wage had been non-structural, involving some statistical comparison of labour market outcomes for those workers directly affected by the minimum wage with those who were not. There were, however, limitations to this treatment and control group (difference-in-difference) methodology. It typically relied on assuming that there were no equilibrium effects (that is, no spill-overs to workers just above the minimum wage and no substitution between different types of workers). Our commissioned research findings for this year and in previous years call this assumption into doubt. Instead, the researchers suggested using a structural dynamic approach, which they claim can incorporate the equilibrium effects above. They conducted a survey of the literature on dynamic structural models of education and the labour market and then investigated the availability of data required to estimate such models. Key insights were used to propose a detailed set of steps required to construct a model capable of answering the empirical issues around the impact of the National Minimum Wage on young people (and any other group for that matter).	Key findings included the following. • The literature review concluded that search and wage posting models could in principle be used to analyse issues around young people and the minimum wage. Nevertheless, most of these models to date have been too narrow in their focus for this purpose, with no insights given into the relationships between minimum wages and participation in education or training, or minimum wage age bands and substitution effects across different age groups. Furthermore, only a couple of models in the literature were actually able to allow for ambiguous effects on employment. Most imposed theoretical constraints that did not allow for a positive impact. A substantial amount of modelling work remains to be done to bring such models up to the level of sophistication required to address these issues. • The research laid the foundations for future modelling work by outlining the desirable features of a sufficiently detailed equilibrium search model and how they might be implemented. 1. Endogenous firm behaviour (both firm and worker behaviour determined within the model). The wage posting models seemed more suitable in this regard. 2. 'Agnostic' predictions about the impact of the minimum wage e.g. flexible predictions about the impact on employment. 3. Age-related minimum wage rates (and experience), by segmenting the labour market by age group or allowing different ages to compete with each other for jobs. 4. Education choices, by using segmented markets, or by treating workers with different skills as different labour inputs. • Such models could, in principle, be estimated from labour force panel data on employment/unemployment durations and wages, such as LFS or the British Household Panel Survey. • Because of the amount of modelling work required, the recommendations were necessarily tentative. But the researchers remained optimistic that it would be feasible to construct an advanced structural model of minimum wages and labour market outcomes for the UK.

Research Programme for the 2011 Report

18 We have commissioned the following projects to inform the recommendations in our next report:

- **International Survey of the Recent Literature on the Impact of Minimum Wages on Young People** Richard Croucher (Middlesex University Business School) and Geoffrey White (University of Greenwich Business School)
- **The Impact of the National Minimum Wage on the Labour Market Outcomes of Young Workers in a Recession** Juan de Dios Tena Horrillo (Universidad Carlos III, Madrid) and Jan Fidrmuc (Department of Economics and Finance and Centre for Economic Development and Institutions, Brunel University)
- **The Minimum Wage and Human Capital Accumulation of Young Low-paid Workers During an Economic Downturn** Gauthier Lanot (Keele University) and Panos Sousounis (University of the West of England)
- **An Evaluation of the International Experience of Minimum Wages in an Economic Downturn** Peter Dolton (Royal Holloway, University of London)
- **An Analysis of the Impact of the Minimum Wage by Size of Firm** Richard Croucher and Marian Rizov (Middlesex University Business School)
- **The Impact of the National Minimum Wage on Pay Setting Over the Economic Cycle: 1997–2010** Alastair Hatchett, Ken Mulkearn, Anna Warberg, Lois Wiggins and Louisa Withers (IDS)
- **An In-depth Assessment of the Impact of the Recession on the Distribution of Pay Settlements and Earnings** Peter Dolton (Royal Holloway, University of London), Gerry Makepeace (Cardiff University) and Andrew Tremayne (University of New South Wales, Australia)
- **Using Wage Council Data to Identify the Effect of Recessions on the Impact of Minimum Wages** Richard Dickens (University of Sussex) and Peter Dolton (Royal Holloway, University of London)

19 We have also re-tendered for the research on the relationship between productivity, earnings and age in the early years of a working life, and on pension provision in the low-paying sectors and among low-paid workers.

Appendix 3
Comparison of Minimum Wages in Other Countries

Introduction

1 Again this year, we looked at the level of the UK National Minimum Wage in comparison with the 12 countries that we have examined in previous reports, using data provided by British Embassies, High Commissions, and the Organisation for Economic Co-operation and Development (OECD) to whom we are very grateful for their continued assistance. Since 2007, the UK has experienced a depreciation in its exchange rate, which has reduced the value and purchasing power of the pound, resulting in a fall in the relative value of the National Minimum Wage compared with the minimum wage in other countries.

2 The recession has had a global impact and different countries have reacted in different ways. Australia and Ireland have frozen their minimum wage while others, including Canada, France and the United States have increased it. Little has yet been published providing global comparisons on the impact of the recession. To supplement the data above, we have asked for research into an evaluation of the international experience of the minimum wage in an economic downturn in our invitation to tender for the 2011 Report.

Value of the Minimum Wage

3 In Table A3.1 we provide a comparison of minimum hourly wage rates across the 12 OECD countries that we have looked at in previous reports, together with the UK, as at the end of 2009. We compare the monetary value of the minimum wage across countries by using exchange rates and purchasing power parity (PPP). The exchange rate, the price of one currency expressed in terms of another, generally reflects the costs of goods and services and financial assets that are traded internationally but does not take account of those goods and services that are not traded internationally. PPP measures the monetary amount needed to buy the same representative basket of consumer goods and services in each country. Differences in internal price levels mean that goods and services may cost more in one country than in another. PPP allows a more accurate comparison of standards of living across countries than exchange rates. To calculate PPP we used OECD Comparative Price Levels (OECD, 2009b) for September 2009, which were the latest data available.

4 The UK minimum wage remains 6th highest of the 13 countries we examined in terms of exchange rate, the same position as in the 2009 Report. In terms of PPP, the UK minimum wage is now 5th highest, a fall of 2 places since the 2009 Report. This is a result of a fall in the UK's exchange rate, which has reduced the value and purchasing power of the pound. The UK has experienced a depreciation in its exchange rate over the last two years, losing 20 per cent since 2007. This has led to a fall in the relative value of the UK minimum wage compared with the minimum wage in other countries.

Table A3.1: Comparison of Minimum Wage Levels[a], by Country, 2009

	In national currency expressed as hourly rate[b]	In UK £, using:		Date of last uprating	% Increase in national currency from 2008 to 2009	Age full minimum wage usually applies[e]
		Exchange rates[c]	PPPs[d]			
Australia[f]	AU$14.31	7.55	6.29	Oct-08	0	21
Belgium	€8.41	7.50	6.10	Oct-09	11.4	21
Canada[g]	C$9.08	5.14	4.90	–[h]	7.8	16
France	€8.82	7.87	6.40	Jul-09	1.3	18
Greece[i]	€4.13	3.68	3.48	May-09	5.3	15
Ireland	€8.65	7.71	5.43	Jul-07	0	20
Japan[j]	JPY713	4.78	3.62	Oct-09	1.4	15/18[k]
Netherlands	€8.07[l]	7.20	6.05	Jul-09	3.0	23
New Zealand	NZ$12.50	5.38	5.03	Apr-09	4.1	16
Portugal[m]	€2.59	2.31	2.38	Jan-09	5.7	16
Spain[m]	€4.89	4.36	4.08	Jan-09	4.0	16
United Kingdom	£5.80	5.80	5.80	Oct-09	1.2	22
United States	US$7.25[n]	4.44	4.77	Jul-09	10.6	20

Source: British Embassies, High Commissions and OECD Minimum Wage Database. LPC calculations of country minimum wage rates in pounds sterling using exchange rates and PPPs. PPPs derived from CPLs, OECD Main Economic Indicators, September 2009. Exchange rates, Bank of England monthly average spot exchange rate, September 2009.

Notes:

a. In all cases, the minimum wage refers to the basic rate for adults.
b. For countries where the minimum wage is not expressed as an hourly rate, the rate has been converted to an hourly basis assuming a working time of 8 hours per day, 40 hours per week and 173.3 hours per month.
c. September 2009.
d. PPPs derived by applying OECD Comparative Price Levels (CPLs) – ratio of PPPs for private consumption to exchange rates – for September 2009.
e. Exemptions and special rules apply in many cases. For example, in France and the United States the full adult rate applies to young workers with a tenure of more than six and more than three months respectively.
f. Federal minimum wage – hourly rate under Fair Pay Commission arrangements.
g. Weighted average of provincial/territorial rates.
h. Date of last uprating varies between provinces.
i. For blue collar workers.
j. Weighted average of prefectural rates.
k. Age 15 to receive the regional minimum wage. Age 18 to receive the sectoral minimum wage.
l. Excludes 8 per cent supplement for holiday pay.
m. Not including annual supplementary pay of two additional months of salary for full-time workers.
n. Federal minimum wage. Tipped employees receive a lower minimum wage of $2.13 per hour in direct wages.

Bite of the Minimum Wage

5 Table A3.2 shows minimum wage rates relative to full-time median earnings in each country (the bite). We believe the median, rather than the mean, is the most appropriate comparator because of the disproportionate influence a relatively few high earners can have on mean earnings. This information has been supplied by the OECD and is for the latest available period (mid 2008). The UK minimum wage as a proportion of median earnings was ranked in the middle of the 13 countries shown, a position unchanged from our 2009 Report. France had the highest bite at 60.6 per cent and the United States the lowest at 32.4 per cent.

Table A3.2: Adult Minimum Wages Relative to Full-time Median Earnings, by Country, 2008[a]

Country	Percentage
Australia[b]	
– LFS	52.2
– ES	49.0
Belgium	50.4
Canada	42.5
France	60.6
Greece[c]	44.9 (52.4)
Ireland	52.8
Japan	34.6
Netherlands[d]	42.5 (49.6)
New Zealand	60.0
Portugal[c]	40.3 (47.0)
Spain[c]	38.3 (44.7)
United Kingdom[e]	
– LFS	52.0
– ASHE	46.1
United States	32.4

Source: OECD estimates based on OECD Earnings Structure Database, minimum wages and median earnings for full-time workers, July 2008.

Notes:

a. In all cases, the minimum wage refers to the basic rate for adults. In some cases, the median earnings data for full-time workers for mid-2008 are estimates based on extrapolating data for earlier years in line with other indicators of average earnings growth. All earnings data are gross of employee social security contributions.

b. Two estimates of median earnings are available based on the Labour Force Survey (LFS) and an Enterprise Survey (ES). In each case, the data refer to weekly earnings. The minimum wage refers to the Federal Minimum Wage.

c. The ratio including annual supplementary pay of two additional months of salary is given in parentheses.

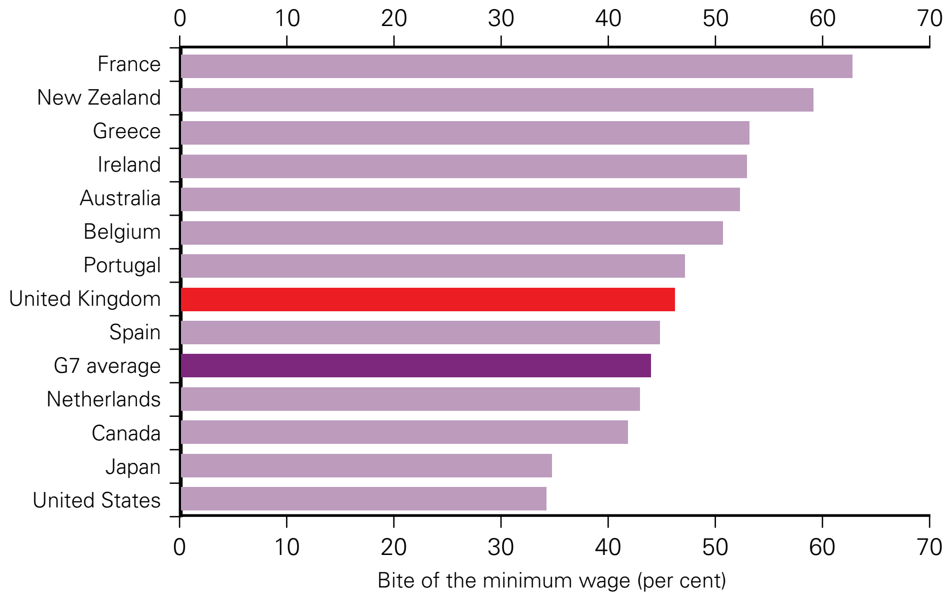
d. The ratio including 8 per cent supplement for holiday pay is given in parentheses.

e. Two estimates of median earnings are available based on the Labour Force Survey (LFS) and the Annual Survey of Hours and Earnings (ASHE). In each case, the data refer to hourly earnings.

6 Although the OECD has attempted to standardise these data, caution should be taken when drawing comparisons between countries as definitions of what counts towards the minimum wage differ. There are also differences with regard to the age at which the minimum wage rate(s) apply, whether there are any exemptions, and in the overall coverage of the respective mechanisms.

7 As part of the Government's evidence to us on the economic effects of the minimum wage, it provided international comparisons of the bite for 2009. Figure A3.1 shows that the bite of the UK minimum wage was above the G7 average and 8th highest in its list of 13 countries. In the Government's evidence to us for our 2009 Report, the UK was 4th highest in its list of 13 countries. However, little attempt has been made to standardise these comparisons. In addition, anniversary dates vary, with some countries expected to increase their wage rates again in 2010.

Figure A3.1: Adult Minimum Wages Relative to Median Earnings, by Country, 2009[ab]



Source: Government evidence to the LPC on the economic effects of the National Minimum Wage (BIS, 2009d), December 2009.

Notes:

a. Minimum wage rates used may vary from those used in both Table A3.1 and Table A3.2.

b. Earnings periods used vary between countries, and in most cases differ from that used in Table A3.2. In addition Table A3.2 uses median earnings of full-time, rather than all, employees.

Recession

8 The recession has had an impact across many countries. Little has yet been published providing global comparisons on the impact of the recession, but there has been some research carried out by the International Labour Organisation (ILO) and the European Union (EU). The ILO (ILO, 2009) found that in many countries, despite the economic crisis, minimum wages continue to increase either through long-term adjustment plans or through annual or ad-hoc reviews of their labour market situation. Based on a sample of 86 countries ILO found that in 2008 half of the countries had increased their minimum wages by more than inflation.

9 Eurostat (2009) found that the economic crisis has resulted in falling employment levels and rising unemployment in almost all 27 Member States of the EU. The EU as a whole recorded a fall of almost 5 per cent in real GDP and this has significantly affected the labour market, resulting in reduced demand for labour and job losses. In turn, this has affected the number of hours worked per person, with an increase in the number of part-time workers and a fall in the average number of hours worked each week by full-time workers between the second quarters of 2008 and 2009.

10 According to Eurostat, the unemployment rate in the 27 Member States of the EU was 9.2 per cent in September 2009, compared with 7.1 per cent in September 2008. For the euro area this is the highest rate since January 1999 and for the 27 Member States of the EU the highest since the start of the series in January 2000. Among the Member States, the lowest unemployment rate was recorded in the Netherlands (3.6 per cent) and the highest rates in Latvia (19.7 per cent) and Spain (19.3 per cent).

11 In terms of inflation, Ireland had the lowest annual inflation rate of all EU Member States at -2.8 per cent. Overall, EU annual inflation was 1.0 per cent in November 2009, up from 0.5 per cent in October 2009. In September 2009, Australian consumer price inflation was 1.3 per cent on the year, its lowest annual inflation in 10 years. Canada's annual rate of inflation was 1.0 per cent in November 2009, having been negative between June and September. In Spain, inflation increases in November and December brought to an end a period of falling prices which had fuelled concerns of deflation.

12 The 12 OECD countries we examined have responded in different ways with regard to their minimum wages in the recession. Australia and Ireland froze their minimum wage, whereas the remaining 10 countries increased it. Of these 10, Belgium's increase was the greatest, rising by 11.4 per cent from €7.55 to €8.41. This was followed by the United States, where the minimum wage rose by 10.6 per cent from $6.55 to $7.25, and then Canada, where the minimum wage rose by 7.8 per cent. With an increase of 1.2 per cent, the UK's minimum wage rose the least of the 12 countries that uprated their minimum wages in 2009. France increased its minimum wage by 1.3 per cent and Japan by 1.4 per cent.

13 Since the Australian Fair Pay Commission's decision in 2008 to increase the federal minimum wage, the unemployment rate in Australia has risen. The Commission said its decision not to increase the federal minimum wage in 2009 was based on protecting jobs and supporting a stronger recovery in employment as the economy improved. Trade unions called for an increase of AU$21 per week and said the decision to freeze the minimum wage meant that low-income earners were bearing the brunt of an economic downturn they did not cause.

14 In Ireland the last minimum wage uprating was in July 2007. In 2009, Ireland's Labour Court recommended that the minimum wage should be frozen again. Some senior government ministers have said that the minimum wage rate is too high and is contributing to high unemployment levels in Ireland, with some calling for it to be lowered because of economic difficulties. Opposition parties are opposed to the minimum wage being cut, arguing that other areas of public expenditure remain unreformed and more people would end up on social welfare. Others argue that the minimum wage should not be frozen, to ensure people stay out of poverty, to provide a boost to spending power, and therefore jobs, and that an increase would not have a negative economic impact.

15 Canada raised its minimum wage throughout its provinces with the weighted average of minimum wages standing at C$9.08. Some trade unions called for an increase in the minimum wage to C$10.00 per hour, arguing that a higher minimum wage is necessary to combat poverty and raise average incomes. The Canadian Labour Congress argued that provinces can increase the minimum wage without threatening job creation and economic prosperity. Small businesses unsuccessfully sought a minimum wage freeze in 2009 due to uncertainty in the labour market.

16 France increased its minimum wage by 1.3 per cent in 2009 to €8.82 per hour. Trade unions have criticised the Government for not awarding an additional discretionary increase in the minimum wage in 2009, which it has the power to do. A group of experts commissioned by the French Employment Minister have said that the minimum wage should be frozen in 2010. Its report concluded that the minimum wage should not be increased to keep costs down for businesses struggling in the current economic climate.

Appendix 4
Review of the Low-paying Sectors

1 We have referred to our low-paying sectors throughout this report, and in Chapter 3 in particular. These industries and occupations are defined as those containing a higher than average number or proportion of low-paid workers. Since our 2009 Report, the Office for National Statistics (ONS) has published the new 2007 Standard Industrial Classification (SIC 2007), which will apply to published data from summer 2010. We have conducted an internal review to assess how these changes affect our definitions of low-paying industries. We have also considered whether our low-paying industries and occupations are still the most appropriate sectors on which to focus our analysis.

2 This appendix documents the resulting changes to our low-paying sectors, which will be implemented in our 2011 Report. They are based on SIC 2007 and Standard Occupational Classification 2000 (SOC 2000). A detailed list of sectors is contained in Table A4.1. We have applied no changes to the definitions of our low-paying sectors in this report.

Defining the Low-paying Sectors

3 We would ideally use occupations to accurately define low-paid groups of workers and those most affected by the minimum wage. But data are not always available on this basis and stakeholder groups tend to be industry-based. We therefore have two sets of classifications, industries and occupations, which are as closely aligned as possible. We use the Annual Survey of Hours and Earnings (ASHE) to identify our sectors, as ONS considers this to be the best source of information on earnings by industry and occupation. The review was carried out prior to the publication of ASHE 2009 but the results have since been updated and they hold for the 2009 data.

4 As low-paid workers are found across a broad range of industries and occupations, our sectors do not capture them all. Our new low-paying industries accounted for around 72 per cent of workers paid no more than 10 per cent above the adult rate of the National Minimum Wage in April 2009 (£6.30), which is higher than the 69 per cent covered by our previous definitions based on SIC 2003. Around 73 per cent were captured by our new low-paying occupations. Because certain ONS datasets only contain data at two-digit SIC level, some of our future analysis may not be based on our full definitions of the low-paying industries. Our review has tried to avoid this, but we will document differences where necessary.

Low-paying Industries

5 **Retail:** There were minor changes to the definitions of retail industries within SIC 2007, but they did not affect the number of low-paid workers within our sector. We have kept *wholesale and retail trade and repair of motor vehicles and motorcycles* (SIC 2007: 45), *retail trade, except of motor vehicles and motorcycles* (SIC 2007: 47, which includes *retail sale of automotive fuel in specialised stores*), *renting of video tapes and disks* (SIC 2007: 77.22), and *repair of personal and household goods* (SIC 2007: 95.2).

6 **Hospitality:** The SIC 2007 changes did not affect our previous definition of hospitality to a significant degree, hence the most suitable categories are still *accommodation* (SIC 2007: 55) and *food and beverage service activities* (SIC 2007: 56).

7 **Social care:** The social care low-paying industry used to include some childcare activities as it was not possible to separate and identify them. This division has now taken place in SIC 2007. The resulting social care definition is *residential care activities* (SIC 2007: 87), *social work activities without accommodation for the elderly and disabled* (SIC 2007: 88.1), and *medical nursing home activities* (SIC 2007: 86.10/2). *Other social work activities without accommodation* (SIC 2007: 88.99) has been removed from the definition as it includes roles such as counselling and welfare support, which are not low-paid.

8 **Employment agencies:** The data show that *temporary employment agency activities* (SIC 2007: 78.2) and *(other) activities of employment placement agencies* (SIC 2007: 78.10/9) make up nearly 7 per cent of all

jobs paid at the adult rate of the minimum wage. Therefore we have included employment agencies as a new low-paying industry.

9 **Food processing:** SIC 2007 caused very minimal changes to *manufacture of food products* (SIC 2007:10). The category remains a suitable definition.

10 **Leisure, travel and sport:** There were substantial changes to our leisure, travel and sport low-paying industry following the move to SIC 2007. After analysing the data, we have decided to amend the categories. They now consist of *sports activities and amusement and recreation activities* (SIC 2007: 93), *motion picture projection activities* (SIC 2007: 59.14), and *gambling and betting activities* (SIC 2007: 92). *Creative, arts and entertainment activities* (SIC: 90) has been removed as its coverage of low-paying jobs is minimal.

11 **Cleaning:** Changes to SIC 2007 have had a minor impact on our definition of the cleaning sector, however the changes marginally increased the number of low-paid workers covered. The categories are *cleaning activities* (SIC 2007: 81.2) and *washing and (dry-)cleaning of textile and fur products* (SIC 2007: 96.01).

12 **Agriculture:** There are fewer workers in the *agriculture, forestry and fishing* (SIC 2007: 01–03) industrial sectors following the SIC 2007 changes. We have decided not to add industries back into the definition and have focused the sector further by removing *forestry and logging* (SIC 2007: 02), which has few low-paid workers.

13 **Security:** There were no changes to the definitions of security industries within SIC 2007. Having analysed the number of low-paid jobs in each category we have removed *security systems service activities* (SIC 2007: 80.2) and *investigation activities* (SIC 2007: 80.3) to leave *private security activities* (SIC 2007: 80.1). This increases the proportion of low-paid jobs within the sector and aligns the sector more accurately with its equivalent low-paying occupation.

14 **Childcare:** As discussed, SIC 2007 has enabled us to identify the childcare sector as an industry for the first time. The categories used to define the sector are *child day-care activities* (SIC 2007: 88.91) and *pre-primary education* (SIC 2007: 85.1).

15 **Textiles and clothing:** There were no changes as SIC 2007 led to very minimal changes to *manufacture of textiles* and *manufacture of wearing apparel* (SIC 2007: 13–14).

16 **Hairdressing:** Changes to SIC 2007 have caused some very minor adjustments to the *hairdressing and other beauty treatment* (SIC 2007: 96.02) and *physical well-being activities* (SIC 2007: 96.04) categories. Fewer workers are covered by the definitions. Of those who have been removed (e.g. yoga and fitness instructors), only a minimal number are low-paid workers.

Low-paying Occupations

17 Our review has not led to changes to these low-paying occupations: hospitality; social care; food processing; cleaning; security; childcare; hairdressing; and office work. However, it has resulted in changes to the following.

18 **Retail:** We have added three occupations to the retail low-paying occupation, all of which contain a high proportion of low-paid workers: *shopkeepers and wholesale/retail dealers* (SOC 2000: 1234), *floral arrangers, florists* (SOC 2000: 5496), and *merchandisers and window dressers* (SOC 2000: 7125).

19 **Leisure, travel and sport:** All of the occupations within leisure, travel and sport remain appropriate as they contain a high proportion of low-paid workers. We have included the additional low-paid *leisure and travel service occupations* (SOC 2000: 6219).

20 **Agriculture:** We have aligned the agriculture low-paying occupation with its low-paying industry and not all of the original components were proved to be low-paid. We have, therefore, removed *forestry workers* (SOC 2000: 9112) and added *agricultural and fishing trades* (SOC 2000: 5119).

21 **Textiles and clothing:** We have removed *clothing cutters* (SOC 2000: 8136) because data showed that it was not a particularly low-paying occupation.

Table A4.1: New Definitions of Low-paying Industries and Occupations, by SIC and SOC Codes

Low-paying industry/ occupation	Old industry definition (SIC 2003)	New industry definition (SIC 2007)	Old occupation definition (SOC 2000)	New occupation definition (SOC 2000)
Retail	50, 52, 71.40/5	45, 47, 77.22, 95.2	711, 721, 925	1234, 5496, 711, 7125, 721, 925
Hospitality	55	55, 56	5434, 9222–9225	5434, 9222–9225
Social care	85.3, 85.113	86.10/2, 87, 88.1	6115	6115
Employment agencies	n/a	78.10/9, 78.2	n/a	n/a
Food processing	15.1–15.8	10	5431–5433, 8111	5431–5433, 8111
Leisure, travel and sport	92.13, 92.3, 92.6, 92.7	59.14, 92, 93	6211, 6213, 9226, 9229	6211, 6213, 6219, 9226, 9229
Cleaning	74.7, 93.01	81.2, 96.01	6231, 9132, 923	6231, 9132, 923
Agriculture	01–05	01, 03	911	5119, 9111, 9119
Security	74.6	80.1	9241, 9245, 9249	9241, 9245, 9249
Childcare	n/a	85.1, 88.91	6121–6123, 9243, 9244	6121–6123, 9243, 9244
Textiles and clothing	17, 18	13, 14	5414, 5419, 8113, 8136, 8137	5414, 5419, 8113, 8137
Hairdressing	93.02, 93.04	96.02, 96.04	622	622
Office work	n/a	n/a	4141, 4216, 9219	4141, 4216, 9219

Note: n/a is not applicable.

Abbreviations

A8 countries	The Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia
ABI	Annual Business Inquiry
ACS	Association of Convenience Stores
AEI	Average Earnings Index
ALMR	Association of Licensed Multiple Retailers
ALP	Association of Labour Providers
ASHE	Annual Survey of Hours and Earnings
AWB	Agricultural Wages Board
AWD	Agency Workers Directive
BATC	British Apparel & Textile Confederation
BBPA	British Beer & Pub Association
BCC	British Chambers of Commerce
BECTU	Broadcasting Entertainment Cinematograph and Theatre Union
BERR	Department for Business, Enterprise and Regulatory Reform
BFM	British Furniture Manufacturers
BHA	British Hospitality Association
BIS	Department for Business, Innovation and Skills
BISL	Business In Sport and Leisure
BRC	British Retail Consortium
BSIA	British Security Industry Association
BSSA	British Shops and Stores Association
BYC	British Youth Council
CPI	Consumer Prices Index
CPL	Comparative Price Level
CSSA	Cleaning and Support Services Association
CWU	Communication Workers Union

DCSF	Department for Children, Schools and Families
DEFRA	Department for Environment, Food and Rural Affairs
DH	Department of Health
DIUS	Department for Innovation, Universities and Skills
DWP	Department for Work and Pensions
EAS	Employment Agency Standards Inspectorate
ECCA	English Community Care Association
EFA	Employers Forum on Age
EHRC	Equality and Human Rights Commission
EMA	Education Maintenance Allowance
ERM	Employment Retail Monitor
ES	Enterprise Survey
ET	Employment Tribunal
EU	European Union
FDF	Food and Drink Federation
FEEB	Fair Employment Enforcement Board
FPB	Forum of Private Business
FPR	Fair Piece Rate
FRS	Family Resources Survey
FSB	Federation of Small Businesses
FTE	Full-time education
GB	Great Britain
GCSE	General Certificate of Secondary Education
GDP	Gross domestic product
GLA	Gangmasters Licensing Authority
GVA	Gross Value Added
HMRC	HM Revenue & Customs
HO	Home Office
IDS	Incomes Data Services Ltd
IES	Institute for Employment Studies
IFS	Institute for Fiscal Studies
ILO	International Labour Organisation
IMF	International Monetary Fund
IMI	Institute of the Motor Industry

IPP	Institute of Payroll Professionals
ippr	Institute for Public Policy Research
IRS	Industrial Relations Services
JWEP	Joint Workplace Enforcement Pilot
LFS	Labour Force Survey
LPC	Low Pay Commission
LRD	Labour Research Department
LSC	Learning and Skills Council
MBD	Market & Business Development
METR	Marginal effective tax rate
MIF	Migration Impacts Fund
NAMB	National Association of Master Bakers
NCVYS	National Council for Voluntary Youth Services
NCWE	National Council for Work Experience
NDNA	National Day Nurseries Association
NEET	Not in education, employment or training
NES	New Earnings Survey
NFU	National Farmers' Union (England and Wales)
NHF	National Hairdressers' Federation
NHS	National Health Service
NICs	National Insurance Contributions
NIESR	National Institute of Economic and Social Research
NINo	National Insurance Number
NMW	National Minimum Wage
NS	Newspaper Society
NUJ	National Union of Journalists
NUS	National Union of Students
NVQ	National Vocational Qualification
OECD	Organisation for Economic Co-operation and Development
OFSTED	Office for Standards in Education, Children's Services and Skills
ONS	Office for National Statistics
PBR	Pre-Budget Report
PCS	Public and Commercial Services Union

PPP	Purchasing power parity
PTR	Participation tax rate
Q	Quarter
REC	Recruitment and Employment Confederation
RMT	National Union of Rail, Maritime and Transport Workers
RPI	Retail Prices Index
RPIX	Retail Prices Index excluding mortgage interest payments
RSA	Rural Shops Alliance
RSM	Retail Sales Monitor
SAWS	Seasonal Agricultural Workers Scheme
SBAC	Society of British Aerospace Companies
SEMTA	Sector Skills Council for Science, Engineering and Manufacturing Technologies
SGF	Scottish Grocers Federation
SIC	Standard Industrial Classification
SLA	Service Level Agreement
SLTA	Scottish Licensed Trade Association
SMEs	Small and Medium-sized Enterprises
SOC	Standard Occupational Classification
SPPI	Services Producer Prices Index
STUC	Scottish Trades Union Congress
TUC	Trades Union Congress
UCG	Unquoted Companies Group
UFU	Ulster Farmers' Union
UK	United Kingdom
UKBA	United Kingdom Border Agency
UKFT	UK Fashion and Textiles Association
UKHCA	United Kingdom Home Care Association
Usdaw	Union of Shop, Distributive and Allied Workers
VAT	Value Added Tax
VWEF	Vulnerable Worker Enforcement Forum
WAG	Welsh Assembly Government
WRS	Worker Registration Scheme
YDR	Youth Development Rate

Select Bibliography

Anagboso, M., 2009. The Impact of the Recession on Retail Sales Volumes. *Economic & Labour Market Review*. 3(8), pp. 22–28.

Apprenticeships Task Force, 2005. *Final Report. The Business Case for Apprenticeships*. July.

Balch, A., P. Brindley, A. Geddes and S. Scott, 2009. *Gangmasters Licensing Authority Annual Review 2008.* February.

Bank of England, 2009. *Statistical Interactive Database: Interest & Exchange Rates Data.* September.

Bank of England, ongoing. *Agents' Summary of Business Conditions.* Monthly.

Bank of England, ongoing. *Inflation Report*. Quarterly.

Bank of England, ongoing. *Minutes of Monetary Policy Committee Meeting.* Monthly.

Bank of England, ongoing. *Quarterly Bulletin.* Quarterly.

Barham, C., A. Walling, G. Clancy, S. Hicks and S. Conn, 2009. Young People and the Labour Market. *Economic & Labour Market Review*. 3(4), pp. 17–29.

Barnard, A., 2009. Effects of Taxes and Benefits on Household Income, 2007/08. *Economic & Labour Market Review*. 3(8), pp. 56–66.

Berthoud, R., 2009. Patterns of Non-employment, and of Disadvantage, in a Recession. *Economic & Labour Market Review*. 3(12), pp. 62–73.

Boeri, T., 2009. Setting the Minimum Wage. *IZA Discussion Paper*. 4335. July.

Brewer, M., R. May and D. Phillips, 2009. *Taxes, Benefits and the National Minimum Wage.* Research Report for the Low Pay Commission. October. (Institute for Fiscal Studies.)

Brinkley, I., D. Coats and W. Hutton, 2009. *Unemployment and the Role of the Third Sector.* (The Work Foundation.)

British Chambers of Commerce, 2009. *BCC Quarterly Economic Survey – 3rd Quarter 2009.* October.

British Retail Consortium and KPMG, ongoing. *BRC-KPMG Retail Sales Monitor.* News Release. Monthly.

Britton, E. and D. Gabay, 2009. *UK GDP is the Best Predictor of UK GDP, Literally.* November. (Fathom Consulting.)

Brook, K., 2009. Performance and Employment Characteristics of UK Service Industries, 1990–2008. *Economic & Labour Market Review*. 3(6), pp. 39–50.

Brown, G., T. Buccellato, G. Chamberlin, S. Dey-Chowdhury and R. Youll, 2009. Understanding the Quality of Early Estimates of GDP. *Economic & Labour Market Review*. 3(12), pp. 43–50.

Brown, W., 2007. *The Process of Fixing the British National Minimum Wage, 1997–2007.* Paper given at the BJIR Conference 100 Years of Minimum Wage Regulation. December.

Bryan, M. and M. Taylor, 2004. *An Analysis of the Household Characteristics of Minimum Wage Recipients.* Research Report for the Low Pay Commission. (Institute for Social and Economic Research, University of Essex.)

Bryan, M. and M. Taylor, 2006. *Identifying the Patterns of National Minimum Wage Receipt in Britain 1999–2004.* Research Report for the Low Pay Commission. (Institute for Social and Economic Research, University of Essex.)

Butcher, T., 2005. The Hourly Earnings Distribution Before and After the National Minimum Wage. *Labour Market Trends*. 113(10), pp. 427–435.

Butcher, T., R. Dickens and A. Manning, 2009. *The Impact of the National Minimum Wage on the Wage Distribution.* Research Report for the Low Pay Commission. (Low Pay Commission; University of Sussex; and London School of Economics.)

Cambridge Policy Consultants, 2006. *Evaluation of Modern Apprenticeships and Skillseekers. Final Report*. A Report for Scottish Enterprise. November.

Card, D. and A. Krueger, 1995. *Myth and Measurement: The New Economics of the Minimum Wage*. Princeton University Press.

Card, D. and A. Krueger, 2000. *Minimum Wages and Employment: A Case Study of the Fast-food Industry in New Jersey and Pennsylvania: Reply*. American Economic Review 90. 5. December 1397–1420.

CBI, 2008a. *CBI Industrial Trends Survey*. November.

CBI, 2008b. *CBI Quarterly SME Trends Survey*. November.

CBI, 2009. *Distributive Trades Survey.* November.

CBI/Harvey Nash, 2009a. *Easing Up? Employment Trends Survey.* November.

CBI/Harvey Nash, 2009b. *Employment Trends 2009: Work Patterns in the Recession.* November.

Chamberlin, G., 2009a. Methods Explained: Core Inflation. *Economic & Labour Market Review*. 3(3), pp. 48–57.

Chamberlin, G., 2009b. Flash Estimates of European Labour Costs. *Economic & Labour Market Review*. 3(11), pp. 32–39.

Chamberlin, G. and L. Yueh, 2009. Recession and Recovery in the OECD. *Economic & Labour Market Review*. 3(10), pp. 28–33.

Chandler, M., 2009. Labour Force Survey: Interim Reweighting and Annual Review of Seasonal Adjustment, 2009. *Economic & Labour Market Review*. 3(12), pp. 56–61.

Chartered Institute of Personnel and Development, 2009a. *Employee Outlook. Employee Attitudes and the Recession.* Quarterly Survey Report. Spring.

Chartered Institute of Personnel and Development, 2009b. *Survey Report – Employment and Economic Trends.* Summer.

Chartered Institute of Personnel and Development, 2010. *Platform 2010: A Recovery That Works.*

Chartered Institute of Personnel and Development, ongoing. *Labour Market Outlook*. Quarterly.

Chowdry, H., C. Meghir and J. Shaw, 2009. *Investigating the Impact of the Minimum Wage Regime on the Labour Market Behaviour of Young Workers: Moving Towards a Structural Dynamic Approach.* Research Report for the Low Pay Commission. (Institute for Fiscal Studies.)

Clancy, G., 2009. *Migration: Insights from the Labour Force Survey.* Presentation to the ESDS Government Labour Force Survey User Meeting. December. (Office for National Statistics.)

Clegg, R., 2008. Comparisons Between Unemployment and the Claimant Count: 1971 to 2007. *Economic & Labour Market Review*. 2(5), pp. 18–20.

Clegg, R., D. Leaker and K. Kent, 2010. Implications of the Change in Female State Pension Age for Labour Market Statistics. *Economic & Labour Market Review*. 4(1), pp. 25–29.

Consensus Economics, ongoing. *Consensus Forecasts G7 Countries and Western Europe.* Monthly.

Data Service, ongoing. *Post-16 Education & Skills: Learner Participation, Outcomes and Level of Highest Qualification Held.* Quarterly.

Dearden, L., H. Reed and J. Van Reenen, 2005. The Impact of Training on Productivity and Wages: Evidence from British Panel Data. *Centre for Economic Performance Discussion Paper.* 674. February.

De Coulon, A., E. Meschi, J. Swaffield, A. Vignoles and J. Wadsworth, 2010. *Minimum Wage and Staying-on Rates in Education for Teenagers.* Research Report for the Low Pay Commission. January. (Institute of Education, University of London; University of York; and Royal Holloway, University of London.)

Department for Business, Enterprise and Regulatory Reform, 2008a. *Vulnerable Worker Enforcement Forum – Final Report and Government Conclusions*. URN 08/1085. August.

Department for Business, Enterprise and Regulatory Reform, 2008b. *The National Minimum Wage. Service Charges, Tips, Gratuities and Cover Charges: A Consultation*. November.

Department for Business, Enterprise and Regulatory Reform, 2009. *National Minimum Wage. Government Response to Consultation on: Service Charges, Tips, Gratuities and Cover Charges*. May.

Department for Business, Innovation and Skills, 2009a. *Enterprise Directorate: Small and Medium-sized Enterprise Statistics for the UK and Regions, 2008.* October.

Department for Business, Innovation and Skills, 2009b. *The National Minimum Wage. A Code of Best Practice on Service Charges, Tips, Gratuities and Cover Charges*. October.

Department for Business, Innovation and Skills, 2009c. *Skills for Growth. The National Skills Strategy*. November.

Department for Business, Innovation and Skills, 2009d. *Government Evidence to the Low Pay Commission on the Economic Effects of the National Minimum Wage.* URN 08/1479. December.

Department for Children, Schools and Families, 2009a. *Participation in Education, Training and Employment by 16–18 Year Olds in England*. Statistical First Release. SFR 12/2009. June.

Department for Children, Schools and Families, 2009b. *New Opportunities: Fair Chances for the Future. Cross-government Review of Financial Support for 16–18 Year Olds. Call for Evidence.*

Department for Children, Schools and Families, ongoing. *NEET Statistics Quarterly Brief.* Quarterly.

Department for Employment and Learning, 2009. *ApprenticeshipsNI 2008, Level2/Level3. Operational Guidelines*. September.

Department for Environment, Food and Rural Affairs, 2009. *Agriculture in the United Kingdom 2008*.

Department for Environment, Food and Rural Affairs, 2010a. *Earnings and Hours of Agricultural and Horticultural Workers England and Wales – 12 Months Ending September 2009*. January.

Department for Environment, Food and Rural Affairs, 2010b. *Provisional Estimates of Farm Incomes in the United Kingdom 2009.* January.

Department of Health, 2008. *A Guide to Receiving Direct Payments from Your Local Council. A Route to Independent Living*. March.

Department of Health, 2009a. *Shaping the Future of Care Together*. July.

Department of Health, 2009b. *Personal Care at Home. A Consultation on Proposals for Regulations and Guidance*. November.

Department for Innovation, Universities and Skills, 2007. *World Class Skills: Implementing the Leitch Review of Skills in England*. July.

Department for Innovation, Universities and Skills, and Department for Children, Schools and Families, 2008. *World-class Apprenticeships: Unlocking Talent, Building Skills for All. The Government's Strategy for the Future of Apprenticeships in England*. January.

Department for Work and Pensions, 2009. *Low-income Dynamics 1991–2006 (Great Britain)*.

Department for Work and Pensions, ongoing. *Households Below Average Income Statistics.* Annually.

Department for Work and Pensions, Equality and Human Rights Commission, and Government Equalities Office, 2009. *Monitoring the Impact of the Recession on Various Demographic Groups*. June.

Dickens, R. and A. Manning, 2003. Minimum Wage, Minimum Impact. *The Labour Market Under New Labour.* Basingstoke: Palgrave Macmillan.

Dickens, R. and A. Manning, 2004. Has the National Minimum Wage Reduced UK Wage Inequality? *Journal of the Royal Statistical Society Series A*. 167, pp. 613–626.

Dickens, R. and A. Manning, 2006. *The NMW Inequality – An Update.* Presentation to the Work and Pensions Economics Group. October.

Dickens, R., R. Riley and D. Wilkinson, 2010. *The Impact on Employment of the Age Related Increases in the National Minimum Wage*. Research Report for the Low Pay Commission. January. (University of Sussex and Centre for Economic Performance, London School of Economics; and LLAKES Centre and National Institute of Economic and Social Research.)

Dickerson, A., 2007. *Longer Term Implications of the NMW: A Re-examination of Employer-provided Training*. Research Report for the Low Pay Commission. (Department of Economics, University of Sheffield.)

Dickerson, A. and P. Jones, 2004. *Estimating the Impact of a Minimum Wage on the Labour Market Behaviour of 16–17 Year Olds*. Research report for the Low Pay Commission. February. (Warwick Institute for Employment Research, University of Warwick.)

Dickerson, A. and R. Wilson, 2009. The Incidence and Intensity of Employer-provided Training. *Sheffield Economic Research Paper Series.* 2009012. June. (Department of Economics, University of Sheffield.)

Dobbs, C., 2009. Patterns of Pay: Results of the Annual Survey of Hours and Earnings, 1997 to 2008. *Economic & Labour Market Review*. 3(3), pp. 24–32.

Du Caju, P., E. Gautier, D. Momferatou and M. Ward-Warmedinger, 2008. Institutional Features of Wage Bargaining in 23 European Countries, the US and Japan. *Working Paper Series.* 974. December. (European Central Bank.)

Duff, H., 2007. A Preliminary Analysis of the Differences Between AWE and the AEI. *Economic & Labour Market Review*. 1(9), pp. 48–56.

EEF the manufacturers' organisation, ongoing. *Pay Bulletin.* Monthly.

Elias, P. and M. Birch, 2009. *SOC 2010: The Revision of the Standard Occupational Classification 2000*. May. (Warwick Institute for Employment Research.)

Equal Opportunities Commission, 2005. *The Apprentice: Making Genuine Career Choice a Reality*. May.

European Commission, 2009a. *Economic Crisis in Europe: Causes, Consequences and Responses.* European Economy 7/2009 (provisional version).

European Commission, 2009b. *Labour Market and Wage Developments in 2008.* European Economy 8/2009 (provisional version).

Eurostat, 2009. *The Impact of the Crisis on Employment.* Statistics in Focus 79/2009.

Experian and Ipsos MORI, 2008. *Evaluation of Extension of Education Maintenance Allowance to Entry-to-Employment and Programme Led Apprenticeships*. Learning and Skills Council. Final Report. February.

Fong, B. and A. Phelps, 2008. *Apprenticeship Pay: 2007 Survey of Earnings by Sector.* Department for Innovation, Universities and Skills. Research Report 08–05. (BMRB Social Research.)

Forth, J., R. Harris, A. Rincon-Aznar and C. Robinson, 2009. *The Impact of Recent Upratings of the National Minimum Wage on Competitiveness, Business Performance and Sector Dynamics*. Research Report for the Low Pay Commission. (National Institute of Economic and Social Research and University of Glasgow.)

Gallacher, J., S. Whittaker, B. Crossan and V. Mills, 2004. *Modern Apprenticeships: Improving Completion Rates*. Scottish Executive. (Glasgow Caledonian University.)

Gangmasters Licensing Authority, 2009. *Licensing Standards.* April.

Gooding, P., 2009. CPI and RPI: The 2009 Basket of Goods and Services. *Economic & Labour Market Review*. 3(4), pp. 37–42.

Gough, J., 2009. Discontinuity Analysis Affecting the 2006 ABI Employee Estimates. *Economic & Labour Market Review*. 3(12), pp. 74–77.

Gregg, P., 2009. *The Recession So Far*. Presentation to the ONS Workshop on The Labour Market Across the UK in the Current Recession. November. (University of Bristol.)

Griffiths, C., C. Ormerod and F. Ritchie, 2007. *Measuring Low Pay: Method and Precision.* February. (Office for National Statistics.)

Hasluck, C., T. Hogarth, B. Baldauf and G. Briscoe, 2008. *The Net Benefit to Employer Investment in Apprenticeship Training*. A Report for the Apprenticeship Ambassadors Network. November. (Warwick Institute for Employment Research.)

Hicks, S., S. Conn and J. Johnson, 2009. Characteristics of Those Paid Below the National Minimum Wage. *Economic & Labour Market Review*. 3(1), pp. 67–73.

Hicks, S. and J. Thomas, 2009. *Presentation of the Gender Pay Gap*. ONS Position Paper. November.

HM Revenue & Customs, 2009a. *Child and Working Tax Credit Statistics: Finalised Annual Awards.*

HM Revenue & Customs, 2009b. *Child and Working Tax Credit Statistics.* December.

HM Treasury, 2006. *Prosperity for All in the Global Economy – World Class Skills. Final Report. Leitch Review of Skills*. December.

HM Treasury, 2009a. *Budget 2009. Building Britain's Future.* HC 407. April. (The Stationery Office.)

HM Treasury, 2009b. *Pre-Budget Report 2009. Securing the Recovery: Growth and Opportunity.* Cm 7747. December. (The Stationery Office.)

HM Treasury, ongoing. *Pocket Databank.* Weekly.

HM Treasury, ongoing. *Forecasts for the UK Economy: A Comparison of Independent Forecasts.* Monthly.

Hogarth, T. and C. Hasluck, 2003. *Net Costs of Modern Apprenticeship Training to Employers*. Research Report RR418. Department for Education and Skills. April. (Institute for Employment Research.)

Hogarth, T., C. Hasluck and W. W. Daniel, 2005. *Employing Apprentices: The Business Case.* Report for the Apprenticeships Task Force. September. (Warwick Institute for Employment Research.)

Home Office, ongoing. *Control of Immigration: Quarterly Statistical Summary, United Kingdom.* Quarterly.

House of Lords, 2007. *Apprenticeship: A Key Route to Skill. Volume I: Report*. Select Committee on Economic Affairs. Fifth Report of Session 2006–07. HL 138–I. July.

Hughes, J. C., 2008. SIC 2007: Implementation in ONS. *Economic & Labour Market Review*. 2(8), pp. 41–44.

Hughes, J. and K. Brook, 2009. Implementation of SIC 2007 Across the Government Statistical Service. *Economic & Labour Market Review*. 3(8), pp. 67–69.

Hughes, J. C., G. James, A. Evans and D. Prestwood, 2009. Implementation of Standard Industrial Classification 2007: December 2009 Update. *Economic & Labour Market Review*. 3(12), pp. 51–55.

Hughes, M. and H. Monteiro, 2005. *Improving the Grade in Work-based Learning*. (Learning and Skills Development Agency.)

IFF Research Ltd, 2000. *Modern Apprenticeships: Exploring the Reasons for Non-completion in Five Sectors*. Research Brief. 217. Department for Education and Employment. August.

IMRG Capgemini, 2009. *e-Retail Sales Index*. Press Release. December.

Incomes Data Services Ltd, 2006. *The Impact of Economic Recession on Pay Increases and the Low Paid*. Research Report for the Low Pay Commission.

Incomes Data Services Ltd, 2007. *Monitoring the Impact of the National Minimum Wage*. Research Report for the Low Pay Commission. September.

Incomes Data Services Ltd, 2009a. *Monitoring the Impact of the National Minimum Wage*. Research Report for the Low Pay Commission. March.

Incomes Data Services Ltd, 2009b. *Monitoring the Impact of the National Minimum Wage*. Research Report for the Low Pay Commission. November.

Incomes Data Services Ltd, 2009c. *Pay and Conditions in Retail 2009/10.* December.

Incomes Data Services Ltd, 2009d. *IDS Focus on Recession 2009.* May.

Incomes Data Services Ltd, ongoing. *IDS Pay Report.* Fortnightly.

Industrial Relations Services, ongoing. *Pay and Benefits Bulletin.* Fortnightly.

Institute for Employment Studies, 2009. *LPC 2008 Survey of Employers. Apprentice Exemptions*. Research Report for the Low Pay Commission.

International Labour Organisation, 2009. *Global Wage Report Update 2009*. International Labour Office Geneva.

International Monetary Fund, 2009a. *Sustaining the Recovery. World Economic Outlook*. October.

International Monetary Fund, 2009b. *Comparing Recessions in Germany, Spain, and United Kingdom.* Regional Economic Outlook. November.

International Monetary Fund, 2010. *World Economic Outlook Update*. January.

Jenkins, J. and D. Leaker, 2010. The Labour Market Across the UK in the Current Recession. *Economic & Labour Market Review*. 4(1), pp. 38–48.

Johnson, J., 2009a. Quality Measures of Household Labour Market Indicators. *Economic & Labour Market Review*. 3(10), pp. 34–47.

Johnson, J., 2009b. Households and the Labour Market for Local Areas. *Economic & Labour Market Review*. 3(11), pp. 24–31.

Khan, K., 2009. Employment of the Older Generation. *Economic & Labour Market Review*. 3(4), pp. 30–36.

King, M., 2010. Speech to University of Exeter. January. (Bank of England.)

Labour Research Department, ongoing. *Labour Research.* Monthly.

Laing & Buisson, 2008a. *Care of Elderly People. UK Market Survey 2008.* Twenty-First Edition.

Laing & Buisson, 2008b. *Domiciliary Care. UK Market Report 2008*. Ninth Edition.

Laing & Buisson, 2009a. *Children's Nurseries. UK Market Report 2009*. Eighth Edition. April.

Laing & Buisson, 2009b. *Annual Survey of Local Authority Baseline Fee Rates 2009/10*. Community Care Market News. June.

Laing & Buisson, 2009c. *Care of Elderly People. UK Market Survey 2009*. Twenty-Second Edition.

Lam, K., C. Ormerod, R. Ritchie and P. Vaze, 2006. Do Company Wages Policies Persist in the Face of Minimum Wages? *Labour Market Trends*. 114(3), pp. 69–82.

Lawton, K. and E. Norris, 2010. *A Qualitative Study of Apprenticeship Pay*. Research Report for the Low Pay Commission. January. (ippr.)

Learning and Skills Council, 2006. *National Learner Satisfaction Survey: Work-based Learning 2004/05*. July.

Learning and Skills Council, 2008. *Research into Expanding Apprenticeships. Final Report*. January.

Learning and Skills Council, 2009a. *The Benefits of Completing an Apprenticeship*. April.

Learning and Skills Council, 2009b. *LSC Funding Guidance 2009/10*. July.

Lee, D. S., 1999. Wage Inequality in the United States During the 1980s: Rising Dispersion of Falling Minimum Wage. *Quarterly Journal of Economics*. 458, pp. 977–1023.

Lee, N., K. Morris and A. Jones, 2009. *Recession and Recovery: How UK Cities Can Respond and Drive the Recovery*. July. (The Work Foundation.)

Local Data Company, 2009. *LDC Mid-Year Report 2009*. July.

Local Government Association, 2009. *The Growth of Claimant Unemployment by Broad Occupation and Area*. June.

Long, K., 2009. Unemployment Durations: Evidence from the British Household Panel Survey. *Economic & Labour Market Review*. 3(10), pp. 48–54.

Longhi, S. and L. Platt, 2008. *Pay Gaps Across Equalities Areas.* Equality and Human Rights Commission. Winter. (Institute for Social and Economic Research, University of Essex.)

Low Pay Commission, 1998. *The National Minimum Wage. First Report of the Low Pay Commission.* Cm 3976, June. (The Stationery Office.)

Low Pay Commission, 1999. *The National Minimum Wage*. *Second Report of the Low Pay Commission*. Cm 4571, December. (The Stationery Office.)

Low Pay Commission, 2001a. *The National Minimum Wage*. *Third Report of the Low Pay Commission. Volume One.* Cm 5075, March. (The Stationery Office.)

Low Pay Commission, 2001b. *The National Minimum Wage. Making a Difference: The Next Steps*. *Third Report of the Low Pay Commission. Volume Two.* Cm 5175, June. (The Stationery Office.)

Low Pay Commission, 2003. *The National Minimum Wage. Fourth Report of the Low Pay Commission. Building on Success*. Cm 5768, March. (The Stationery Office.)

Low Pay Commission, 2004. *Protecting Young Workers*. *The National Minimum Wage. Low Pay Commission Report 2004.* Cm 6152, March. (The Stationery Office.)

Low Pay Commission, 2005. *National Minimum Wage. Low Pay Commission Report 2005.* Cm 6475, February. (The Stationery Office.)

Low Pay Commission, 2006. *National Minimum Wage. Low Pay Commission Report 2006.* Cm 6759, March. (The Stationery Office.)

Low Pay Commission, 2007. *National Minimum Wage. Low Pay Commission Report 2007.* Cm 7056, March. (The Stationery Office.)

Low Pay Commission, 2008. *National Minimum Wage. Low Pay Commission Report 2008.* Cm 7333, March. (The Stationery Office.)

Low Pay Commission, 2009. *National Minimum Wage. Low Pay Commission Report 2009.* Cm 7611, May. (The Stationery Office.)

Machin, S. and J. Wilson, 2004. Minimum Wages in a Low-wage Labour Market: Care Homes in the UK. *The Economic Journal.* 114(494), pp. 102–109. March.

Market & Business Development, 2008. *UK Contract Cleaning Market Research Report.* Press Release. December.

Market & Business Development, 2009. *UK Manned Security Market Research Report.* Press Release. May.

McIntosh, S., 2002. *Further Analysis of the Returns to Academic and Vocational Qualifications*. Research Report RR370. Department for Education and Skills. (Centre for Economic Performance, London School of Economics.)

McIntosh, S., 2007. *A Cost-Benefit Analysis of Apprenticeships and Other Vocational Qualifications*. Research Report RR834. Department for Education and Skills. (Department of Economics, University of Sheffield.)

McLaren, C., 2009. Changes to the Retail Sales Methodology. *Economic & Labour Market Review*. 3(6), pp. 66–70.

McLaughlin, C., 2007. The Productivity-Enhancing Impacts of the Minimum Wage: Lessons from Denmark, New Zealand and Ireland. *Centre for Business Research, University of Cambridge Working Paper.* 342. June.

Metcalf, H., 2009. *Pay Gaps Across the Equality Strands: A Review.* Equality and Human Rights Commission. Spring. (National Institute of Economic and Social Research.)

Metcalf, H. and H. Rolfe, 2009. *Employment and Earnings in the Finance Sector: A Gender Analysis.* Equality and Human Rights Commission. Spring. (National Institute of Economic and Social Research.)

Miller, L., J. Hurstfield and N. Stratton, 2002. *The National Minimum Wage and Employers' Training Decisions*. Research Report for the Low Pay Commission. July. (IRS Research; and Learning Society.)

Miller, L., E. Pollard, F. Neathey, D. Hill and H. Ritchie, 2005. Gender Segregation in Apprenticeships. *Working Paper Series.* 25. Equal Opportunities Commission. April. (Institute for Employment Studies.)

Murphy, J., 2009. Revisions to Quarterly GDP Growth and its Components. *Economic & Labour Market Review*. 3(4), pp. 43–51.

Myers, M., 2009. The Impact of the Economic Downturn on Productivity Growth. *Economic & Labour Market Review*. 3(6), pp. 18–25.

National Equality Panel, 2010. *An Anatomy of Economic Inequality in the UK – Summary*. January.

National Institute of Economic and Social Research, ongoing. *National Institute Economic Review.* Quarterly.

National Institute of Economic and Social Research, ongoing. *Estimates of Monthly GDP.* Monthly.

Nationwide and TNS, ongoing. *Nationwide Consumer Confidence Index.* Monthly.

Neumark, D. and W. Wascher, 2003. Minimum Wages, Labor Market Institutions and Youth Employment: A Cross-national Analysis. *FEDS Working Paper*. 2003-23. March.

Neumark, D. and W. Wascher, 2008. *Minimum Wages.* Cambridge MIT Press.

Office for National Statistics, 2009a. *2009 Annual Survey of Hours and Earnings*. November.

Office for National Statistics, 2009b. *Low Pay Estimates April 2009*. November.

Office for National Statistics, 2009c. *Interpreting the Quality of Early Estimates of Gross Domestic Product*. News Release. November.

Office for National Statistics, 2009d. *Family Spending: A Report on the 2008 Living Costs and Food Survey*.

Office for National Statistics, ongoing. *Annual Business Inquiry.* Annually.

Office for National Statistics, ongoing. *Business Demography.* Annually.

Office for National Statistics, ongoing. *Business Investment.* Quarterly.

Office for National Statistics, ongoing. *Consumer Price Indices.* Monthly.

Office for National Statistics, ongoing. *Focus on Consumer Price Indices.* Monthly

Office for National Statistics, ongoing. *Gross Domestic Product Preliminary Estimate.* Quarterly.

Office for National Statistics, ongoing. *Index of Distribution.* Monthly.

Office for National Statistics, ongoing. *Index of Production.* Monthly.

Office for National Statistics, ongoing. *Index of Services.* Monthly.

Office for National Statistics, ongoing. *Labour Market Statistics.* Monthly.

Office for National Statistics, ongoing. *Migration Statistics.* Annually.

Office for National Statistics, ongoing. *Migration Statistics Quarterly Report.* Quarterly.

Office for National Statistics, ongoing. *Producer Prices.* Monthly.

Office for National Statistics, ongoing. *Productivity.* Quarterly.

Office for National Statistics, ongoing. *Profitability of UK Companies.* Quarterly.

Office for National Statistics, ongoing. *Public Sector Employment.* Quarterly.

Office for National Statistics, ongoing. *Quarterly National Accounts.* Quarterly.

Office for National Statistics, ongoing. *Retail Sales.* Monthly.

Office for National Statistics, ongoing. *Services Producer Price Index.* Quarterly.

Office for National Statistics, ongoing. *UK Economic Accounts.* Quarterly.

Office for National Statistics, ongoing. *UK Output, Income and Expenditure.* Quarterly.

OFSTED, 2008. *The Impact of Programme-led Apprenticeships*. July.

Organisation for Economic Co-operation and Development, 1998. *OECD Employment Outlook: Towards an Employment-centred Social Policy.*

Organisation for Economic Co-operation and Development, 2008. *Jobs for Youth. United Kingdom*. June.

Organisation for Economic Co-operation and Development, 2009a. *OECD Employment Outlook: Tackling the Jobs Crisis.* September.

Organisation for Economic Co-operation and Development, 2009b. *Main Economic Indicators. Comparative Price Levels*. September.

Organisation for Economic Co-operation and Development, 2009c. *What is the Economic Outlook for OECD Countries? An Interim Assessment.* OECD Economic Outlook. September.

Organisation for Economic Co-operation and Development, 2009d. Economic Outlook. 86. Press Conference. November.

Ormerod, C. and F. Ritchie, 2007a. Measuring Low Pay: The Importance of Timing. *Economic & Labour Market Review*. 1(4), pp. 18–22.

Ormerod, C. and F. Ritchie, 2007b. Issues in the Measurement of Low Pay. *Economic & Labour Market Review*. 1(6), pp. 37–45.

Pike, R., M. Lewis and D. Turner, 2009. Impact of the VAT Reduction on Consumer Price Indices. *Economic & Labour Market Review*. 3(8), pp. 17–21.

Rainbird H., L. Holly and R. Leisten, 2002. *The National Minimum Wage and Training*. Research Report for the Low Pay Commission. October. (Centre for Research in Employment, Work and Training, University College Northampton.)

Recruitment and Employment Confederation and KPMG LLP, 2010. *Report on Jobs*. January.

Reed, H. and M. Latorre, 2009. *The Economic Impacts of Migration on the UK Labour Market.* Presentation to the ESDS Government Labour Force Survey User Meeting. December. (ippr.)

Rienzo, C., 2008. Increasing Wage Inequality: A Comparative Analysis Between Italy, UK and U.S. *Paper for the Work and Pensions Economics Group.* June.

RSM Tenon, 2009a. *Businesses See Negligible Benefit of VAT Cut.* Press Release. May

RSM Tenon, 2009b. *Cash Strapped Businesses Still Unable to Raise Funds or Refinance.* Press Release. October

RSM Tenon, 2009c. *2009 Will See More Firms Fail Than in the Previous Recession.* Press Release. November

Scottish Executive, 2007. *Building on Our Success – Improving Modern Apprenticeships. Consultation Analysis Report*.

Scottish Government, 2007. *Skills for Scotland. A Lifelong Skills Strategy*. September.

Scottish Government, 2009. *Adopt an Apprentice Scheme*. News Release. September.

Sentance, A., 2009a. *Meeting the Challenges of Economic Recovery.* Speech to Scottish Council for Development and Industry, Aberdeen. June. (Bank of England.)

Sentance, A., 2009b. *Prospects for the British Economy After the Financial Storm.* Speech to Royal Holloway, University of London. November. (Bank of England.)

Skills Commission, 2009. *Progression Through Apprenticeships*. The Final Report of the Skills Commission's Inquiry into Apprenticeships. March.

Skills Development Scotland, 2009. *ScotAction – Supporting Redundant Apprentices*.

Small Business Week, 2009. *The Business Pulse 2009.* October.

Spielhofer, T., J. Nelson, L. O'Donnell and D. Sims, 2006. *The Role of Training Allowances in Incentivising the Behaviour of Young People and Employers*. Department for Education and Skills. Research Report RR756. (National Foundation for Educational Research.).

Steedman, H., 2008. *Time to Look Again at Apprenticeship Pay? Getting Cost-sharing Right*. SSDA Catalyst. Issue 5. Sector Skills Development Agency.

Stewart, M., 2009. *Testing for Spill-over Effects of the National Minimum Wage.* Research Report for the Low Pay Commission. December. (University of Warwick.)

Swaffield, J., 2008. *How Has the Minimum Wage Affected the Wage Growth of Low-wage Workers in Britain?* Presentation to the Low Pay Commission Research Workshop. September. (University of York.)

Swaffield, J., 2009. *Estimating the Impact of the 7th NMW Uprating on the Wage Growth of Low-wage Workers in Britain.* Research Report for the Low Pay Commission. (University of York.)

Trades Union Congress, 2008. *Still More (Better Paid) Jobs for the Boys. Apprenticeships and Gender Segregation*. June.

Turvey, A., 2009. Developing a Unit Labour Costs Indicator for the UK. *Economic & Labour Market Review*. 3(6), pp. 51–56.

UK Statistics Authority, 2009a. *Gender Pay Gap*. Monitoring and Assessment Note. 4/2009. June.

UK Statistics Authority, 2009b. *Average Weekly Earnings.* Assessment Report. 19. November.

Ullman, A. and G. Deakin, 2005. *Apprenticeship Pay: A Survey of Earnings by Sector*. Research Report RR674. Department for Education and Skills. (BMRB Social Research.)

Unwin, L. and A. Fuller, 2004. *National Modern Apprenticeship Task Force Employers: Their Perspectives on Modern Apprenticeships. Final Report*. Presented to the Apprenticeships Task Force. June.

Weale, M. R., 2008. *The Average Earnings Index and Average Weekly Earnings.* June. (National Institute of Economic and Social Research.)

Welsh Assembly Government, 2005. *Work–Based Learning Improvement Plan.*

Welsh Assembly Government, 2008. *Skills That Work for Wales. A Skills and Employment Strategy. Consultation*. January.

Welsh Assembly Government, 2009a. *National Comparators for Further Education and Work-Based Learning, 2007/08.*

Welsh Assembly Government, 2009b. *Further Education, Work-based Learning and Community Learning in Wales, 2008/09 (provisional figures).*

Welsh Assembly Government, 2009c. *Redundancy Action Scheme (ReAct)*.

Welsh Assembly Government, 2009d. *ProAct – Funding to Up-skill Staff Affected by Short-term Working*.

Welsh Local Government Association, 2009. *Securing Strong Partnerships in Care. Memorandum of Understanding*. WLGA, ADSS Cymru, Care Forum Wales, The Registered Nursing Home Association and The UK Home Care Association. February.

West, J., 2005. *Improving Completion Rates in Apprenticeship: A Comparative and Numerical Approach*. (Centre for Labour Market Studies.)

Wiseman, J., P. Roe and D. Boothby, 2003. *Evaluation of Modern Apprenticeships and National Traineeships in Wales*. A Report to the National Council for Education and Learning in Wales. June.

Woodsford, S., 2010. Services Producer Price Indices (Experimental) – Third Quarter 2009. *Economic & Labour Market Review*. 4(1), pp. 61–63.

information & publishing solutions

Published by TSO (The Stationery Office) and available from:

Online
www.tsoshop.co.uk

Mail, Telephone Fax & E-Mail
TSO
PO Box 29, Norwich, NR3 1GN
Telephone orders/General enquiries 0870 600 5522
Order through the Parliamentary Hotline Lo-Call 0845 7 023474
Fax orders: 0870 600 5533
E-mail: customer.services@tso.co.uk
Textphone: 0870 240 3701

The Parliamentary Bookshop
12 Bridge Street, Parliament Square,
London SW1A 2JX
Telephone orders/General enquiries: 020 7219 3890
Fax orders: 020 7219 3866
Email: bookshop@parliament.uk
Internet: http://www.bookshop.parliament.uk

TSO@Blackwell and other Accredited Agents

Customers can also order publications from
TSO Ireland
16 Arthur Street, Belfast BT1 4GD
028 9023 8451 Fax 028 9023 5401

ISBN 978-0-10-178232-6
9 780101 782326