



The manufacturers'
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EEF's response to the Low Pay Commission's Consultation on the National Minimum Wage

Overview

1. EEF, the manufacturers' organisation, is the voice of manufacturing in the UK, representing all aspects of manufacturing including engineering, aviation, defence, oil and gas, food and chemicals. With 6,000 members employing almost 1 million employees, EEF members operate in the UK, Europe and throughout the world in a dynamic and highly competitive environment.
2. Although the National Minimum Wage (NMW) has limited direct impact on manufacturers, it can impact upon firms' ability to maintain a flexible workforce due to the direct impacts on outsourced services for example, or the exacerbating effects it may have on regulation already hampering businesses' ability to grow. Our submission looks at these factors in more detail, before addressing the effects the NMW is having on businesses recruitment of young people.

The manufacturing outlook for October 2013 – September 2014

3. A recent EEF survey revealed that 56 per cent of manufacturers expected the number of employees to increase in the next two years. The percentage of employers that believed that the number of employees would moderately decrease was below 14 per cent and only one per cent believed that staff numbers would significantly increase within the next two years. ¹This suggests that the manufacturing industry will generally be looking to hire more workers in the coming years. However, the pace of hiring in the short-term is likely to be limited by on-going economic uncertainty and slow growth,
4. However, whilst recruitment intentions may appear relatively positive, employers still raise concerns around skills deficiencies and the UK becoming an increasingly uncompetitive place to do business, given the amount of red tape that prevents them from growing.
5. The Pensions Act and the Agency Workers Directive are just two examples of employment-related regulation that will have a significant impact on businesses. With regards to pension auto-enrolment, we believe that employers, whether or not they are currently providing an occupational pension, will see a significant cost increase. This will be exacerbated by planned increases to NMW in October 2012 and any proposed plans for October 2013. Increases in the NMW will be mirrored by

¹ EEF Skills Survey, 2012



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increases in pension contributions employers will need to make and also increases in national insurance contributions.

The impact of the National Minimum Wage on manufacturers

6. Since the NMW was introduced in April 1999, it has been increased by a rate in excess of both the rate of inflation and the average level of pay settlements reported by EEF members. Even during one of the UK's deepest recessions the NMW continued to rise. This was at a time of private sector redundancies and those employed by private sector employers were accepting pay freezes and even reductions.
7. EEF has long argued that the formula that should be used to determine future increases to NMW is a retrospective analysis of the movement of basic rates of pay across the economy. We consider the average level of basic pay settlements that has been reached across the economy over the previous 12 months would be a real approximation for this measure. This formula should be used because the NMW is a basic rate of pay with employees who are paid the NMW able to enhance their earnings through additional payments such as overtime, commission and bonuses.
8. Employers would benefit from greater certainty about the impact of future increases the NMW would have on their business. This would create greater foresight of future cost increases and action needed to offset any negative impacts. EEF has therefore in the past called for the NMW to be set over a greater period of time than a single year.
9. It is worth noting that although NMW has little direct impact on manufacturers whose employees enjoy a good level of remuneration, nonetheless, the NMW does have impact on those manufacturing companies that use outsourced services, such as security, catering and office cleaning. These are labour-intensive services, more often than not supplied by organisations where increases to the NMW directly linked to the actual pay of workers and where such increases are ultimately passed on to their customers.
10. The NMW also has an indirect impact upon the level of wages settlements sought in pay bargaining. The NMW is used as an index and has the effect of raising expectations in the wider economy. Workers who have received a wage 25 or 30% above the NMW are unlikely to easily accept this differential being reduced, and will look to their employers to maintain it. NMW increases therefore impact on the pay pressure in the wider economy.



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11. EEF would once again advise a certain amount of caution in proposing an increase to the NMW at all levels and urges the Commission to put forward our formula in its response to Government. The next recommendation, on the assumption that it is accepted by Government, will take effect after many employers will have passed their auto-enrolment staging date, and therefore the impact of any increase in the NMW for some employers will be magnified.

Young people, apprentices and interns

Raising the Participation Age

12. Raising the Participation Age to 17 in 2013 and 18 in 2015 has caused concern amongst some employers who may offer training and a subsequent job to a 16, 17 or 18 year old but that is not seen as an accredited apprenticeship framework.
13. As acknowledged in the Government's response to the RPA published on 4 July 2012, the potential for fines to be introduced for those employers that did not carry out the stated duties would act as a perverse incentive. Therefore we welcomed the Government's decision not to implement the duties on employers hiring younger workers within the RPA legislation until after 2013. We recommend that the Government removes duties due to be placed on employers altogether as such moves will not only deter employers from recruiting young people of this age, but may subsequently hamper growth.
14. Taking the above concerns into account the national minimum wage rate for 16 – 17 year olds should not be increased at a rate higher than our model referred to in paragraph 7 above suggests. An increase in wage rates for this age bracket that goes above the rate of inflation and pay settlements will disincentivize employers from recruiting young people.

Interns

15. There has been a long-standing debate on whether or not interns are paid NMW. Although some areas remain considerably grey, such as the lack of a legal definition of an intern, it is now widely understood that interns must be paid NMW unless the internship is compulsory to their studies e.g. a three month internship, or 12 month placement/ sandwich course within a company.
16. NMW rates again have limited impact on manufacturers who generally will pay above NMW to attract higher skilled workers. However, the NMW and the regulation that comes with offering these opportunities could be acting as a deterrent. A recent



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survey by EEF revealed that 13 per cent of manufacturers said monetary costs were a barrier to them engaging more with schools, further education establishments and higher education institutions. Although this may not refer to NMW rates directly, the additional costs associated with time and human resources means that the overall cost increases significantly. SMEs in particular are therefore less likely to offer internships because of these costs.

17. Internships do provide invaluable experience to young people, particularly at a time of high unemployment. Therefore, moves to encourage businesses to offer more of these opportunities should be explored. Professor Wilson's *A Review of Business-University Collaboration*² and the Lords Science and Technology Committee's report on STEM³ both suggested incentives for SMEs to offer internships and placements. This is a recommendation is supported by EEF.
18. As mentioned above, the legislation around internships and the definition of an intern is still imprecise. We would like to see a clear, legal definition of an intern, volunteer and work experience student so that businesses are not at risk of falling foul of NMW legislation.

Apprenticeships

19. Our recent skills survey revealed that 69 per cent manufacturing companies offered apprenticeship programmes, with 74 per cent offering manufacturing and engineering apprenticeships in the past 12 months. The NMW of apprentices (currently £2.60, increasing to £2.65 in October 2013) again has limited impact on manufacturers. The Department for Business Innovation and Skills' *Apprenticeship Pay Survey 2011* revealed that the average pay for an apprentice in the UK was £5.83, this increased to £6.23 for those undertaking engineering apprenticeships.⁴ This is supported by our own reports, which reveals that a Technician Apprentice at Year 1 earns an average wage of £9,704 per year, increasing to £11,332 in Year 2, £14,914 in Year 3 and £16,588 in Year 4.⁵
20. Whilst manufacturers offer above average rates of pay for apprenticeships, given the current state of the economy, we should act cautiously with regards to NMW increases for this age group.

Encouraging employers to recruit young people

² Professor Wilson, (2012) *A Review of Business-University Collaboration*

³ Lords' Science and Technology Select Committee, (2012), *Higher Education in Science, Technology, Engineering and Maths*

⁴ Department for Business, Innovation and Skills *Apprentice Pay Survey 2011*

⁵ EEF, Workforce Pay Benchmark Issue 6 March 2012 Available at:
<http://www.eef.org.uk/NR/rdonlyres/D377CFCD-E692-41A6-8A29-6300ED1EA4BB/20694/WorkforcePayBenchmarkIssue62014.pdf>



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21. The Government's Youth Contract, a £1billion package to get young people into, or back into, work highlights the need to offer incentives to employer to take on young people. For the wage incentive (£2,275) to be attractive to employers, then the Youth Development Rate must be set a rate where it does offset the incentive. We believe that the Youth Development Rate should therefore be frozen in October 2013.
22. Furthermore, youth unemployment goes beyond the age of 21, with the Youth Contract initiatives aimed at 16 to 24 year olds. If the Government is serious about reducing youth unemployment, then it may want to consider the relatively differential between the Youth Development Rate (£4.98) and the Adult Rate (£6.19) and provide greater tapering between the bands. Currently, the rates may operate to disincentivise employers retaining or recruiting workers over the age of 21.
23. The barriers to recruiting young people go beyond NMW rates, with employers citing lack of employability skills, as well as lack of numeracy and literacy skills as reasons against recruiting young people. Until these issues are addressed, then the recruitment of young people is likely to remain difficult.