Department for Business Innovation & Skills

NATIONAL MINIMUM WAGE

Final Government Evidence for the Low Pay Commission's 2014 Report

JANUARY 2014

Ministerial Foreword

I am pleased that one of my first tasks as Minister for Employment Relations is to publish the Governments final evidence to the Low Pay Commission (LPC) on the National Minimum Wage.

The National Minimum Wage has continued to protect the relative wages of the low paid and is why the Coalition Government has renewed its commitment to the policy over the recession.

Since the Coalition submitted its interim evidence to the Low Pay Commission in October 2013, adult employment has continued to rise, with record numbers in the labour force, and the economy is showing further signs of recovery. The LPC have proved that a rising minimum wage can go hand in hand with a flexible, fair and effective labour market.

It has been a busy year for the National Minimum Wage. In August 2013, Jo Swinson MP announced that we are reforming the rules to make it easier to name and shame employers who fail to pay the National Minimum Wage. We will make our first announcement under the revamped scheme early this year – a strong signal that we will crack down on employers who break the law.

In addition, the Prime Minister announced in November that we will be increasing the financial penalty that non-compliant employer's pay - with a penalty of up to £20,000 for every under-paid employee.

September 2013 saw the Secretary of State for Business ask the Low Pay Commission to consider the conditions that would need to be in place in order to allow a faster increase in the minimum wage, taking into account the implications on employment. This reflects a desire in Government to better understand the whole suite of issues that affect low pay. The evidence towards this is considered separately in Final government evidence for the Low Pay Commission on the Additional Assessment.

We want the low paid to share in the benefits of growth. That is why we have also increased the income tax threshold so that from April this year, we are taking people earning less than £10,000 a year out of the income tax system. Someone working full time on the National Minimum Wage will have seen their income tax bill reduced by nearly two thirds by April 2014 due to the personal allowance increases since 2010. Further, from April 2015, there will be an added incentive for employers taking on those under 21 – they will not be required to pay National Insurance Contributions for these employees on earnings up to £813 per week.

In this document it is important to reiterate the huge value we attribute to the work of the LPC and welcome its ongoing focus in helping as many low paid workers as possible, without adversely impacting employment prospects. We again encourage the Commission to retain this focus for its next report.

We look forward to receiving the Commission's 2014 report.

Jenny Willott MP

Minister for Employment Relations and Consumer Affairs

January 2014

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Executive Summary

This report updates Government evidence following the release of the latest economic and earnings data and forecasts. It is divided into four main chapters plus wider issues of interest to the Low Pay Commission in the annexes. It sets out what the Government would like the Low Pay Commission (LPC) to consider on National Minimum Wage (NMW).

The Government's evidence does not set out any new policy – it brings together the economic issues and policies that affect the NMW. The evidence therefore provides updates on remit issues as well as policy updates for areas in which the Low Pay Commission have previously shown an interest.

The main messages from each of the chapters are:

- **Macro-economy**

  Through the recent period of uncertainty, the government's long-term economic plan has ensured economic stability and provided the foundations for the current recovery which is now gaining further momentum as the factors weighing on UK growth between 2010 and 2012 continue to ease. But external risks remain.

  The latest figures from the ONS show positive signs that the UK economic recovery is moving forwards with the strongest growth in GDP for five years and employment is at its highest ever level.

  Although the employment level is at a record high, the employment rate remains 1.2 percentage points below the pre-recession peak. Government continues to regard employment as one of the important factors influencing the NMW, but also wishes to see this argument capturing the supply side concerns over incentives to work and other factors affecting the cost of labour.

- **Evidence on pay**

  Median earnings have risen faster than the NMW between April 2012 and April 2013 and as a result the adult minimum wage as a proportion of median earnings (the bite) has decreased by 0.6 percentage points back to its level in 2011.

  The NMW bite for young people is much higher than it is for adults. For 18 to 20 year olds it peaked in 2011 and has since fallen back slightly to 78.2 per cent. The 16-18 bite has increased to its highest ever level at 73.6 per cent.

  Unfortunately we were unable to use the new information from ASHE to analyse Apprenticeship pay.

  Between 2007/08 and 2012/13, take-home pay increased by more than gross weekly earnings for most adult NMW workers due in large part to increases in the income tax personal allowance.

Over the same period, it is worth noting that the 'labour costs' associated with employing adult NMW workers[1] increased less than the gross weekly pay of most adult NMW workers. This was driven by increases in the employer National Insurance contributions (NICs) threshold offsetting the effect of increases in the employer NICs rate between 2007/08 and 2012/13.

- **Labour market**

As the adjustment in real wages lags behind changes in demand there was an increase in unemployment as a result of the financial crisis. However employment and the performance of the UK labour market has been resilient following the crisis when compared historically and internationally.

Since then employment growth has been strong, the number in employment exceeded 30 million for the first time in the three months to October 2013 and is up by 1.28 million from the post recession trough in the three months to March 2010. The employment rate for the working age population in the three months to October is 72 per cent, up 0.8 per cent since this time last year although still 1 percentage point below the pre-recession peak.

The growth in employment in low paying sectors has been positive at 2.1 per cent since September 2012 matching growth in non-low paying sectors over the same period. Growth in hours worked in low paying sectors has also been positive.

- **Youth labour market**

The labour market for young people remains in a worse position compared to before the recession as well as in comparison to adults. The youth employment rate is more than seven percentage points lower than the pre-recession rate and the youth unemployment rate is over six percentage points higher than before the recession). In terms of levels, there were 941,000 young people (16 – 24) unemployed in October 2013, down from over a million in mid-2011.

There appears to be a structural issue in the youth labour market relating to the transition between education and employment – the number of young workless people that have never had a paid job has been increasing since the early 2000s.

The NMW bite for young people is much higher than it is for adults. For 18-20 year olds it peaked in 2011 due to the fact that the youth NMW rates have increased faster than median hourly earnings of young people, and has since fallen back slightly. For 16-17 year olds the bite dipped in 2012 before reaching its highest ever level in 2013.

By 2015, the Government will require all 16 and 17 year olds in England to continue in education or training. From this September, students must continue in education or training up to the end of the academic year that they turn 17. While the vast majority of 16 and 17 year olds already continue in some form of education or training and there will be no new costs to employers as a result of raising the participation

[1] Their gross weekly wages plus employer National Insurance contributions

age, to accommodate these changes there will need to be an increase in jobs with training, otherwise all of any participation increases will need to come from more people staying on in education.

Having a trained and qualified workforce has clear benefits for a business, particularly in terms of productivity, so employers may wish to consider how training could support their business needs.

The Cabinet Office have been leading a cross Government Review looking at how to improve labour market outcomes for young people. This ongoing work is continuing to inform Government policy.

- **Naming non-compliant employers**

  The revised NMW Naming and Shaming scheme came into effect on 1 October 2013. The new rules are part of Government efforts to toughen up enforcement of the NMW and increase compliance.

  By naming and shaming employers it is hoped that bad publicity will be an additional deterrent to employers who would otherwise be tempted not to pay the NMW. This is on top of financial penalties which employers already face if they fail to pay NMW.

- **The National Minimum Wage financial penalty**

  Following an announcement by the Prime Minister the Government will be taking a tougher approach on employers that do not pay their workers the minimum wage to which they are legally entitled. They will be faced with a penalty of up to £20,000 for every underpaid worker.

REMIT ISSUES – NMW RATES

Section 1: Remit issues - Macroeconomic conditions and outlook

Summary

Through the recent period of uncertainty, the government's long-term economic plan has ensured economic stability and provided the foundations for the current recovery which is now gaining further momentum as the factors weighing on UK growth between 2010 and 2012 continue to ease. Although external risks remain.

The latest figures from the ONS show positive signs that the UK economic recovery is moving forwards with the strongest growth in GDP for five years and employment is at its highest ever level. GDP growth in 2013 Q3 was stronger than forecast at 0.8 per cent, of the G7 economies only the US grew faster. Growth forecasts for the UK by the Office for Budget Responsibility, the Bank of England, International Monetary Fund and Organisation for Economic Co-Operation and Development have been revised up for 2013 and 2014. However, in contrast forecasts for global growth have been revised down.

Although employment is at record levels, the employment rate remains 1 percentage point below the pre-recession peak.

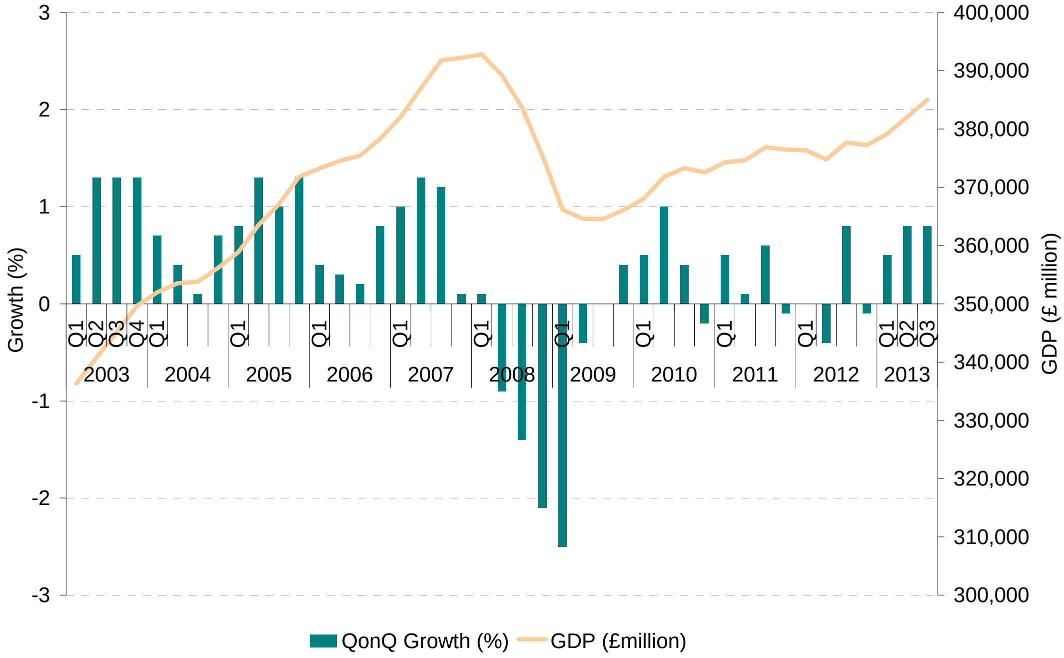
Reflecting increasing momentum in the UK economy through 2013 the OBR has revised up its forecast for GDP growth in 2013 from 0.6 per cent to 1.4 per cent, the largest in year upward revision since 1999. Its forecast for GDP growth in 2014 has been revised up from 1.8 per cent to 2.4 per cent. The OBR has forecast GDP growth of 2.2 per cent in 2015, 2.6 per cent in 2016, 2.7 per cent in 2017 and 2.7 per cent in 2018. Relative to the March forecast the OBR has revised cumulative real GDP growth from the end of 2012 to the start of 2018 up by 1.4 percentage points.

Economic background

Economic growth, inflation and unemployment: the latest figures

The ONS's preliminary estimate of GDP in 2013 Q3 shows quarter-on-quarter growth of 0.8 per cent and growth of 1.9 per cent compared with 2012 Q3. The latest results show growth is at its strongest level for the past five years[2].

Chart 1.1: GDP (£ millions) and quarter on quarter growth, 2003 - 2013



Source: Quarterly National Accounts, December 2013, Office for National Statistics

The most recent quarterly data from Eurostat[3] estimates suggest that euro area GDP is up 0.1 per cent and EU28[4] up by 0.2 per cent on the quarter in 2013 Q3. This follows 2013 Q2 growth of 0.3 per cent in both areas that signalled the end of an 18 month recession in the euro area. However, compared with the same quarter of the previous year, seasonally adjusted GDP fell by 0.4 per cent in the euro area and rose by 0.1 per cent in the EU28. Based on currently available data, two euro area countries remain in recession.[5]

The factors which weighed on UK growth between 2010 and 2012 are abating. The effect of the financial crisis is easing and credit conditions have improved. The euro area sovereign debt crisis has stabilised, and the euro area grew in the second and third quarters of 2013, though activity remains subdued. Pressure from commodity price rises

[2] However, caution should be used when comparing annual growth due to the Olympics and Paralympics taking place in 2012, raising the level of GDP in this quarter.
[3] Eurostat 2013 Q3 GDP Flash Estimates
[4] The Eropean Union expanded with the accession of Croatia on 1 July 2013, and now covers 28 countries.
[5] These are Italy and Slovenia

has eased, with prices generally stabilising through 2013, though they remain high. However, external risks remain, reinforcing the case for stability in the government's long-term economic plan.

In November, CPI inflation slowed to 2.1 per cent, less than half its peak of 5.2 per cent in September 2011. The MPC judged in the November 2013 Inflation Report that it is set to remain around the 2 per cent target over the next year or so.

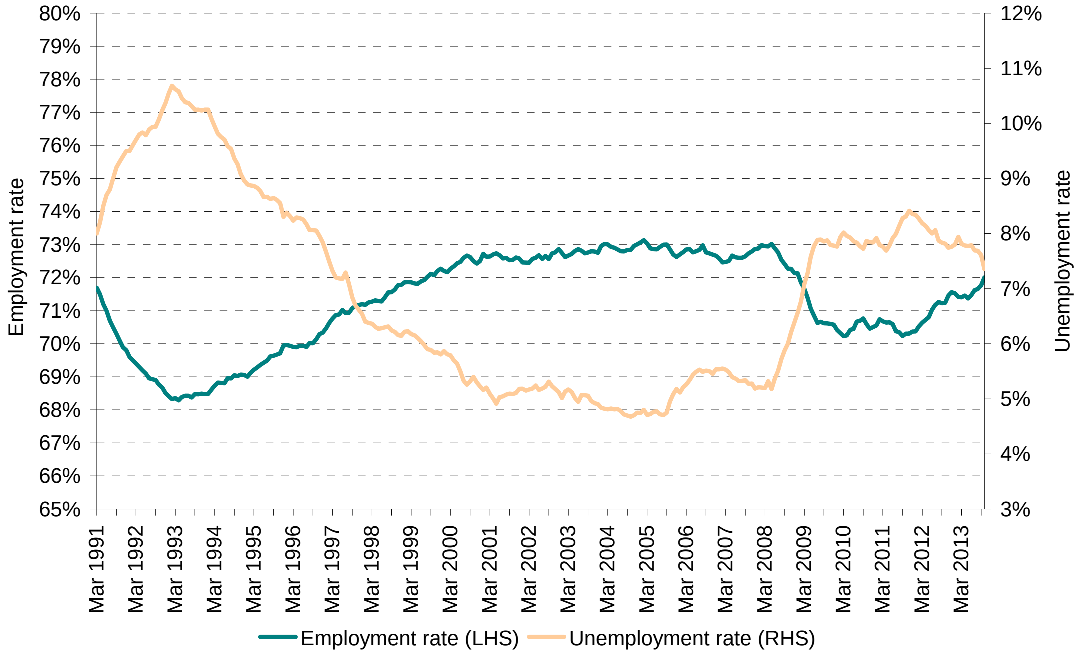
Utility price increases occurred later than expected and are not fully reflected in this recent data. The OBR expects the rate of inflation to slow between 2013 and 2016, returning to the 2 per cent target in the second half of 2016. This does not include the possible impact of reforms announced in Autumn Statement 2013 that will result in an average saving of £50 in household bills by reducing the impact of government policies on energy bills. The OBR state in its Economic and fiscal outlook that "inflation expectations are assumed to remain anchored to the target".[6]

The UK has seen a net increase of over 1.6 million jobs in the private sector since the first quarter of 2010 and almost four jobs have been created in the private sector for every public sector job lost. All regions of the UK have seen an increase in employment since the three months to April 2010. Employment in the three months to October 2013 is 514,000 above the pre-crisis peak and at its highest ever level. The employment rate in the UK is higher than in the US, France and Italy. In the last year, employment in the UK has grown faster than in France, Italy, Japan and the averages for the EU and G7 countries. The UK unemployment rate is now at its lowest point for over 4 years, at 7.4 per cent in the three months to October.

Over the same period, the number of people inactive in the labour market fell to its lowest share of the working-age population since 1991. This is in contrast to previous UK recessions and also the current experience of the US where the labour market activity rate has fallen markedly.

[6] Economic and Fiscal Outlook, December 2013

Chart 1.2: UK employment and unemployment rates



Source: Office for National Statistics Labour Force Survey
Notes: Employment rate is for 16 to 64 year olds, unemployment rate is 16 years and over

Economic outlook, forecasts and revisions

Our last evidence, submitted to the LPC in December 2012, contained HMT's average of independent forecasts from November 2012 and Office for Budget Responsibility (OBR) forecasts from December 2012. The December 2013 average of independent forecasts, compiled by HM Treasury, for GDP growth was 1.4 per cent for 2013 and 2.4 per cent for 2014. The OBR forecast[7] that annual GDP growth will be 1.4 per cent in 2013[8] and 2.4 per cent in 2014 (in line with consensus).

Table 1.1 updates these forecasts for GDP and consumer price inflation (CPI) up to 2015.

[7] Economic and Fiscal Outlook, March 2013
[8] Preliminary GDP estimates up to Q2 2013 suggest that GDP has grown by 0.9 per cent so far in 2013.

Table 1.1: Forecasts for GDP growth 2013 to 2015

Forecasts for GDP growth (per cent)	**2013**	**2014**	**2015**
OBR (December 2013 Autumn Statement)	1.4	2.4	2.2
Bank of England mode projection* (November *Inflation Report* 2013)	1.6	2.9	2.5
Avg. of independent forecasters (December 2013)**	1.4	2.4	2.4
Forecasts for consumer price inflation (CPI) (per cent)			
OBR (December 2013 Autumn Statement)	2.6	2.3	2.1
Bank of England mode projection (November 2013)	2.2	2.1	1.9
Avg. of independent forecasters (December 2013)	2.3	2.4	2.2

Notes:
*Assuming market interest rate expectations and £375bn asset purchases
**Forecasts for the UK economy: A comparison of independent forecasts, December 2013, compiled by HM Treasury.

The UK has been hit by the most damaging financial crisis in generations and the government inherited the largest deficit since the Second World War. Through this period of uncertainty, the government's long-term economic plan has ensured economic stability and provided the foundations for the current recovery which is now gaining further momentum as the factors weighing on UK growth between 2010 and 2012 continue to ease.

The UK economy has gained momentum through 2013 and GDP growth has exceeded forecasts. UK GDP grew by 0.5 per cent in the first quarter and by 0.8 per cent in both the second quarter and third quarter.[9] There are also early signs that GDP growth is balanced across the main sectors of the economy. In the third quarter of 2013, the services sector grew by 0.8 per cent, the construction sector by 2.6 per cent and the manufacturing sector by 0.8 per cent. Reflecting this increased momentum, the Office for Budget Responsibility's (OBR) Autumn Statement 2013 forecast revises up UK GDP growth in 2013 and 2014.

In the Bank of England's November 2013 Inflation Report, the Monetary Policy Committee (MPC) concluded that the UK recovery has "taken hold" and the growth outlook is stronger than it was reported in August. Domestic demand has improved due to greater certainty and improvements in credit conditions. As a result the Bank has revised up its GDP growth forecast to 1.6 per cent in 2013, from 1.4 per cent in its August Inflation Report, with a stronger outlook in 2014 with growth at 2.9 per cent.

The Bank continues to expect inflation to fall back to around the 2 per cent target over the next year as the effect of past imports price increases subside, with a persistent margin of spare capacity curbing domestic price pressures.

[9] Quarterly National Accounts, December 2013

Monetary policy has a critical role to play in supporting the economy as the government delivers on its commitment for necessary fiscal consolidation. The government has ensured that monetary policy can continue to play that role fully by updating the UK's monetary policy framework and remit for the MPC at Budget 2013.

As part of the remit update, the government clarified that the MPC may judge it appropriate to deploy explicit forward guidance, including intermediate thresholds, in order to influence expectations and thereby meet its objectives more effectively. The government highlighted that this would likely be most pertinent should the MPC judge spare capacity is likely to persist for a considerable period.

The MPC responded with a detailed assessment, Monetary policy trade-offs and forward guidance, on 7 August 2013. Based on this assessment, the Committee announced its intention to maintain its policy stance of Bank Rate at a record low of 0.5 per cent and not to reduce the stock of asset purchases financed by the issuance of central bank reserves from £375 billion at least until the Labour Force Survey (LFS) headline measure of the unemployment rate had fallen to a 'threshold' of 7 per cent, subject to there being no risks to price or financial stability.

Monetary policy therefore remains supportive of the recovery and forward guidance has enhanced the effectiveness of the MPC's instruments.

As the minutes of the MPC's October 2013 meeting stated, *"The news on the month had continued to suggest a robust recovery in activity in the United Kingdom. Monetary stimulus remained considerable and confidence appeared to be rising".*

HM Treasury compiles and compares independent forecasts for the economic outlook. The latest edition in December put the average GDP growth forecast for 2013 at 1.4 per cent and 2014 at 2.4 per cent. CPI inflation is predicted to be 2.3 per cent in 2013 and 2.4 per cent in 2014. While this shows inflation expectations have fallen, it is over a longer timeframe than that envisaged by the Bank of England.

The OECD and IMF also recently released their growth forecasts which show that the global recovery remains uneven. The OECD expects the global economy to expand at a moderate pace over the coming two years and in November revised down its global growth forecast to 2.7 per cent over 2013, down from 3.1 per cent forecast in May, and 3.6 per cent in 2014 from 4 per cent in May. By contrast the OECD's growth forecast for the UK was revised upwards to 1.4 per cent this year from 0.8 per cent in May, accelerating to 2.4 per cent in 2014.

In October the International Monetary Fund (IMF) published its World Economic Outlook with revised growth forecasts indicating a slower rate of global growth than was forecast in July 2013. In October the global growth forecast for 2013 was revised down by 0.3 percentage points to 2.9 per cent and for 2014 down by 0.2 percentage points to 3.6 per cent. Most of the downward revision stems from decreased activity in developing nations. Again, in contrast, the UK saw the largest upward revision for 2013 by 0.5 percentage points to 1.4 per cent and 2014 up by 0.4 percentage points to 1.9 per cent. Predictions for the euro area show a contraction of 0.4 percent in 2013, an upward revision of 0.1 percentage points since July, returning to growth in 2014.

The OBR's upward revision to UK GDP growth in its Autumn Statement forecast reflects predictions of a smaller output gap across the forecast period compared to its Budget 2013 forecast. The estimated output gap is almost closed by 2018 at -0.2 per cent of potential output. This suggests that the OBR expect the UK economy to be operating at almost full capacity by this point. This narrowing of the output gap means the upward revision in real GDP growth is cyclical rather than structural, reducing the amount of spare capacity in the economy.

Budget 2013 highlighted the key global risks: the euro area sovereign debt crisis, the US 'fiscal cliff', and slowing growth in emerging markets. A more complex global picture has emerged over 2013, with an easing of some tail risks, particularly in the euro area. But political and economic risks remain, for example US fiscal risks and further slowdowns in several major emerging markets. In addition, the possibility that the US Federal Reserve will slow the rate of monetary policy asset purchases has triggered significant movements in global capital flows.

Further to these international risks, oil prices this year peaked in August at $117 per barrel in response to instability in the Middle East. However, prices have since fallen back, and at around $108 per barrel, the 2013 average has been slightly down compared with recent years. The pressures created by rising prices between 2009 and 2011 have largely worked through the system. Nevertheless, risks remain, and a significant commodity price shock has the potential to destabilise the UK recovery.

Section 2: Remit issues - Evidence on pay

Summary

The last seven annual upratings of the adult National Minimum Wage (2007 to 2013) have been broadly in-line with forecasts of average earnings growth. The upratings of the youth rates have been smaller.

As median earnings have increased faster than the NMW between April 2012 and April 2013, the minimum wage as a proportion of median earnings or 'the bite', has decreased by 0.6 percentage points back to its level in 2011. Between April 1999 and April 2013, the 'adult bite' has increased by seven and a half percentage points.

Before April 2007, the adult bite of the NMW, based on Annual Survey of Hours and Earnings (ASHE) data, increased as NMW increases were larger than increases in median earnings. Between April 2007 and April 2010, the bite was relatively stable. This is because ASHE hourly median earnings grew at a similar rate to average earnings' growth over this period.

The NMW bite for young people is much higher than it is for adults. The 18 to 20 rate peaked in 2011, and in 2013 has fallen back slightly to 78.2 per cent. The 16-18 bite has increased to its highest ever level at 73.6 per cent.

Median gross weekly pay for NMW workers as a proportion of median gross weekly pay for all workers is lower than the bite of the NMW on median hourly earnings, and has increased since the introduction of the NMW and reached around 35 per cent of the median in April 2013.

Between 2007/08 and 2013/14, take-home pay (earnings after taxes and other deductions) increased by more than gross weekly earnings for most adult NMW workers due in large part to increases in the income tax personal allowance. Between 2012/13 and 2013/14 weekly take home pay increased in real terms for most NMW workers.

Between its introduction in October 2010 and October 2013, the apprentice rate will have increased by 7 per cent. This increase is higher than the increase in the adult NMW and the increase in average earnings over the same period. ASHE apprentice data is not yet available from the ONS as it is being quality assured and we will look to analyse this once available.

Economic background

Growth in the adult National Minimum Wage rate

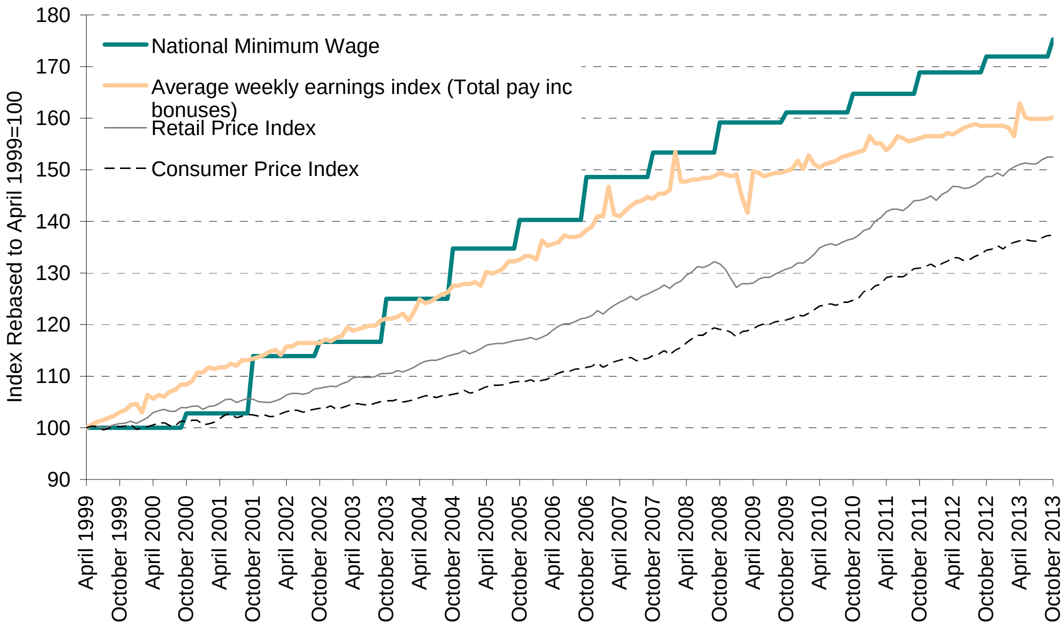
The last seven annual adult upratings (2007 to 2013) have been in line with average earnings' growth. This followed increases in the adult NMW in 2001, 2003, and 2004 that were substantially above average earnings' growth.

Since it was introduced, the NMW rate has increased substantially faster than both average earnings and prices. The October 2013 NMW rate will be 75 per cent higher than the original April 1999 level. In comparison, between April 1999 and April 2013 the rise in Average Weekly Earnings (total pay, including bonuses) is estimated to be around 63 per cent (see Chart 2.1), the increase in the Consumer Price Index (CPI) is estimated to be around 36 per cent, and the increase in the Retail Price Index (RPI) around 51 per cent between April 1999 and April 2013.[10]

[10] It is important to note that RPI is no longer regarded as a national statistic by the Office for National Statistics. However, there are a number of reasons that we use it as a comparator for this analysis. Primarily, the RPI was used extensively for wage negotiations in the past due to a widely accepted view that it represented living costs more accurately than other measures. Secondly, the RPI includes housing costs in its basket of goods which can make up a significant proportion of an individuals' costs, especially for the low paid. Thirdly, the RPI is a base weighted average, whereas other measures (such as CPI and RPIJ) are current weighted. This means that the RPI measures changes in price of the basket of goods only; current weighted measures are affected by changes in quantities as well as price.

Chart 2.1: Adult NMW rate changes compared to earnings growth and inflation

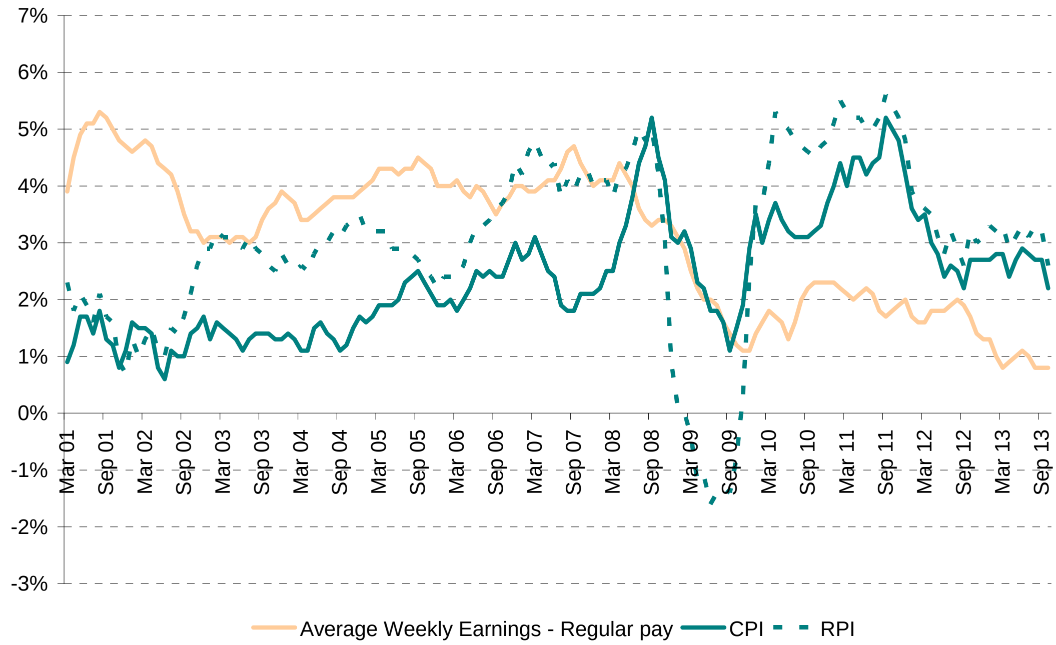
Index rebased to April 1999=100



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

The NMW in real terms has been decreasing since 2007 because increases in consumer prices have been higher than increases in the NMW. Deflating the NMW by CPI, the adult NMW in October 2013 was at a similar level to in 2004. Deflating by RPI, it was at a similar level to in 2003. Chart 2.2 below shows average weekly earnings, CPI and RPI inflation. Increases in average prices have been larger than increases in average wages since around mid-2008.

Chart 2.2: Annual change in average weekly earnings, consumer and retail prices

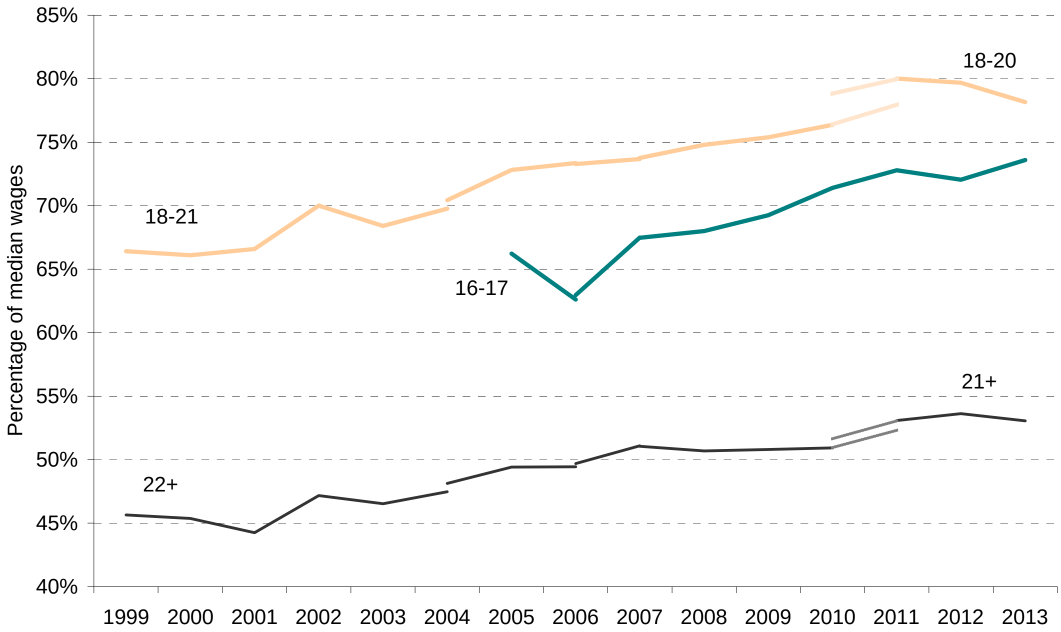


Source: Office for National Statistics. Average weekly total pay growth on a year ago 3 month average (KAI9). RPI, percentage change over 12 months (CZBH). CPI annual growth rate (D7G7).

The bite of the National Minimum Wage rate

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

Chart 2.3: The bite of the NMW rates



Source: Office for National Statistics, Annual Survey of Hours and Earnings. 1999-2004 ASHE data - excluding supplementary information 2004-2006 ASHE data - old methodology. 2006-2013 ASHE data - new methodology.

Between April 2012 and April 2013, the adult bite decreased by 0.6 percentage points and now stands as the same level as in 2011. Since its introduction, the bite of the adult NMW rate has steadily increased from 45.6 per cent of the median wage in 1999 to 53.1per cent in April 2013. The most recent decrease indicates median earnings have increased faster than the NMW.[11]

From October 2010, 21 year olds were included in the scope of the adult rate. This could partly explain the increase in the adult bite between April 2010 and April 2011 due to a reduction in the median earnings by including this group. However, as is demonstrated by the dotted black line in chart 2.3, the bite for both age groups, 21+ and 22+ increased over this period.

The 'adult bite' has increased by around 8 percentage points since the NMW was introduced in 1999. However, it remained broadly stable between April 2007 and April 2010. Our most recent bite estimate does not measure the impact of the October 2013 uprating in the NMW rate, as median earnings' data for this period is not yet available.

The bite for 18-20 year olds fell slightly for the second consecutive year between April 2012 and April 2013 to 78.2 per cent of the median in 2013. 21 year olds moving out of scope of the development rate is likely to have contributed to the relatively large jump in

[11] In this report we use earnings' data from the 2013 Annual Survey of Hours and Earnings and calculate bites based on the appropriate NMW rates for April 2013.

the associated bite between April 2010 and April 2011. The impact of this change was greater for this age group than for adults.

The bite for 16-17 year olds on the other hand increased between April 2012 and April 2012 to 73.6 per cent, following a fall in the bite the previous year. The rise in the bite comes despite the freeze in the 16-17 year old and development rate in October 2012 Further discussion on youth earnings is presented in section four.

Gross weekly earnings of adult NMW workers

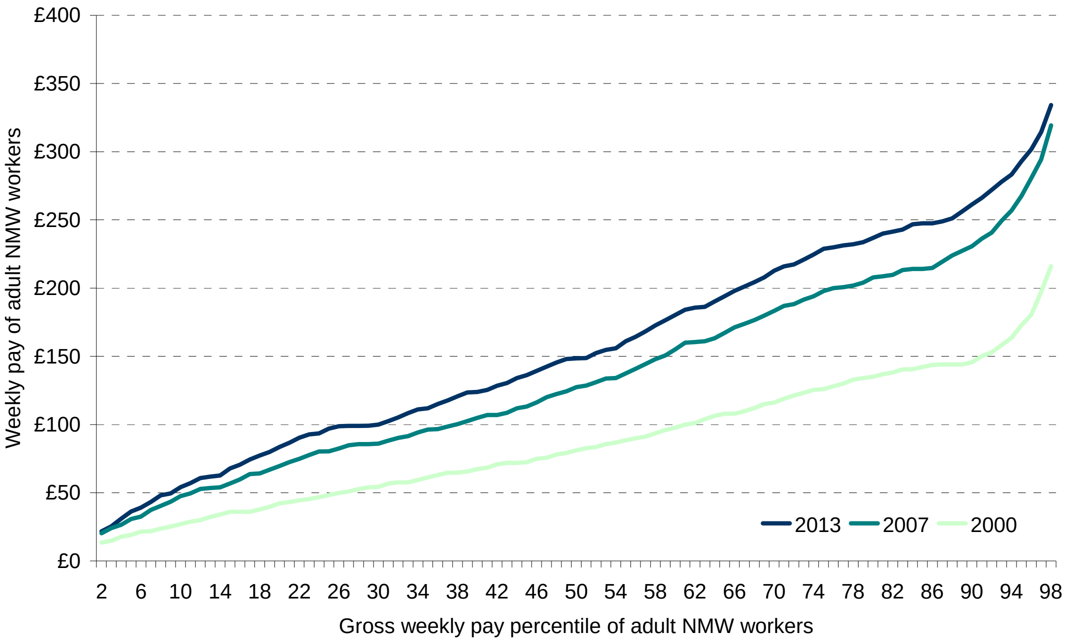
The following analysis includes only adult NMW workers[12] and examines the characteristics of the weekly pay received by this group of individuals in 2000, 2007 and 2013. The reason these years have been chosen is because April 2000 is a year after the NMW was introduced, which gives some time for the policy to have impacted upon pay; the period up to 2007 was a period of relatively large increases in the NMW; finally, April 2013 was the last update for this data source.

Chart 2.4 shows the gross weekly pay distribution for adult NMW workers in April of 2000, 2007 and 2013. In nominal terms, weekly pay for this group has generally increased across the distribution, with larger increases occurring in 2000 – 2007 than in 2007 – 2013.[13] Cash increases have been larger for those at the upper end of the distribution than for those at the bottom, whereas in percentage terms, increases have been larger at the bottom end of the distribution. Apart from increases to the hourly NMW (which are the same across this distribution), the two elements that can change a NMW workers gross weekly pay are the number of hours that they work or the amount of non-basic pay that they receive.

Median gross weekly pay for adult NMW workers was around 35 per cent of the median for all adult workers in April 2012. This has increased from around 29 per cent in April 2000 and 32 per cent in April 2007. The bite of the adult NMW on median hourly earnings is much higher. In April 2013 it stood at 53.1 per cent, slightly below its highest ever level in April 2012 (see above). This difference in bite between weekly and hourly wages can partly be explained by the fewer hours worked by NMW workers, due to a higher proportion of part-time workers. The median number of hours worked of a worker paid at or below the NMW is 35.3 hours, compared to 36.8 hours for those paid above NMW.

[12] Individuals aged 21+ (22+ in 2000 and 2007) earning at or below, or up to 5 pence above the minimum wage at the time of data collection (April)
[13] In real terms, gross weekly pay increased across the distribution between 2000 and 2007 but fell between 2007 and 2012.

Chart 2.4: Gross weekly pay distribution of adult NMW workers only* (current prices)



*Individuals aged 21+ (22+ in 2000 and 2007) earning at or below, or up to 5 pence above the minimum wage at the time of data collection (April)

Source: BIS analysis of the Annual Survey of Hours and Earnings micro data

Income tax and national Insurance contributions for adult NMW workers

Chart 2.5 below shows the percentage change in gross weekly pay, 'Take-home pay'[14] and 'Labour costs',[15] for each of the percentiles of the gross weekly pay distribution of adult NMW workers between April 2000 and April 2007[16]. The chart also shows the percentage increase in the hourly NMW rate and the CPI index over the period for comparison.[17]

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[14] 'Take-home pay' in this context is defined as post tax earnings or gross weekly pay with employee National Insurance Contributions (NICs) and income tax subtracted. This assumes that all eligible adult NMW workers pay the main contribution rate (and if eligible the additional contribution rate) i.e. no contracted out rebates or reduced rates for married women and widow optants. It is important to note that these estimates do not represent the full value of take-home pay as individuals may also pay in to a pension or make other pre-tax payments out of their salary.

[15] 'Labour costs' in this context is gross weekly pay with employer NICs added. These estimates do not fully represent the full value of 'labour costs' as employers may, for example, make pensions contributions or provide uniforms to workers which would be considered additional non-wage labour costs.

[16] 2000/01 and 2007/08 tax years used for calculations

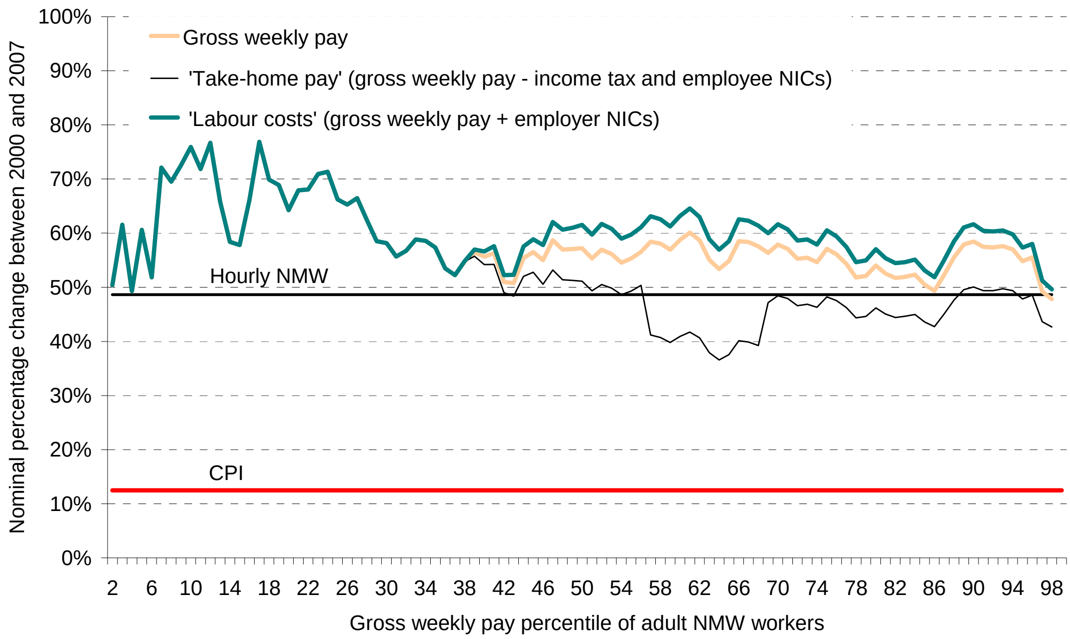
[17] Household incomes are also dependent on interactions with the tax credit and benefit system. Many of the individuals working at the minimum wage will be in receipt of tax credits
and housing benefit, which have usually been linked to inflation over the period 2000-2012. Therefore, trends in take home pay are not necessarily identical to trends in real household income. In addition, in many cases, growth in net earnings will lead to a deduction in entitlements to working age benefits, meaning that

Between 2000 and 2007, the three series follow the same path at the bottom of the distribution, diverging at the 38th percentile. This marks the point in the gross weekly pay distribution of NMW workers at which they enter the tax system. Workers up until this point pay no income tax or National Insurance Contributions (NICs).

For most adult NMW workers, gross weekly pay increased faster than both NMW and CPI over this period. 'Take-home pay' also increased faster than CPI for most NMW workers and faster than the NMW for most workers earning below median gross weekly pay.

For NMW workers in the tax system, 'labour costs' associated with employing them increased by more than their gross weekly earnings and 'take-home pay'. 'Take-home pay' increased the least for those around the sixth decile. This is due to the changes in basic and 10p tax thresholds and the rate of increase in weekly earnings between 2000/01 and 2007/8.

Chart 2.5: Percentage changes in gross weekly pay, 'take-home pay' and 'labour costs' at each gross weekly pay percentile for adult NMW workers, 2000 to 2007



Source: BIS analysis of the Annual Survey of Hours and Earnings micro data

the effect of an increase in the minimum wage on net household income is smaller than that shown in Chart 2.5.

Box 2.1: Changes to income tax, the personal allowance and NICs between 2000/01 and 2007/08

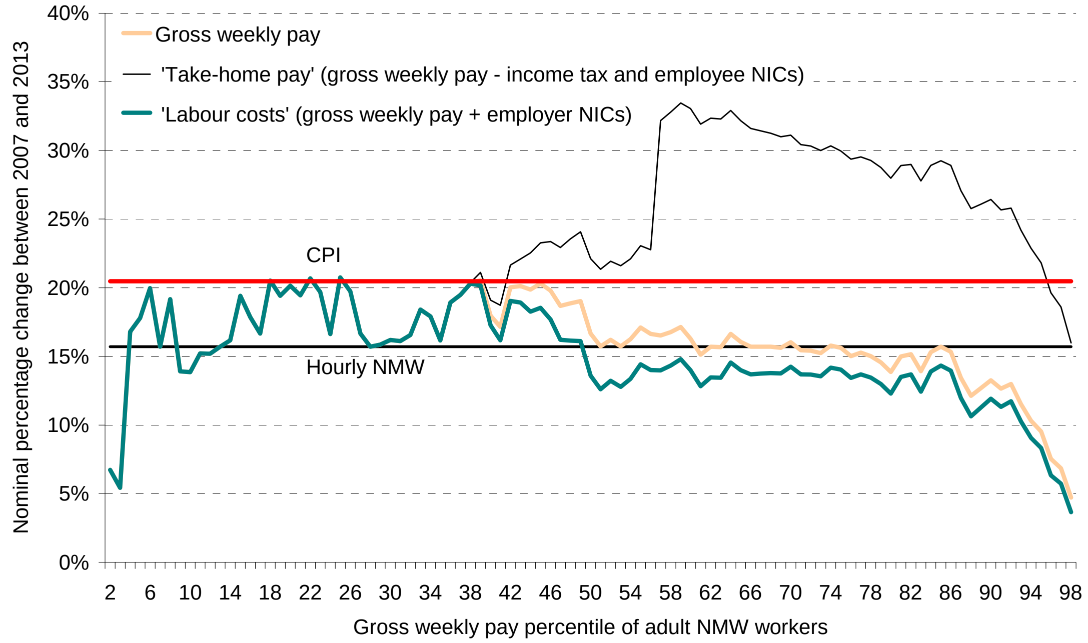
Between April 2000 and April 2007, there was a 1 percentage point increase in the NICs main contributions rate (from 10 per cent to 11 per cent). In addition to this, the primary threshold (the point at which employees start paying NICs) increased from £76 in 2000/01 to £100 in 2007/08; a 32 per cent increase – slightly faster than the increase in RPI over the same period.

Examining income tax over this period, the personal allowance and the threshold at which individuals paid the basic rate of tax increased by around 26 per cent. In contrast, the threshold for the '10 pence tax rate' increased by 19 per cent – less than the increase in the NMW.

Between 2000 and 2007, the threshold at which employers paid NICs increased from £84 to £100 per week; 19 per cent, and the rate increased by 0.6 percentage points[1] starting at 12.2 per cent in 2000/01 rising to 12.8 per cent in 2007/08.

Chart 2.6 below illustrates movements in the same variables as Chart 2.5 above but over the time period 2007 and 2013 while Chart 2.7 illustrates the changes over the last year

Chart 2.6: Percentage changes in gross weekly pay, 'take-home pay' and 'labour costs' at each gross weekly pay percentile for NMW workers, 2007 to 2013



Source: BIS analysis of the Annual Survey of Hours and Earnings micro data

Chart 2.6 shows that the point in the gross weekly pay distribution for adult NMW workers at which changes in gross weekly pay diverge from changes in 'take-home pay' and 'labour costs' is the 38th percentile, around the same point as for 2000 – 2007. This suggests that at this point in the gross weekly pay distribution of adult NMW workers, gross pay has increased at a similar rate to the growth in the thresholds for income tax and NICs.

Between 2007 and 2013, the increase in 'take-home pay' was larger than the increase in gross weekly pay, which, in turn, was larger than the increase in 'labour costs'. This is a stark contrast with the period between 2000 and 2007, in which the pattern is the opposite. Overall labour costs decreased between 2007 and 2013 when compared with the change in gross weekly pay. This was mainly due to increases in the threshold at which employers pay NICs, decreasing the burden of NICs on businesses that employ NMW workers.

For most adult NMW workers, gross weekly pay increased proportionately less than the NMW between 2007 and 2013. However, for most adult NMW workers above median gross weekly pay of NMW workers, 'take-home pay' increased proportionately more than the NMW. Furthermore, between the 38th and 96th percentile of the gross weekly pay distribution for NMW workers, increases in 'take-home pay' were above CPI. These increases in 'take-home pay' were driven by large increases in the personal allowance (81 per cent between 2007 and 2013 compared to 19 per cent in 2000 - 2007) which have long since compensated any losers from the abolition of the 10p tax rate, making 25 million individuals better off, with more than 2.7 million individuals taken out of income tax altogether.

Box 2.2: Changes to income tax, the personal allowance and NICs between 2007/08 and 2012/13

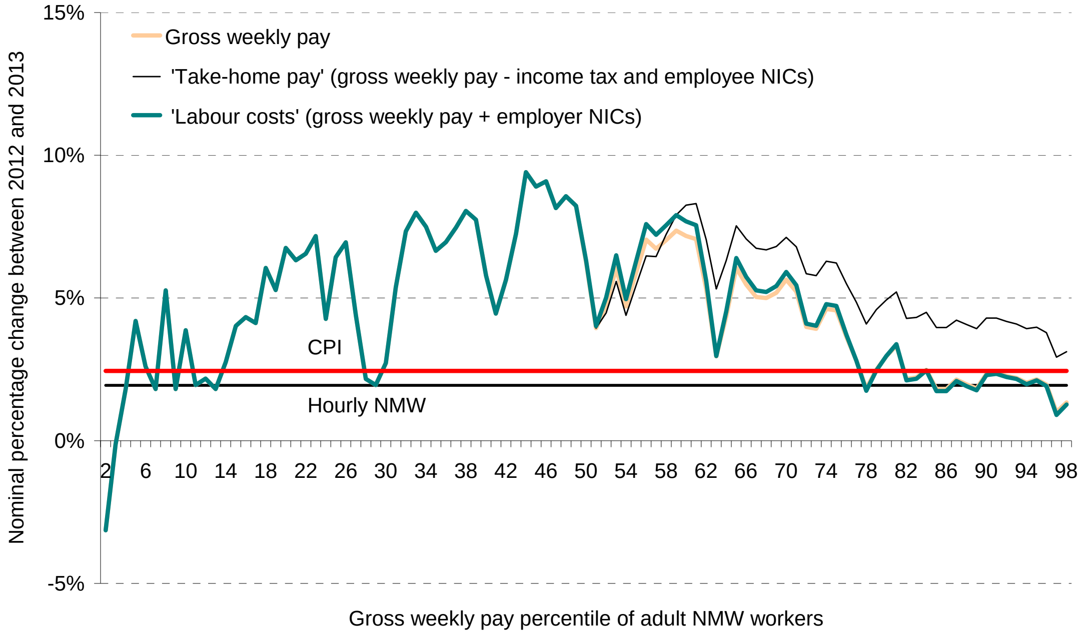
Between April 2007 and April 2012 the threshold for employee NICs increased 49 per cent, to reach £149 and the main NICs contribution rate for employees increased by 1 percentage point to 12 per cent.

The threshold for employer NICs increased by 48 per cent over the same period, and the rate also increased by 1 percentage point to reach 13.8 per cent.

Over this time period, the personal allowance increased from £5,225 in 2007/08 to £9,440 in 2013/14, an increase of 81 per cent. 2007/08 was the final year of the '10p tax rate' and 22 per cent basic rate, meaning that the change in structure of income taxation to a basic (20 per cent) is also captured in this time period.

Chart 2.7 shows that most adult NMW workers gross weekly pay increased in real terms between 2012 and 2013. Furthermore, between the 51st and 98th percentile of the gross weekly pay distribution for NMW workers, increases in 'take home pay' were above CPI.

Chart 2.7: Percentage changes in gross weekly pay, 'take-home pay' and 'labour costs' at each gross weekly pay percentile for NMW workers, 2012 to 2013



Source: BIS analysis of the Annual Survey of Hours and Earnings micro data

The numbers of jobs paying less than NMW rates

It is of critical importance to the Government that everyone entitled to the NMW actually receives their entitlement. The Government introduced new penalties for all employers who underpay the NMW and a fairer system of paying arrears under the Employment Act 2008 which came into force on the 6th April 2009. In addition, the Prime Minister announced in November that the penalty amount non-compliant employers will face will increase with a fine of up to £20,000 for every under-paid employee, four times the current level.

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

According to the latest Office for National Statistics (ONS) estimates of low pay based on data from the Annual Survey of Hours and Earnings (ASHE), in spring 2013, there were 279,000 jobs held by people aged 16 or over, paying less than the appropriate NMW rate, down by 1,000 compared to a year ago. This is equivalent to 1.1 per cent of all UK jobs. This comprises of 19,000 jobs held by 16-17 year olds (7.3 per cent of jobs in this age group), 57,000 jobs held by 18-20 year olds (5.5 per cent of jobs in this age group) and 203,000 jobs held by those 21 and older (0.8 per cent of jobs in this age group).

Table 2.1 provides more details of the proportion of jobs paid at hourly wage rates less than the prevailing NMW rate. It should be noted that these estimates are approximate, and subject to revision.

Between 1998 (before the introduction of the NMW) and 2013, the number of jobs held by part-time workers earning below the NMW rate fell from 14.1 per cent of part-time jobs to 1.4 per cent. This compares with a decline in the number of jobs held by full-time workers earning below the NMW rates from 2.4 per cent in 1998 to 0.9 per cent in 2013.

Table 2.1 Proportion of UK jobs paid below minimum wage

Percent of employee jobs paid below minimum wage

		1998*	2000	2002**	2004	2006	2008	2010	2011	2012	2013
All (18+)		5.6	1.0	1.4	1.1						
All (16+)***						1.2	1.0	1.0	1.1	1.1	1.1
All 16-17						3.8	3.9	5.6	5.7	6.5	7.3
All 18-21		7.2	2.2	2.7	2.3	2.3	2.5	3.0			
All 22+		5.4	0.9	1.3	1.0	1.0	0.9	0.9			
All 18-20****									4.4	5.2	5.5
All 21+ ****									0.8	0.9	0.8
All men		2.9	0.6	0.8	0.9	0.9	0.8	0.9	1.0	0.9	1.0
All women		8.4	1.3	2	1.4	1.4	1.4	1.2	1.4	1.3	1.1
Men	full-time	1.8	0.3	0.5	0.7	0.7	0.7	0.8	0.8	0.8	0.9
	part-time	14.4	4	4.4	2.5	2.4	1.3	1.6	1.7	1.6	1.4
Women	full-time	3.6	-	0.7	0.8	0.9	1.1	0.8	0.9	0.9	0.9
	part-time	14.1	2.3	3.6	2.1	2.2	1.9	1.8	2.0	1.7	1.4
All full-time		2.4	0.4	0.5	0.8	0.8	0.8	0.8	0.9	0.9	0.9
All part-time		14.1	2.6	3.7	2.2	2.2	1.8	1.8	1.9	1.7	1.4

Notes

- Sample size too small for reliable estimate

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

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

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

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

Historical minimum wage rates:

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

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

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

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

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

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

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

£3.68 per hour (aged 16-17) or £4.98 per hour (aged 18-20) or £6.08 per hour (aged 21 and over) for 2012.

Section 3: Remit issues - Impact of the NMW on the labour market

Summary

As the adjustment in real wages lags behind changes in demand there was an increase in unemployment as a result of the financial crisis. However employment and the performance of the UK labour market has been resilient following the crisis when compared historically and internationally.

Since then employment growth has been strong, the number in employment exceeded 30 million for the first time in the three months to October 2013 and is up by 1.28 million from the post recession trough in the three months to March 2010. The employment rate for the working age population in the three months to October is 72 per cent, up 0.8 per cent since this time last year although still 1 percentage point below the pre-recession peak.

In the three months to October 2013 the 16+ employment level reached approximately 514,000 above the pre-recessionary peak (April 2008) and this is due to an increase in hiring since the recession. Employment aged 16 and over is at its highest ever level at 30.09 million.

The growth in employment in low paying sectors has been positive at 2.1 per cent since September 2012 matching growth in non-low paying sectors over the same period. Growth in hours worked in low paying sectors has also been positive.

The bite of the NMW fell between 2012 and 2013 indicating that median wages increased faster than the NMW. GDP growth is at is strongest level for five years and the employment rate has shown strong growth in the last past of 2013.

Government continues to regard employment as one of the important factors influencing the NMW, but also wishes to see this argument capturing the supply side concerns over incentives to work and other factors affecting the cost of labour.

Economic background

Impact of the recession on employment and real wages

The ONS's preliminary estimate of GDP in 2013 Q3 shows quarter-on-quarter growth of 0.8 per cent and growth of 1.5 per cent compared with 2012 Q3. The latest results show growth is at its strongest level for the past five years[18].

The December 2013 average of independent forecasts, compiled by HM Treasury, for GDP growth was 1.4 per cent for 2013 and 2.4 per cent for 2014. The OBR forecast that annual GDP growth will be 1.4 per cent in 2013, and 2.4 per cent in 2014 (in line with consensus).[19] Real average wages measured by CPI reached a peak in January 2008 ahead of the recession. Chart 3.1 shows average weekly earnings deflated by RPI and CPI alongside the 16+ employment rate. While the economy was in recession real wages started to decline reaching 2 per cent below their peak by September 2008. However they then saw a prolonged rise back to within 30 pence of their peak in January 2009. Since this point wages have steadily fallen and reach similar levels to 2000 in 2013 Q3. [20] [21]

From the start of the recession there was a quantity adjustment in employment demonstrated by the steep fall in the employment rate between the three months to May 2008 and the three months to April 2010. Since then, the employment rate has recovered slightly with stronger improvements in the last quarter of 2013, but it has not yet returned to the pre-recession peak.

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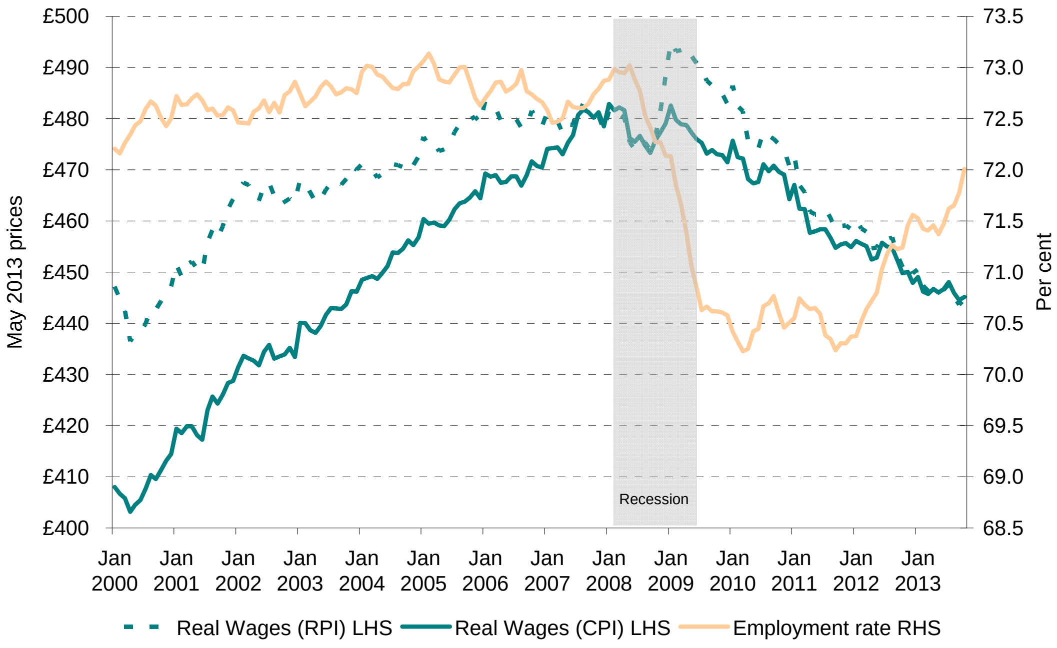
[18] However, caution should be used when comparing annual growth due to the Olympics and Paralympics taking place in 2012, raising the level of GDP in this quarter. Source: Quarterly Nationaal Accounts, Q3 2013, ONS

[19] Autumn Statement 2013

[20] Average Weekly Earnings, regular pay, deflated by CPI and RPI.

[21] It is important to note that RPI is no longer regarded as a national statistic by the Office for National Statistics. However, there are a number of reasons that we use it as a comparator for this analysis. Primarily, the RPI was used extensively for wage negotiations in the past. Secondly, the RPI includes housing costs in its basket of goods which can make up a significant proportion of an individuals' costs, especially for the low paid. Thirdly, the RPI is a base weighted average, whereas other measures (such as CPI and RPIJ) are current weighted. This means that the RPI measures changes in price of the basket of goods only; current weighted measures are affected by changes in quantities as well as price.

Chart 3.1: Real average weekly earnings and employment rate



Source: Office for National Statistics, Monthly Labour Market Statistics. Average Weekly Earnings regular pay (KAI7 series) deflated by CPI and RPI.

Resilient UK labour market during the recovery

The latest data from the Office of National Statistics (ONS) suggests that the UK's labour market continues to perform strongly and demonstrates both flexibility and resilience. The number of people in work is currently at its highest ever level, however the proportion of people of working age in employment is still below the pre-recession peak of 73 per cent at 72 per cent in the three months ending October 2013. Both the unemployment level and rate continue to show signs of improvement however are still above the pre-recession rate/level.

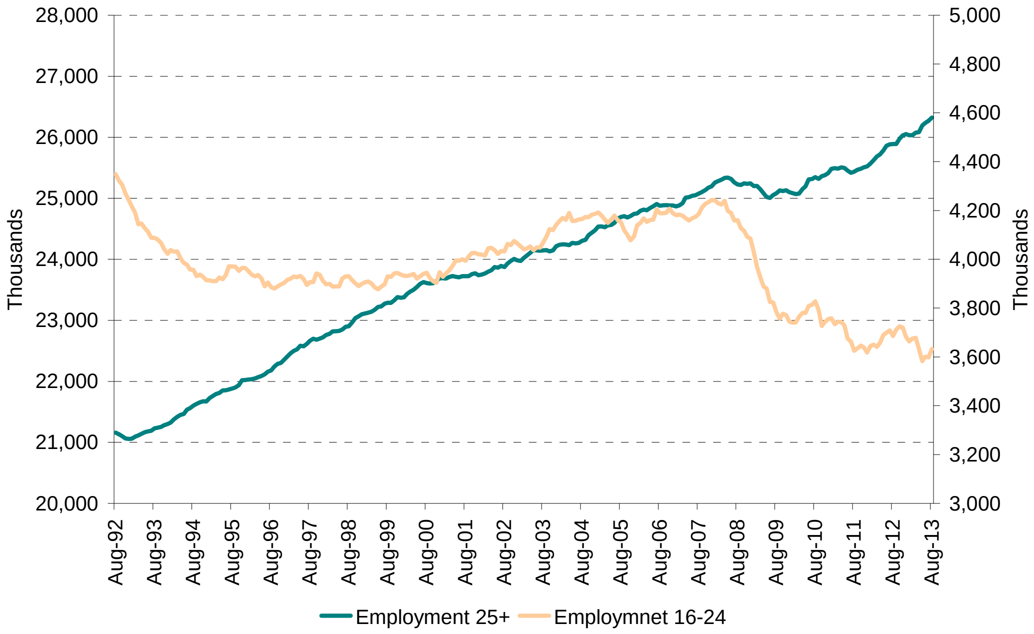
Over the last year employment has increased by 485,000 and by 250,000 over the three months to October compared to the previous three months. The employment rate has increased to 72 per cent up 0.8 percentage points from a year earlier. The unemployment rate was 7.8 per cent in the three months to October 2012 and has improved by 0.5 percentage points since, reaching 7.4 per cent in the three months to October 2013.

The resilience of the labour market during the recovery mostly relates to people aged over 25. During the 2008-09 contraction, employment (seasonally adjusted) for the over 25s fell from its peak (three months to June 2008) to post-recession trough (three months to July 2009) by approximately 330,000 (1.3 per cent) and returned to its peak by September 2010. It then continued to rise and in the three months to October 2013 it reached approximately 1,099,000 above the peak in the three months to June 2008.

The pre-recession employment level peak for young people (aged 16-24) was a little earlier, in the three months to January 2008 where it reached 4.24 million. However, 16 to

24 year olds have seen a much greater decline in employment levels over the recession and has continued to decline since, reaching 593,000 below the 2008 peak in the three months to October 2013. Youth unemployment decreased by 19,000 over the last quarter, and decreased by 4,000 on the year to 941,000.

Chart 3.2: Employment level people aged 16-24 and 25+



Source: Office for National Statistics, Monthly Labour Market Statistics

Flows in the labour market between employment and worklessness (unemployed and inactive) are an indicator of dynamic labour market activity and in any given year amount to millions of people moving between these groups and millions more moving between jobs in employment. Every year between 3.5 and 4m people move in and out of employment as shown below (four quarterly average data) in chart 3.2.

Job separations jumped when demand fell during the recession, with an increase in redundancies, which reached a peak comparable to the 1990s recession. Despite inflows to employment dropping below outflows (demonstrating a decrease in employment), gross flows in the labour market remained at a similar level.

Since 2008, both the inflows and outflows have generally been at higher levels than pre-recession showing both higher separations and hiring. Outflows, since the end of 2010, have started to fall back to levels similar to pre-recession while inflows have been high which indicates that the strong labour market performance is due to hiring rather than labour hoarding.

Chart 3.3: Flows in and out of employment

Source: Office for National Statistics, Labour Market Flows, experimental statistics. Four quarter average

Employment trends in the low paid sectors

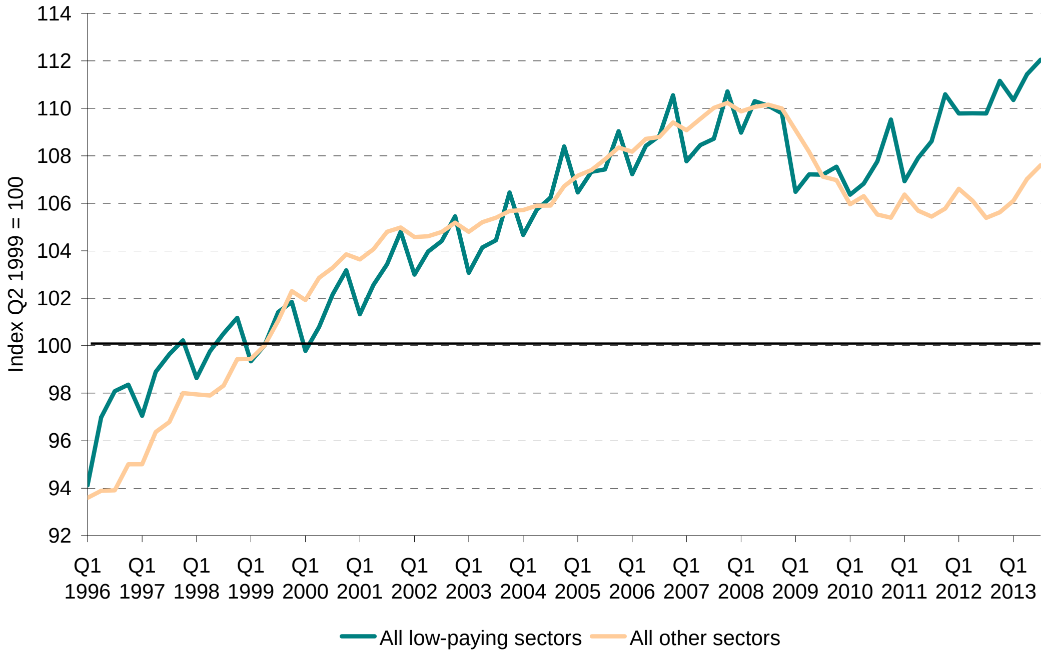
The low-paying sectors are defined by the Low Pay Commission as those with a large number or high proportion of minimum wage workers.[22]

This section reviews the most recent data on employment using ONS employee jobs and ASHE data for any emerging employment trends in the low-paid sectors. This includes analysis up to the third quarter of 2013. It should be read in the context of prospects for the macroeconomy and labour market.

Research suggests that in aggregate, the NMW has not had a significant impact on employment. When the NMW began to rise more rapidly from 2001 to 2005 (with an average annual growth of 7 per cent), job growth in the low-paying sectors tended to at least match the annual growth rate in the rest of the economy. Chart 3.4 shows that jobs in the low paying sectors returned to its pre-recession peak at the end of 2011 after falling faster in the recession. In the rest of the economy jobs growth continued to decline until the end of 2010. From the middle of 2009 the annual job growth for low-paid sectors has been higher than all other sectors. Although the most recent data shows for 2013 Q3 annual job growth in both the low paying and non-low paying sectors was 2.1 per cent.

[22]https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/226822/National_minimum_wage_Low_Pay_Commission_report_2013.pdf

Chart 3.4: Growth in jobs for low paying sectors (indexed; Q2 1999 = 100)



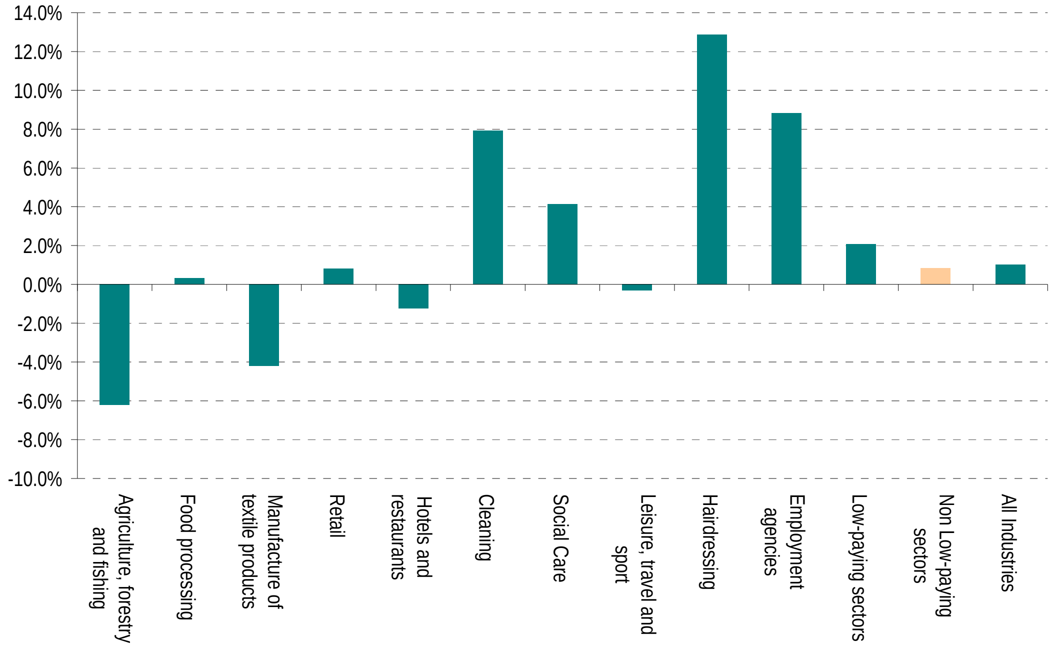
Source: Office for National Statistics, Employee jobs, GB data. 2013 definition of low paying sectors

Hours worked in the low-paying sectors

Over 2012-2013, total hours worked in the low-paying sectors increased by around 2.1 per cent, compared to a 0.8 per cent increase in non-low-paying sectors (see Chart 3.5). There has been significant variation in hours worked across the low-paid sectors. It is not possible to disentangle the impact of the NMW from the UK being exposed to lower cost international competition and other factors.

Chart 3.5: Changes in total hours worked for low pay sectors, 2012-2013

Per cent change



Source: Office for National Statistics, Annual Survey of Hours and Earnings. 2011 and 2012 - ASHE data - new methodology. 2013 definition of low paying sectors

Section 4: Remit issues – The Youth Labour Market

Summary

After sharp falls in employment, and increases in unemployment both during and after the recession, the labour market situation of young people may have stopped declining.

However, the youth labour market remains in a worse position than before the recession as well as in comparison to adults. The youth employment rate is more than 7 percentage points lower than the pre-recession rate and the youth unemployment rate is 6.5 percentage points higher than before the recession).

By contrast, employment of adults has improved since the recession with the highest ever levels of employment and an employment rate that is increasing although still below its pre-recession peak. Consequently, the labour market position of young people relative to adults has continued to worsen.

As highlighted in the LPCs 2013 report, it is important to consider that the labour market performance of younger workers tends to be hit hard during and after economic recessions, and labour market outcomes tend to be more sensitive to economic cycles than adults.

However, there also appears to be a structural issue in the youth labour market perhaps relating to the transition between education and employment – the number of young workless people that have never had a paid job has been increasing since the early 2000s.

The NMW bite for young people is much higher than it is for adults. For 18-20 year olds it peaked in 2011 due to the fact that the youth NMW rates have increased faster than median hourly earnings of young people, and has since fallen back slightly. For 16-17 year olds the bite dipped in 2012 before reaching its highest level in 2013.

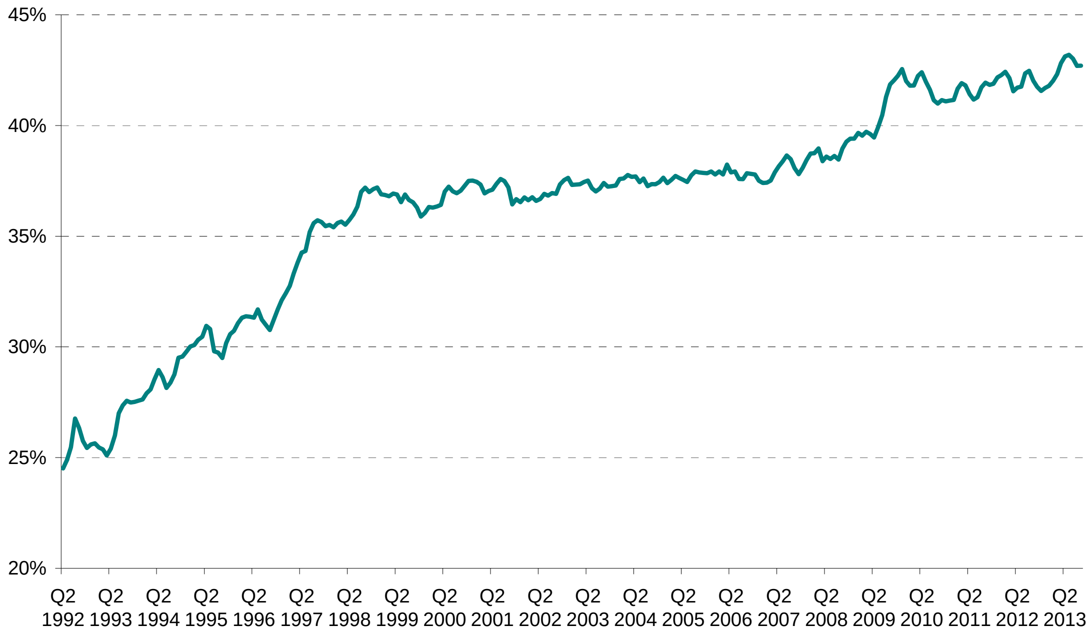
It should be also noted that it will be this age group that will be affected most by the raising of the participation age in England.

As for adults, if the NMW rates are set too high there is the risk of adverse employment effects. In addition, it is important to consider the contribution the NMW could make to improving the employment and training situation of young people.

Economic background

Chart 4.1 shows that the proportion of young people in full-time education has been increasing over time. It increased sharply over the second half of the recession and has slowly increased since - reaching its highest ever level in 2013 Q2. Given that university applications have recovered in 2013 and the Government is increasing the age to which all young people in England must continue in education or training, this proportion may continue to increase.

Chart 4.1: Proportion of UK population aged 16-24 years in full-time education



Source: Office for National Statistics Labour Market statistics.

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

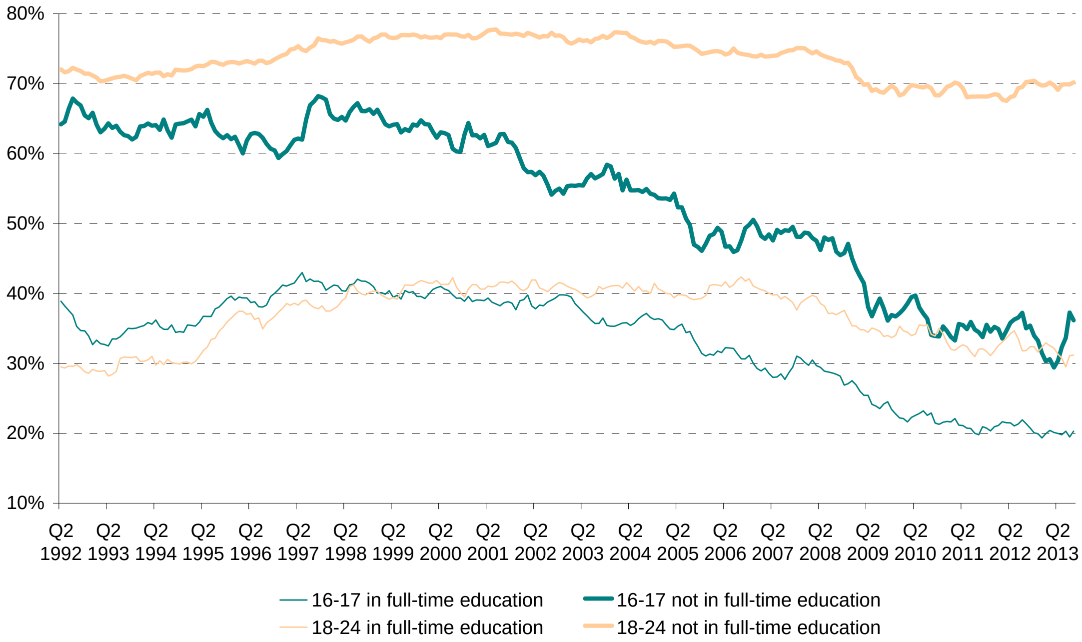
Chart 4.2 shows that the employment rates of 16-17 year olds have been on a long-term downward trend for both those in, and not in, full-time education. For 16-17 year olds in full time education, the employment rate in August to October 2013 was 22.7 percentage points below its peak in May to July 1997.

The fall in the employment rate has been even steeper for 16-17 year olds not in full-time education; falling by 32 percentage points from its peak in the three months to November 1997. Although the downwards trend for this group precedes the recession by over ten years, the 2008/09 financial crisis still provided a significant shock to the employment rate of these individuals; with the employment rate falling from 48.6 per cent in 2008 Q1 to 39.3 per cent in 2009 Q3.

The employment rates for 18-24 year olds in full time education has not seen such steep falls as 16-17 year olds and remained relatively stable up until the financial crisis when it declined by close to 10 percentage points. .

Chart 4.2: Employment rate of 16-17 and 18-24 by participation in full-time education

Per cent of age group



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

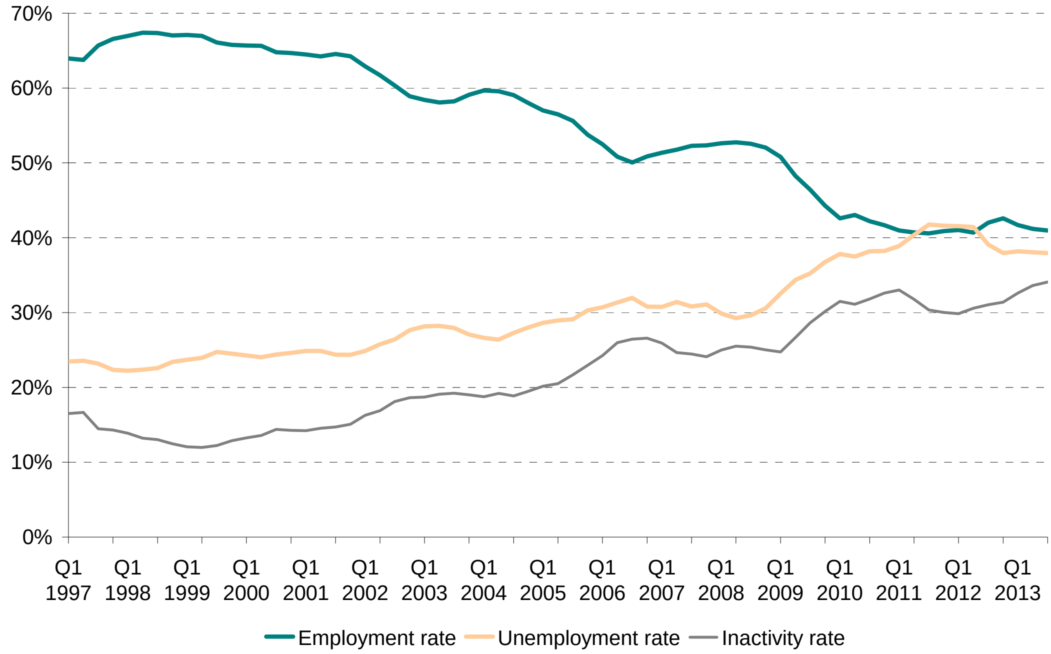
For 18-24 year olds not in full-time education, the employment rate fell over the course of the recession and appears to have stabilised, fluctuating around 69 per cent since then, slightly lower than the 16+ employment rate which is 71.8 per cent.

16-17 Age group

Before the recession the employment rate for 16-17 year olds was in steady decline, while unemployment was on the rise. The recession hit this age group harder than others while the inactivity rate also increased sharply. Chart 4.3 shows that for 16-17 year olds, the unemployment rate (excluding full-time students) increased from 27.4 per cent in 2008 Q1 (start of the 2008/09 recession) to a peak, in May to July 2011, of 44.7 per cent; a rise of 17.3 percentage points. Since this peak, the unemployment rate of 16-17 year olds excluding full-time students has decreased by around 11 percentage points to 33.5 per cent in the three months to October 2013 – still higher than at the start of the recession.

Chart 4.3: Employment, unemployment and inactivity rates of 16-17 year olds, excluding full-time students

Per cent of age group



Source: Office for National Statistics, Monthly Labour Market Statistics. Seasonally adjusted.

In absolute terms, the number of unemployed 16-17 year olds is very small in relation to the working age population. However, the number in employment dropped dramatically and has shown no signs of recovery.

Inactivity rates for 16-17 year olds (excluding full-time students) have also increased steadily over time. The inactivity rate has increased by around 16 percentage points since the start of the recession, up from 33 per cent in 2008 Q1 to 45.6 per cent in August to October 2013.

Although the recession had a significant impact on the employment prospects of 16-17 year olds, it is also clear that unemployment and inactivity rates were increasing, and employment falling since well before the 2008/09 recession.

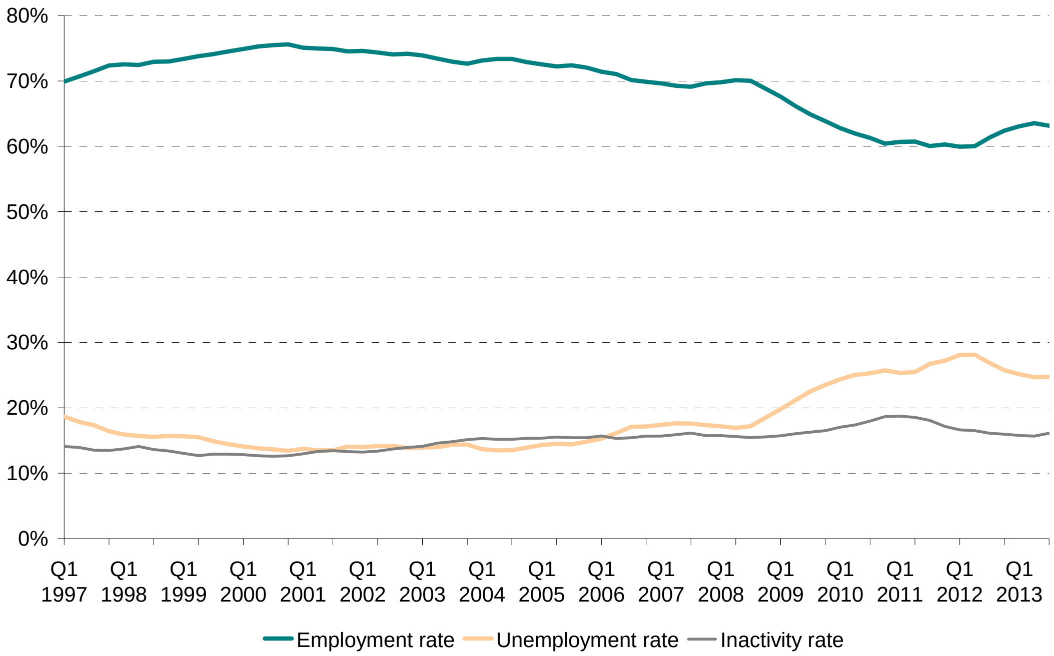
18-20 age group

Chart 4.4 shows that the unemployment rates for 18-20 year olds increased during and since the recession; from 17.2 per cent in 2008 Q1 to 28.1 per cent in 2012 Q2. This has shown recent improvement and in 2013 Q3 was 24.7 per cent, still around 7 percentage points higher than before the recession.

Inactivity rates have been broadly flat since 1997, with an increase of 3.3 percentage points between 2008 Q3 and 2011 Q1 and a 2.6 percentage points decline up until Q3 2013. The inactivity rate for 18-20 year olds excluding full-time students and graduates is now the same as in 2007 Q3.

Chart 4.4: Employment, unemployment and inactivity rates of 18-20 year olds, excluding full-time students and graduates

Per cent of age group, four quarter moving average



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

After breaching a million in mid-2011, total youth unemployment (16-24, including students and graduates) dropped back to below a million in the three months to August 2012. However, since then it has fluctuated at just below a million. In the three months to October 2013, youth unemployment was 941,000 or 643,000 excluding those in full time education.

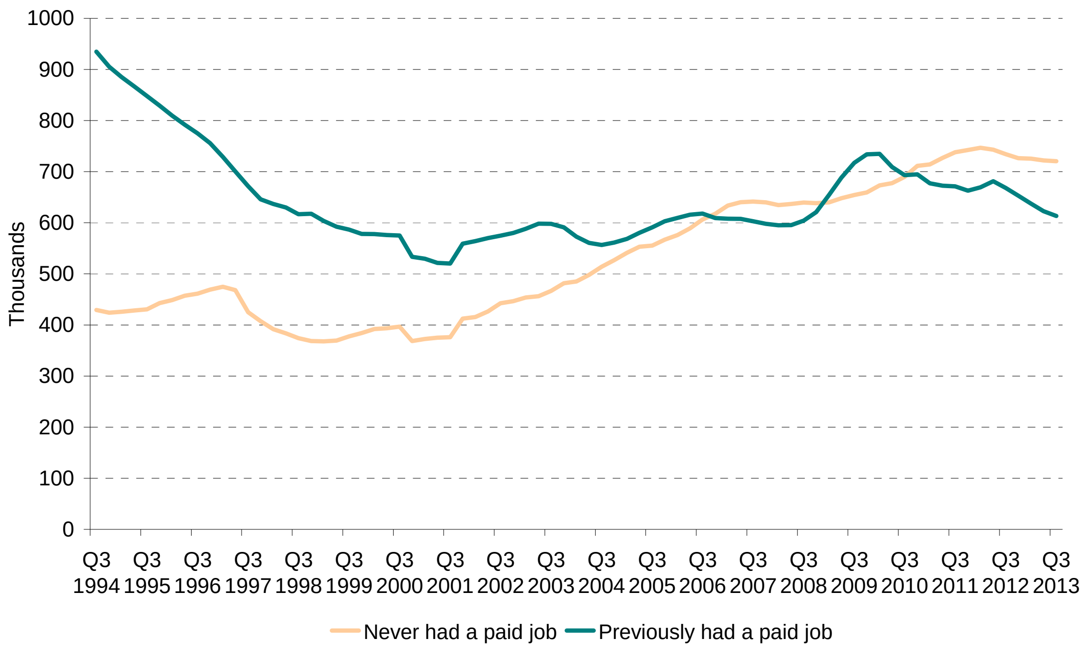
The evidence above suggests that the labour market outcomes of 16-17 (excluding students and graduates) have generally fared worse than 18-20 year olds. The relative position of young people in the context of the wider labour market is still weak. It is important that the LPC consider the contribution the NMW could make to improving the employment and training situation of young people.

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

Chart 4.5 shows that the number of workless young people not in full time education who have never worked has been rising since the beginning of 2001, reaching a peak in 2012 Q1 of 747,000. This suggests that young people are generally taking longer to move from education to employment.

In 2013 Q3, the level of under 25 year olds who have never held a paid job was 721,000, a fall of 22,000 on the year. Despite this recent improvement, there remain indications of structural worklessness problems for young people in this group in making the transition to work.

Chart 4.5: Under 25 year olds (excluding those in full-time education): workless who have never had a job and previously had a job



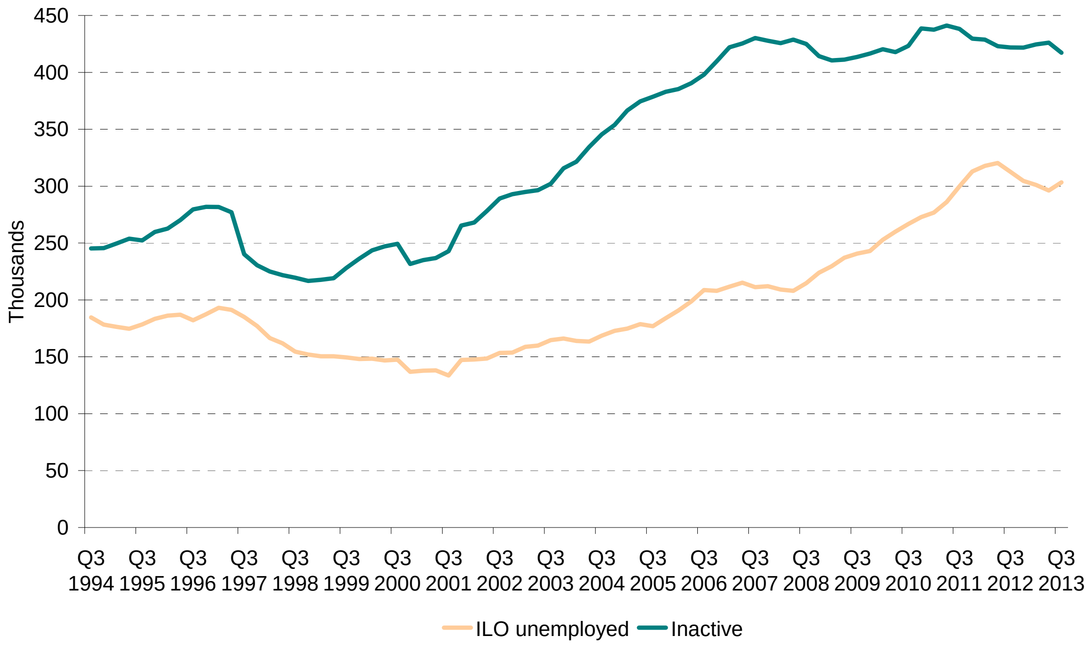
Source: BIS analysis of Labour force survey. 4 quarter moving average

Chart 4.5 also shows young workless people who have previously had a paid job. The movements in this series seem more cyclical, given that there is a local peak at the end of 2009, coinciding with the end of the recession. Since then, the number of young workless people has decreased by 122,000 to reach 613,000 in 2013 Q3. However, the level is still 18,000 above the pre-recession level of 595,000.

Chart 4.6 shows that the majority of workless young people (excluding those in full-time education) who have never had a paid job are inactive rather than ILO unemployed approximately doubled between 1998 and 2007.

The number of ILO unemployed young people that have never had a paid job also doubled from peak to trough, since 2001 although at a lower level.

Chart 4.6: Under 25 year olds (excluding those in full-time education): workless who have never had a job



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

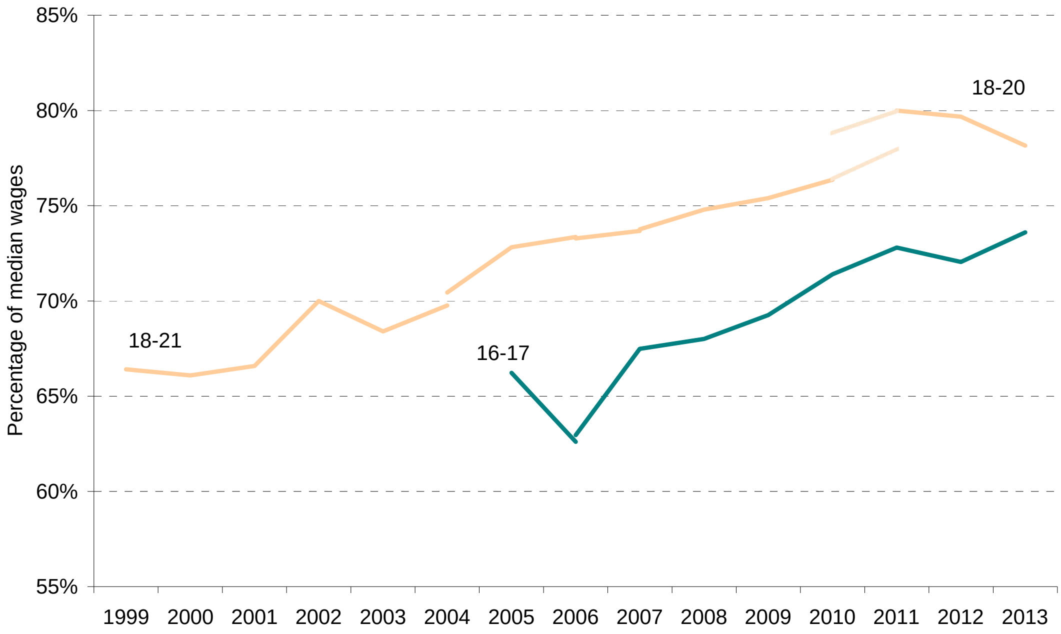
The 'bite' of the NMW for young people

Chart 4.7 below shows the bite[23] of the youth NMW rates over time. Between 2012 and 2013, the 'bite' for individuals on the 16-17 year old rate reached its highest ever level at 73.6 per cent following a small fall in 2012. For those on the development rate (18-20), the bite has fallen over the last two years reaching 78.2 per cent, down from its peak in 2011 of 80 per cent.

The adult NMW for those aged 21 and above, the bite fell between 2012 and 2013, from 53.7 per cent to 53.1 per cent respectively. This indicates that median earnings have risen faster The bites corresponding to both youth NMW rates still remain significantly above the adult bite.

[23] The minimum wage as a proportion of the median hourly wage for this age group

Chart 4.7: The bite of the youth NMW rates



Source: Office for National Statistics, Annual Survey of Hours and Earnings. 1999-2004 ASHE data - excluding supplementary information 2004-2006 ASHE data - old methodology. 2006-2013 ASHE data - new methodology.

The impact of the NMW on young people

It is important to consider that the labour market performance of younger workers tends to be hit hard during and after economic recessions and labour market outcomes tend to be more sensitive to economic cycles than adults.[24] Also, it should be noted that it will be this age group that will be affected most by the raising of the participation age in England.

Evidence suggests that labour market outcomes of younger workers are more at risk from increases in the NMW level (the evidence from the minimum wage in the USA in particular shows this and is summarised in Neumark and Wascher and 2007[25]). This is one of the reasons why there is a lower NMW rate for workers aged below 21.

Other recent evidence commissioned by the LPC suggests some negative effects of the NMW over specific time periods and on specific groups of young workers. For example Dolton and Rosazza-Bondibene (2011) concluded that the impact of the minimum wage was more detrimental for young people in the presence of an economic downturn. Fidrmuc and Tena (2013) found a negative employment effect for men, a year prior to their entitlement to the adult NMW rate[26]. Finally, Bryan, Salvatori and Taylor (2012) found some evidence of a negative effect on hours worked of young people – this was found to be greater during the recession. However, work undertaken by the same authors (2013)

[24] See for example, National Minimum Wage report 2013, Low Pay Commission, p166
[25] Neumark D. and Wascher W. (2007) Minimum Wages and Employment, IZA Discussion Paper Series.
[26] Although the feasible implications of these results are slightly unclear

found much weaker evidence of a reduction in hours. The final conclusion of the research implies that there was some weak evidence that the NMW reduced basic hours for young people during the recession relative to the pre-recession period.[27]

Policy background

Cabinet Office review of support for 16-24 year olds

At the Autumn Statement 2013, the Chancellor announced the government would act on three early findings from the Cabinet Office's ongoing cross-departmental review of how best to support young people into work.

The government is already raising the participation age for young people to age 18 by 2015. To support this and make it easier for young people who do not remain in full time education to find training opportunities, the government will invest around £10m per year in Jobcentre Plus support for 16 and 17 year olds who want help to find apprenticeships and traineeships, to be delivered in partnership with Local Authorities.

Alongside this, the Government will ensure that the benefit rules do not impede the take-up and effectiveness of traineeships by exempting those undertaking a traineeship from the rule which prevents JSA claimants from doing more than 16 hours of study per week.

Low-skilled Jobseeker's Allowance claimants and those without work experience spend longer on benefits[28] and find it more difficult to stay in employment when they find work[29]. And the recent OECD survey[30] of adult basic skills places England 22nd for literacy and 21st for numeracy from 24 countries for young people. We are introducing a new requirement that all young people who have not achieved a level 2 qualification in Maths and English at 16 should continue studying these subjects until age 19. Building on this, the Government will pilot a new scheme of support for young Jobseekers. From day one of a claim, claimants without level 2 qualifications in English and maths will be required to do up to 16 hours per week of training alongside jobsearch or risk losing their benefits. After six months on Jobseeker's Allowance, claimants will be required to participate in a work experience placement, a traineeship or community work placement.

The ongoing Cabinet Office review is continuing to inform policy development across Government.

[27] The LPC's recent commissioned research on young people also found no evidence that the NMW had a systematic effect on the evolution of relative employment between young and old workers. The evidence suggested that younger workers (aged 18-21) were substantial complements for older workers (over 55). In addition to this, the research found some weak evidence that as the NMW increased, low-paying sector employers tended to substitute away from 16-17 year olds in favour of older workers (Lanot and Sousounis (2013)).

[28] Carpenter, H. (2006) Repeat Jobseeker's Allowance spells DWP Research Report No 394

[29] BIS unpublished analysis of Annual Population Survey, 2012.

[30] OECD Skills Outlook 2013: First Results from the Survey of Adult Skills

Annex A: Government Response to LPC's 2013 recommendations

The main recommendations put forward by the Low Pay Commission concern the rates of the National Minimum Wage.

The Commission has recommended that the adult hourly rate of the National Minimum Wage should increase from £6.19 to £6.31. The Commission has recommended increasing the development rate which covers workers aged 18-20 years old from £4.98 to £5.03 and increasing the rate for 16-17 year olds from £3.68 to £3.72. It recommends that the apprentice rate should remain at £2.65. It is recommended that these changes take place in October 2013.

The Commission has also recommended that the accommodation offset increases from the current £4.82 to £4.91 in October 2013.

The Government accepts the recommendations on the adult and youth rates and on the accommodation offset, but has concluded that the apprentice rate should be increased by 3p from 1 October 2013.

National Minimum Wage Rates

We recommend that the adult rate of the National Minimum Wage be increased by 1.9 per cent, or 12 pence, to £6.31 an hour, from 1 October 2013.

We recommend an increase of 1 per cent in the Youth Development Rate to £5.03 an hour and in the 16-17 Year Old Rate to £3.72 an hour from 1 October 2013.

We recommend that the accommodation offset be increased by 1.9 per cent, to £4.91 a day, from 1 October 2013.

ACCEPT

We recommend that the Apprentice Rate should remain at £2.65 an hour from 1 October 2013.

REJECT

The Government shares the LPC's concern about non-compliance with the apprentice minimum wage and we are clear that employers must pay their staff at least the minimum wage. However, we believe that it is important to maintain the relative position of the apprentice rate compared to benefits and the youth rates to preserve the attractiveness of Apprenticeships for young people. The Government has concluded therefore that a 1 per cent increase in the apprentice rate would be appropriate. This is in line with the recommended increases in the youth rates; evidence in the LPC's report shows that the majority of apprentices paid on and just above the apprentice rate are young people. It is also in line with the planned level of public sector pay and benefit increases. We consider that the modest level of this increase would not have significant adverse effects on employment or training for apprentices. In conjunction with this we are putting in place a package of measures to improve compliance, including focused communications and targeted enforcement by HMRC.

Accommodation Offset

We recommend that the accommodation offset should remain the only permitted benefit-in-kind that can count towards payment of the National Minimum Wage and there should be only one rate. It should apply irrespective of whether the worker has a choice over taking the accommodation.

ACCEPT

Salaried-hours Workers

We recommend that the regulations for salaried-hours workers continue to be required in all their essentials. In order to make it as simple and easy as possible to achieve National Minimum Wage compliance the Government should adapt its guidance to include examples and an on-line means of determining what payment is required.

ACCEPT

Compliance

We recommend that the Government should combine a communications campaign and a targeted enforcement initiative to ensure that the Apprentice Rate is known to employers and apprentices, and that infringers are caught, punished, and wherever appropriate, named.

ACCEPT

The Government believes that this recommendation should be viewed alongside the apprentice rate recommendation. We share the concerns raised by the LPC regarding compliance with the apprentice rate. The Government accepts this recommendation and in fact goes further than is proposed. There will be a multi-faceted push on non-compliance in this area.

We recommend that contracts issued by public bodies which commission the provision of social care should contain a clause requiring at least the National Minimum Wage to be paid, just as they may require compliance with other aspects of the law, such as health and safety legislation. The Government should take responsibility for bringing this about.

NOTE

The Government fully agrees with the LPC's aim of reducing non-compliance in this sector. However, we believe there are more effective ways to achieve this. The Department of Health and the Department for Communities and Local Government are working together to develop tougher measures to deter non-compliance as well as support to improve compliance.

Annex B: Remit for the Low Pay Commission 2014 Report

The Government’s aim is to have NMW rates that help as many low-paid workers as possible, while making sure that we do not damage their employment prospects.

The Low Pay Commission (LPC) is asked to:

- Monitor, evaluate and review the levels of each of the different NMW rates and make recommendations on the levels it believes should apply from October 2014 and;

- Review the contribution the NMW could make to the employment prospects of young people.

In making recommendations in the areas set out above, the Low Pay Commission is asked to take account of the state of the economy, and employment and unemployment levels.

TIMING

In addition, the LPC is asked to report to the Prime Minister, Deputy Prime Minister, and the Secretary of State for Business, Innovation and Skills by end February 2014.

Annex C: Update on non-remit issues

Section C1: Non-remit issues – Updates to National Minimum Wage policy

Compliance & Enforcement

The Government's vision is clear - anyone entitled to the minimum wage should receive it.

That is why every single complaint from a worker is investigated. We also actively target employers who flout their responsibilities and investigate any complaints made against them, taking civil and criminal proceedings as necessary.

NMW Compliance Strategy

A key aspect of our strategy is that HMRC will follow up every single complaint from a worker made through the free Pay and Work Rights helpline. This commitment has been – and will continue to be – at the core of NMW enforcement.

We are in the middle of delivering a five year compliance strategy. It takes a multi-faceted approach to compliance and enforcement and includes targeted communications to raise awareness; helping employers comply; as well as targeted enforcement action in sectors or areas, where there is a higher risk of workers not getting paid the legal minimum wage.

Because we know how vital NMW is for low-paid workers, we actively keep our compliance and enforcement strategy under review – to ensure that it is working well. Our approach will continue to be informed by intelligence and data, where we ensure that we make best use of all the tools and resources at our disposal.

We are also ensuring that we have the most effective balance of civil and criminal enforcement activities.

HMRC National Minimum Wage Enforcement Activity

BIS are responsible for the policy on NMW compliance and enforcement and HMRC enforce the NMW Act on BIS's behalf.

Since HMRC began enforcing the minimum wage in April 1999, HMRC has identified £50m in arrears for over 200,000 workers during more than 65,000 employer interventions. In 2012/13 HMRC identified £3.9m in arrears of wages for over 26,000 workers. This represents a 33 per cent increase in the number of workers that HMRC were able to help in 2012/13 and a 26 per cent increase in arrears identified compared to 2009/10.

Since 2010 enforcement has improved in a number of ways:

- The number of penalties charged, the amount of such penalties and the average per case has increased.
- We identified 33 per cent more workers in 12/13 than we did in 09/10
- The average workers per case has increased by 220 per cent and the arrears per case by 99 per cent
- We're doing our work faster than we did in 09/10, [by 6 per cent]
- We're 26 per cent more successful now at finding arrears than we were in 09/10
- We've introduced a suite of compliance interventions to target our enforcement more intelligently after undertaking customer research
- The work of our Dynamic Response Team, taking a 'total enforcement' approach across government has generated extensive media interest enhancing awareness of National Minimum Wage.
- And we're doing it with around £300k less than we spent in 09/10

All of which reflects:

- Improved focus on risk & risk governance
- Improved targeted enforcement
- Improved depth and scope of investigations
- Improved internal processes (pacesetter)

Responding to the LPC's recommendations

Apprentices

"We recommend that the Government should combine a communications campaign and a targeted enforcement imitative to ensure that the Apprentice Rate is known to employers and apprentices, and that infringers are caught, punished and wherever appropriate, named".

Apprenticeships continue to be identified as a risk in around 25 per cent of HMRC's cases. Due to our concern about the apparent level of non-compliance for apprentices with the NMW rules, we are ensuring that complaints from apprentices are investigated more speedily. We continue to follow up every single complaint made to the Pay and Work

Rights helpline and from July, calls from apprentices are being prioritised for HMRC's consideration.

We are also stepping up our communication activity to increase the level of awareness of the minimum wage rules across the board, including apprentices. We want to help employers avoid falling foul of minimum wage rules unwittingly, and ensure that individuals are well-informed about their minimum wage eligibility. We have already issued NMW posters to relevant organisations asking them to display them where employers and workers might see them, to raise awareness of the National Minimum Wage rules. The poster highlights the new NMW rates that come into effect on 1 October 2013 and the contact details for the Pay and Work Rights Helpline.

In addition, in England, we are taking steps to ensure all training providers deliver on existing obligations to inform employers and apprentices of NMW requirements. We will be including information on the NMW rules in the employer's information packs that National Apprenticeship Service (NAS) issues to prospective Apprenticeship employers, and in the information given to apprentices by providers. In Northern Ireland, HMRC officers have already engaged with employer, training provider and Department of Employment and Learning (DEL), offering guidance on compliance with NMW. DEL have taken this forward cascading to all training providers in Northern Ireland.

Finally, we are improving guidance on gov.uk and information more generally, to ensure we have clear, comprehensive and consistent information on the minimum wage rules.

Interns

"The evidence we have gathered …. Suggests that there continue to be areas of non-compliance, in particular in relation to: apprentices; interns, those on work experience or volunteers; social care (especially domiciliary care); and among hotel cleaners and home workers."

In addition to the fast-track process above we have a similar process for intern complaints; which are all referred to members of our Dynamic Response Team, [DRT], to action. To date, we have received 95 intern complaints since the fast track process started in August 2012. Of those, 53 have closed.

Arrears of pay for 171 workers totalling £193,873 have been identified in 12 cases. These figures demonstrate that the issue of interns isn't as straightforward as it at first appears and there is a real 'blurring' of the distinctions between voluntary work and work which attracts NMW in this area. HMRC have asked for legal advice with a view to providing some clarity for interns and employers alike.

We have worked very constructively with the British Fashion Council, BECTU and with lobby groups like Intern Aware to tackle the exploitation of interns and to change employer behaviours. There is still much to do but we are committed to tackling potential non-compliance at the advertising stage as well as fast-tracking all complaints that we receive.

This is also why BIS policy officials commissioned young people from 4Talent[31], Channel 4's in-house scheme offering to help people gain entry into the creative industries, and internship stakeholders to produce innovative guidance for young people, providing clarity on when they are entitled to the National Minimum Wage. Further detail on this campaign is covered on page 73 of this evidence.

Our targeted enforcement campaigns have included the social care sector and hotel cleaning, the latter is ongoing.

NMW Naming Scheme

The revised NMW Naming and Shaming scheme came into effect on 1 October 2013. The new rules are part of Government efforts to toughen up enforcement of the NMW and increase compliance. By naming and shaming employers it is hoped that bad publicity will be an additional deterrent to employers who would otherwise be tempted not to pay the NMW. This is on top of financial penalties which employers already face if they fail to pay NMW.

Under the original scheme, employers had to meet one of seven criteria plus a financial threshold before an employer could be referred to BIS from HMRC for naming. The revised scheme has removed these restrictions so that any employer who breaks minimum wage law can be named and shamed. We are expecting to start naming employers early this year.

In 2012/13 HMRC identified 736 employers who had failed to pay the National Minimum Wage leading to the recovery of £3.9m in unpaid wages for over 26,500 workers.

NMW Financial Penalty

Currently employers that break NMW law must pay arrears plus a financial penalty calculated as 50 per cent of the total underpayment for all workers found to be underpaid. The maximum penalty an employer can face is £5,000.

Following an announcement by the Prime Minister before Christmas, the Government will increase the financial penalty percentage from 50 per cent to 100 per cent of the unpaid wages owed to workers. The maximum penalty will increase from £5,000 to £20,000. Regulations introducing these new limits are subject to Parliamentary approval and are expected to be in force in February 2014.

The Government also wants to go further and will bring in legislation at the earliest opportunity so that the maximum £20,000 penalty can apply to each underpaid worker. Primary legislation is needed to introduce a penalty of £20,000 per worker into the NMW Act 1998.

The intention is to penalise those with the highest levels of arrears. Employers who are found to have made underpayments of more than £20,000 to any worker after the higher

[31] http://4talent.channel4.com/

penalties come into force will not only pay the new higher level of penalties but will face this penalty for each such worker.

Where the underpayment for any individual worker or group of workers exceeds £20,000 the penalty will be restricted to £20,000 in relation to that worker or group.

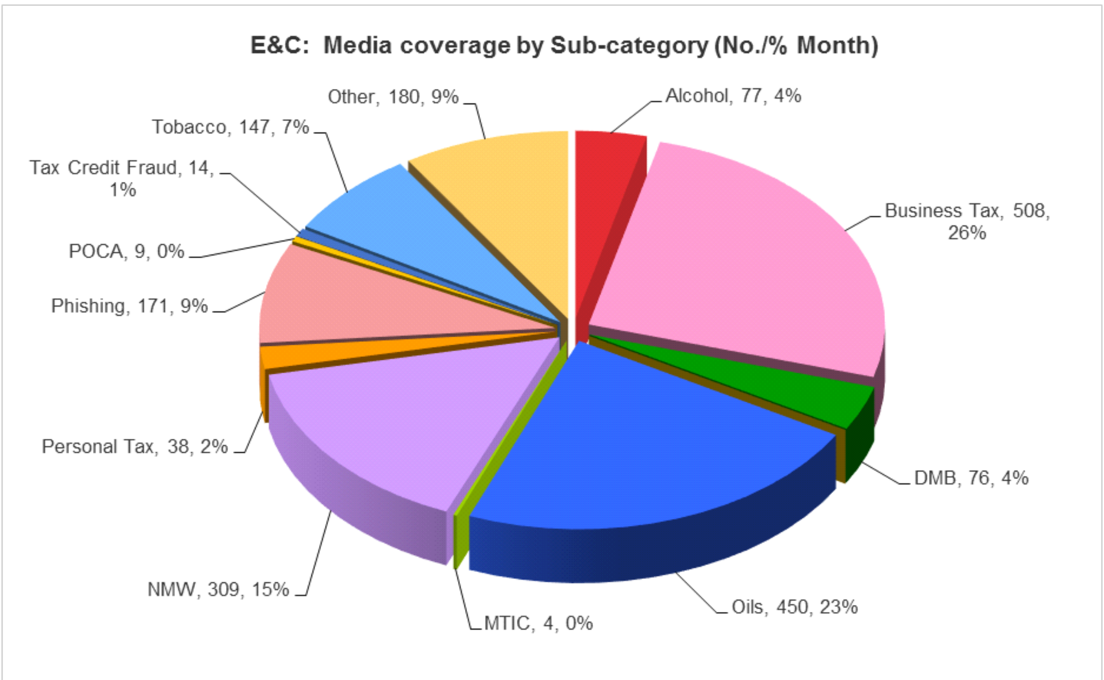
Raising the Profile of the work that we do

HM Revenue & Customs (HMRC) issued a national news release and various regionalised versions across the UK on 30 May 2013 to highlight the amount of National Minimum Wage arrears secured in 2012/13 (chart C.1). Details were also given of the number of complaints investigated, penalties charged and workers helped. Generic examples were also provided.

Blanket coverage was achieved, in print, online media (including BBC Online, Times, Guardian, Sunday Times, Independent and various regional media) and regional radio broadcasts, when the news release was issued saying that more than 26,000 workers denied the National Minimum Wage by employers had received a £4 million windfall after action by HMRC. In May 2013, as a consequence of this low-cost activity, we recorded over 300 items of National Minimum Wage coverage.

Chart C.1: Enforcement and compliance: Media coverage by sub-category

Number/per cent per month



In addition to extensive national media coverage during the year, including the front page of The Times, we got good local coverage for our ET reports, particularly Servizon, for our street sweep activities in Corby; and in the Blackpool Gazette for our work with Blackpool

Local Authority. We take every opportunity to promote our enforcement work through low-cost media coverage, but we can never guarantee that stories will be picked up.

Section C2: Non-remit issues – Related policy updates

Young people and the Participation Strategy

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

Participation in education and training is at a high level. Historically the proportion of young people who are NEET (Not in Education, Employment or Training) remains unacceptably high. The Government is committed to tackling this problem. Being NEET is an enormous waste of a young person's potential, their contribution to their community, and to the economy. This is why reducing the numbers of young people who are NEET is an important priority for the Government.

The Government is working to ensure that all young people are able to get the skills they need to succeed in a competitive, high-skilled labour market and make a successful start in employment. This is being done through raising the age of compulsory participation; making the education and training offer more attractive and relevant to young people; ensuring young people have access to information they need to make good choices; and providing additional support to the most disadvantaged, including extending the eligibility criteria of the Youth Contract.

Apprenticeships in England

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

Our aim in reforming Apprenticeships is to make our programme the new international benchmark for excellence. We are determined to raise all Apprenticeships to the standards of the best, so that the programme is rigorous, responsive, and meets the changing needs of our economy in the decades to come.

That is why we commissioned the Richard Review of Apprenticeships. On 14 March 2013 we published a consultation document[32], which set out our medium-long term vision for Apprenticeships, together with our proposals for achieving this, for consultation and debate. The consultation closed on 22 May. Detailed policy development continues. An implementation plan will be published in autumn 2013.

[32] https://www.gov.uk/government/consultations/future-of-apprenticeships-in-england-richard-review-next-steps

Preparations for legislative changes to enable the reforms are being made via the Deregulation Bill[33] which is currently undergoing pre-legislative scrutiny.

We are also consulting on a major reform of Apprenticeship funding. The consultation[34] seeks views on three ways of delivering these reforms: through a new online Apprenticeship system with payments to employers made directly from the system, or through utilising the PAYE system, or by reforming the existing provider funding infrastructure. We plan to publish our plans for implementation, depending on the delivery model, later this year.

Volumes

Over 200,000 employer workplaces employed an apprentice in 2011/12 academic year. There are more than 250 Apprenticeship frameworks available in over 1,400 job roles, covering an extensive range of skills levels and occupations.

We are investing £1.5 billion in apprenticeships in the 2012-13 financial year, of which £833,000 is for 16-18 year olds. In addition to wider efforts to create more apprenticeship opportunities, and to grow the programme amongst small and medium enterprises (SMEs), we have introduced incentive payments of £1,500 for small employers taking on their first new apprentice aged 16-24 years old. Latest figures show that almost 30,000 young people have been taken on under the current grant. On 24 July 2013, we announced[35] that we will extend this grant to December 2014, helping small and medium-sized business to take on an additional 35,000 young apprentices. We also fully fund apprenticeship training for 16-18 year olds, to provide an additional incentive to employers to take on a younger person and reflect their relative inexperience in the workplace.

There were 520,600 Apprenticeship starts (16+) in the 2011/12 academic year - an increase of 13.9 per cent compared to 2010/11. There were 187,900 Advanced Apprenticeship starts - a 22.1 per cent increase on 2010/11; and 3,700 Higher Apprenticeships (Level 4) starts - an increase of 67.6 per cent on 2010/11.

Apprenticeships across the UK

Due to our concern about the apparent level of non-compliance for apprentices with the NMW rules, we are ensuring that complaints from apprentices are investigated more speedily. We follow up every single complaint made to the Pay and Work Rights helpline and from July calls from apprentices are being prioritised for consideration. We will evaluate the impact of this process later in the year.

We are also stepping up our communication activity to increase the level of awareness of the minimum wage rules across the board, including apprentices. We want to help employers avoid falling foul of minimum wage rules unwittingly, and ensure that individuals are well-informed about their minimum wage eligibility.

[33] http://www.parliament.uk/business/committees/committees-a-z/joint-select/draft-deregulation-bill/news/have-your-say-on-the-draft-deregulation-bill/
[34] https://www.gov.uk/government/consultations/apprenticeship-funding-reform-in-england
[35] https://www.gov.uk/government/news/government-sets-out-radical-plans-to-shake-up-apprenticeship-funding

We are improving guidance and information more generally, to ensure we have clear, comprehensive and consistent information on the minimum wage rules.

Study programmes

From September 2013, all 16 to 19-year-olds in education institutions will be on a study programme aimed at giving them the best opportunity to move into higher education, further training, an Apprenticeship, or secure skilled employment. Study programmes can be academic or vocational or mix of the two, and will ensure that young people focus on those areas that employers value most – English and maths, substantial qualifications and work experience. Traineeships for 16- to 19-year-olds (as described below) are a strand of study programmes. Further information about study programmes can be found here[36].

Traineeships

Traineeships are a new skills and work experience programme funded by BIS and DfE to help young people become ready for Apprenticeships and other jobs.

Traineeships will contain three core elements:

1. A focused period of work preparation training, focusing on areas like CV writing, interview preparation, job search and inter-personal skills.

2. English and maths (up to GCSE level) as these are seen as crucial qualifications that offer employability skills.

3. A high quality work placement to give the young person meaningful work experience and the opportunity to develop workplace skills.

Providers will also have the flexibility to integrate other support and training, such as mentoring, careers guidance, vocational qualifications and job search support.

The Programme covers England only and for 2013/14 can be delivered only by providers graded Outstanding or Good by Ofsted. Funding for providers is available from August 2013 but providers will choose their own start dates.

Traineeships will be available for young people aged 16 up to 24 (i.e. 16 to 23 year olds inclusive) and for young people with Learning Difficulty Assessments up to academic age 25.

The core target group for traineeships will be young people who:

- are not currently in a job and have little work experience, but who are focused on work or the prospect of it;

- are qualified below Level 3 or 19-23 and have not yet achieved a full Level 2; and

[36] https://www.gov.uk/government/publications/study-programmes-for-16-to-19-year-olds

- providers and employers believe have a reasonable chance of being ready for employment or an Apprenticeship within six months of engaging in a traineeship.

Traineeships are exempt from the NMW under the exemption for work experience undertaken as part of a further education course. It will be necessary to emphasise that they are exempt from the National Minimum Wage.

Raising the Participation Age (RPA)

By 2015, all 16 and 17 year olds in England will be required to continue in education or training.

RPA legislation came into effect from 28 June 2013 and this means that all young people who left year 11 in summer 2013 have to continue in education or training until the end of the academic year in which they turn 17 and all young people who are in year 11, or below, from September 2013 have to participate until their 18th birthday.

Young people will be able to participate in a number of ways:

- full-time education, such as school or college (sometimes with a part time job alongside);
- an Apprenticeship, or
- work with part-time accredited education or training alongside.

The definition of the minimum required 'full-time' education for RPA is 540 hours. Those hours can be made up of study towards an accredited qualification, and any activities suggested within the principles of 16-19 study programmes (such as work experience and tutorials). Further information on study programmes can be found here[37].

With regard to young people meeting the duty to participate through working with part-time study alongside: the part-time education or training must be at least 280 hours per year. Volunteering, employment, self-employment and holding an office count as full-time work for the purposes of RPA. Further information on RPA can be found here[38].

There are no duties on employers in relation to RPA, so there will be no action taken against them if their young employee(s) fail to undertake part-time training. Whilst young people are under a duty to participate, employers are not under an obligation to provide or arrange that training.

However, having a trained and qualified workforce has clear benefits for a business, particularly in terms of productivity, so employers may wish to consider how training could support their business needs. The Government fully funds accredited training for 16-18

[37] https://www.gov.uk/government/publications/study-programmes-for-16-to-19-year-olds
[38] https://www.gov.uk/government/policies/increasing-opportunities-for-young-people-and-helping-them-to-achieve-their-potential/supporting-pages/raising-the-participation-age

year olds and local authorities can provide further information about training opportunities that can best support the needs of local businesses.

The vast majority of 16 and 17 year olds already continue in some form of education or training and there will be no new costs to employers as a result of RPA.

Information about what RPA means for employers is being communicated to them in a number of ways including fact sheets and briefings to organisations such as the National Apprenticeship Service, the Federation of Small Businesses, the National Careers Service network, the Chambers of Commerce and CBI. The internet and social media are also being used, along with a letter to all MPs.

Youth Contract for 16-17 year olds

The Youth Contract for 16 and 17-year-olds supports disengaged young people to move into education, training or employment with training. It is contributing to the government's overall commitment to full participation for this age group as we raise the participation age to 17 in 2013 and 18 in 2015. This programme of additional, individualised support is focused on young people who are not in education, employment or training (NEET). Delivery of the programme began in September 2012.

The original core target group for this programme, as defined during the procurement exercise, focuses on providing support to at least 55,000 young people who are 16 to 17-year-olds currently NEET with low levels of attainment (no GCSEs at A*-C).

Savings made during the initial procurement exercise have allowed us to extend the eligibility criteria for the programme to meet the needs of an additional 15,500 16 and 17 year olds in the following specific groups of disadvantaged young people who are NEET. In January 2013 it was announced that the eligibility criteria for the programme would be extended to include 16 and 17 year olds who are NEET and who have one GCSE A*-C or; who are in care/have left care (care leavers) or; who are young offenders released from custody or serving community sentences.

To the end of the 2012 to 2013 financial year, 4,364 young people have enrolled on the Youth Contract for 16 and 17 year olds, 1,202 of which have re-engaged successfully into education, training or employment with training[39].

On first inspection, these numbers appear low, however, programmes such as the Youth Contract, which provide support to a specific, targeted group of young people, are often subject to a slow start with providers required to build the necessary networks to engage these young people.

The length of the journey for a young person on the Youth Contract can also be anything from six to 12 months. The programme commenced in September 2012 and the data published is up to March 2013, therefore many young people who started on the

[39] This data is taken from the published data set on the Youth Contract website. Data is for the original cohort only. The next update of the data set in autumn 2013 will also include performance data for the extended cohort.

programme are yet to re-engage in education, employment or training. For this data set, therefore, we did not expect the information to show significant numbers of young people who had progressed in education, employment or training and did not expect that any would have sustained for five out of six months in that outcome.

The latest Statistical Release from the Department of Education shows a decrease in the number of young people NEET. The decreased numbers of young people NEET means there are less young people eligible for the programme.

However, performance since April 2013 has improved and the Education Funding Agency (EFA) and providers delivering the programme are determined to increase the numbers of young people on the programme and help them to re-engage into a positive outcome.

The EFA ensures continuous improvement of the Youth Contract programme through:

- Contract management of the prime providers;
- Sharing good practice and;
- Payment by results model.

Work experience

Labour market analysis shows that work experience provides a real advantage to young people in securing employment. In fact one in three UK vacancies cannot be filled due to skills shortages, and the number of vacancies each year exceeds the number of young people who do not have jobs. The real challenge is supporting young people in gaining the qualifications and skills they need to secure the jobs that are available.

From September 2013, reforms to post-16 curriculum and funding in England will encourage the provision of work experience. All students will be offered a study programme that combines qualifications and activities, such as work experience tailored to the individual student's prior attainment or employment goals. The new Technical Level qualifications[40] announced in July 2013 will require work experience to form a part of the qualification or for employers to be involved in other ways.

The Government has invested £4.5 million over two years (2011-12 and 2012-13) to enable 25 further education (FE) colleges to trial innovative models for delivering work experience for 16- to 19-year-olds. The pilot helped colleges to place nearly 10,000 students (many of whom are from the most deprived areas and at risk of becoming NEET) into high quality work placements. Also as a result of this investment, the pilot has encouraged improved and sustainable partnerships between the FE sector and local employers of all sizes.

The full evaluation of the pilot, published this October[41], highlighted the importance of colleges providing a structured approach to work experience, including the appointment of

[40] https://www.gov.uk/government/news/new-tech-levels-to-raise-the-quality-of-vocational-qualifications
[41] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/246182/DFE-RR298.pdf

a work experience co-ordinator to prepare students and make sure the employers and teachers work together to integrate the work experience into the curriculum. Almost 4,000 employers provided just under 10,000 placements with the average additional cost to the college being £11.45 per day. Many of the employers are keen to continue to offer placements.

The Government has made it easier for employers to provide opportunities for young people by:

- producing simpler and clearer health and safety guidance[42] for all those involved in work experience;
- securing commitment from the insurance industry to treat work experience students as employees so that they will be covered by existing employers' liability compulsory insurance policies;
- changing legislation[43] so that employers no longer need to carry out CRB checks on staff supervising young people aged 16 to 17 on work experience and;

Students undertaking work experience are exempt from the National Minimum Wage (NMW) because they are not classed as workers. This exemption will apply provided that schools, colleges and training providers observe the study programme funding requirements that state they must plan, organise and supervise the students' work experience placements.

Universal Credit

Universal Credit which brings together 6 benefits and tax credits into 1, and ensures that work pays, has been progressively rolling out since April, when it began in the Greater Manchester area. This first phase rollout was successfully completed on 29 July as Warrington and Oldham Jobcentres began accepting claims.

Universal Credit will continue to expand. It is now live in 7 areas across the country[44], growing to 10 by spring 2014[45]. From there, the roll out will expand beyond the existing single claimant group, to new claims from couples and families in all of these areas. By the end of next year, Universal Credit will start also to expand to cover more of the north-west. Universal Credit will therefore expand in scope and scale over the next 2 years.

DWP will also roll out improved access to digital services across Jobcentre Plus. There will be 6000 new computers installed across the country, embedding digital technology and ensuring that jobseekers become used to online transactions.

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42 https://www.gov.uk/government/news/ministers-to-end-work-experience-health-and-safety-confusion
43 Rehabilitation of Offenders Act 1974 (Exceptions) (Amendment) (England and Wales) Order 2012
44 Claims are currently being taken for Universal Credit in Ashton-under-Lyne, Wigan, Warrington, Oldham, Hammersmith, Rugby and Inverness.
45 Claims will be taken in Shotton, Bath and Harrogate.

Pressing ahead with the existing system while the enhanced IT is being developed will allow for greater understanding of how individuals in different circumstances interact with Universal Credit. It also allows higher volumes of people to benefit from the better work incentives that come with the new benefit. Importantly, this approach will still allow the Universal Credit programme to roll out within the original budget.

At the same time, the other components of Universal Credit that will support the cultural transformation that the benefit will bring, such as the Claimant Commitment, and enhanced jobsearch support, will roll out across the country, including training 25,000 Jobcentre Plus advisers to achieve this. Eleven in-work progression pilots are being run to trial the best way to encourage people to increase their earning from work.

Universal Credit will see three million households gain by an average of £177 per month (2012/2013 prices) – around 75 per cent in the bottom 40 per cent of the income distribution. It could lead to the equivalent of up to 300,000 additional people in work. An estimated 2.4 million working families will be better off as a result of Universal Credit. The greater simplicity of Universal Credit is expected to significantly improve take-up of currently unclaimed entitlements.

Workplace Pension Reforms

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

To address this, the Government has introduced automatic enrolment, which places new duties on employers to automatically enrol their eligible workers into a workplace pension scheme. Automatic Enrolment went live on 1 October 2012 and will see up to 11 million people starting to save or saving more for their retirement, with a contribution from their employer. It will be rolled out over the next five years with the largest employers already automatically enrolling their staff. All employers will be included by February 2018.

Details of these reforms were provided in the Government's evidence to the Low Pay Commission in 2011

Since then, there are the following updates:

- We estimate that between six and nine million people will be newly saving in a workplace pension scheme as a result of the reforms;
- More than a million workers have been automatically enrolled since October 2012;
- Opt out is lower than expected so far. Previous research suggested around a third of people would opt out but the latest research with large employers indicates that around 9 per cent of individuals are choosing to opt out.

We are doing all we can to ease burdens on employers:

- The minimum level of contributions will be phased in during implementation to help both employers and individuals adjust gradually to the additional costs of the reforms;

- Until October 2017 the total contribution level (including tax relief) will be two per cent (on a band of earnings) with a minimum of one per cent coming from the employer;

- From October 2017 the total contribution level will be five per cent with a minimum of two per cent coming from the employer;

- Once fully phased in (October 2018), the total contribution level will be eight per cent with a minimum of three per cent coming from the employer; and

- Small businesses (1 - 49 workers) have been given additional time to prepare for automatic enrolment and will not have to begin automatically enrolling their workers until June 2015 at the earliest.

The Pensions Regulator continues to work with employers and schemes to ensure they understand and are able to meet their new duty. There are detailed guides and a number of interactive tools on the TPR website, including a planning tool to help employers prepare for their duties

Our analysis shows that in 2010 between 2.1 and 2.3 per cent of those eligible for automatic enrolment earned within 5 pence of the NMW. Figures were slightly higher for women than men (2.5-2.9 per cent and 1.7-2.0 per cent respectively).

Zero hours contracts

Following publication of the 2012 Q4 Labour Force Survey data, there was widespread, mostly negative media coverage on the increased use of zero hours contracts. Publicity focused on zero hours contracts being a particular issue for younger people, suggested that individuals could be exploited and that zero hours contracts created uncertainty because those employed on them were unable to plan other work, time or finances. By contrast some reporting showed there were people who liked the flexibility of zero hours contracts because they suite their lifestyle. For example, someone who has retired or partially retired but wants to remain connected to the labour market in a way that suits them.

Officials in BIS have carried out an information gathering exercise zero hours contracts and speaking with external stakeholders, including the LPC, to better understand the extent of their use, how they work in practice and any evidence of abuse of these contracts by employers.

Ministers are now considering this information and next steps will be outlined later in the autumn.

Agency Workers regulations

Recruitment Sector background

The recruitment sector places over 1.6 million people into permanent and temporary work each year. The sector is currently regulated by the Employment Agencies Act 1973 and the Conduct of Employment Agencies and Employment Businesses Regulations 2003 and is enforced by the Employment Agency Standards Inspectorate based in BIS.

The legislation is complicated and difficult for businesses and individuals to understand and was identified by the Red Tape challenge as needing reform. Between the 17 January and the 11 April 2013 the Government consulted on a proposal to establish a new regulatory framework and enforcement regime for the recruitment sector. The Government response to the consultation was published on the 12 July 2013.

Changes to legislation and enforcement

The Government intends to replace the current legislation with a new regulatory framework which removes some of the burden from business but continues to protect people who are looking for work. The new legislation will continue to ensure that employment agencies and businesses are restricted from charging fees to work-seekers and that employment businesses do not withhold payment from temporary workers.

The Government intends to change the recruitment sector enforcement strategy by moving to a more focussed and targeted enforcement regime. In future we will focus Government resource on helping the most vulnerable workers, particularly those on the National Minimum Wage by transferring some of the resource of the Employment Agency Standards (EAS) Inspectorate to HMRC's NMW team. Enforcement will be carried out under NMW legislation and will be subject to HMRC sanctions. A small team will remain in BIS to enforce the recruitment sector legislation.

While there have been some concerns raised by stakeholders about this change, and how resources will be allocated going forward, others such as the Recruitment and Employment Confederation, the biggest trade body in the recruitment sector, have said that they hope the new strategy may mean greater scrutiny of non-recruitment players in the supply of labour, such as umbrella companies (who do not fall within scope of recruitment sector legislation).

A common response has been to wait and see how the new enforcement strategy will work in practice.

Agency Workers Regulations

The Agency Workers Regulations (AWR) came into force in October 2011. From the first day of an assignment, agency workers are entitled to access to the hirer's facilities such as the canteen and childcare facilities, and access to information about job vacancies. After completing a 12 week qualifying period, the agency worker is entitled to the same basic terms and conditions that he or she would have received if recruited directly. This includes terms and conditions relating to key elements of pay.

Social Care

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

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

Subject to being passed by Parliament, the Care Bill will introduce a new duty on local authorities in England from 2015 to facilitate and encourage their local markets for adult social care to ensure a diverse and sustainable range of high quality providers. The Department of Health is funding a programme to help local authorities prepare for this new duty, and will also working with the Association of Directors of Adult Social Care to develop standards and guidance for local authority commissioning that will encourage best practice on workforce issues.

The Department is also working with Skills for Care to develop a Care and Support Sector Compact (now called Social Care Commitment) to promote culture change and skills development. The Social Care Commitment is about those working in the adult social care sector publicly declaring their commitment to improving the quality of care and support services by signing up to a series of statements. By signing up to the commitment, employers and their workers are pledging to continually strive to deliver high quality care ensuring the public can have confidence in the services they use. The framework will look to ensure a positive culture and working environment is created. The Compact was launched on 22nd April 2013 with a further launch planned for later in 2013. For the first time also, Department of Health will target personal assistants (PAs), and their employers, with greater support, learning and training through the Workforce Development Fund. This will also help to improve the quality of the care and support delivered.

Responding the LPC 2013 report recommendations

We note the LPC's recommendations and acknowledge that there has been a lack of progress in taking forward the recommendations. However, we are looking to allocate resources to this important area of work in the near future and will seek to address LPC's recommendations.

We are looking to emphasise in the Care Bill the importance of appropriate working conditions for the care sector, this is subject to Parliamentary approval, Parliamentary procedure & HA approval and further information about this should be available later in the year. In addition, we are encouraging all social care employers to sign up to Social Care Commitment which incorporates an ambition to provide a quality service by ensuring a positive culture and working environment is created.

We acknowledge the findings of HMRC (summarised at page 55) and will commission Skills for Care to develop and publish guidance for employers with regards how they maintain worker records and how this impacts on NMW.

Internships

The government continues to promote and encourage the creation of high quality placement and internship opportunities. Internships can be a great way for young people to get their first experience in the labour market and recent evidence shows that young people who have undertaken this work experience are three times more likely get a permanent job.

It is crucial that young people are prepared when entering the world of work and are fully aware of what to expect from an internship (both paid and unpaid). That is why BIS has commissioned young people from 4Talent[46], Channel 4's in-house scheme offering to help people gain entry into the creative industries on a campaign to get messages about rights and responsibilities out to young people and encouraging them to call the Pay and Work Rights Helpline if they think they have been exploited.

We asked interns and apprentices from Channel 4's 4Talent programme to develop a poster campaign and a short film communicating key messages about internships – by interns, for interns - giving viewers the chance to hear directly from young people like themselves as well as the Minister for Employment Relations.

We need to go to where young people are and that means online and on social media such as Twitter, Facebook and other online portals. This is all in addition to detailed guidance for employers at gov.uk.

There is also a key responsibility on businesses and universities, who must work together to help students acquire the skills and knowledge that employers need. The government is continuing its support for graduate internships through the BIS funded Graduate Talent Pool (GTP) website[47]. GTP has proved a useful way of encouraging employers, especially small enterprises, to offer graduate internships, and of ensuring that those internship vacancies are available to the widest possible audience of recent graduates. GTP is free to employers and to graduates, provides information and advice on all aspects of internships, and includes a quality assurance process for vacancies. Around 98 per cent of vacancies are for paid internships. As at August 2013 the service has carried more than 55,000 vacancies since 2009, and has registered over 8,000 employers and 94,000 graduates.

BIS is working with the Gateways to the Collaborative Forum, an ad hoc advisory body made up of volunteers and representatives from around 60 professional bodies, to review their Common Best Practice Code for High Quality Internships. The content is aimed at employers and describes the core elements required in order to obtain the maximum benefits from internships for both interns and employers. It intends to make this material available, via the web, during autumn 2013.

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[46] http://4talent.channel4.com/
[47] www.graduatetalentpool.direct.gov.uk/

Annex D: Statistics on NMW Enforcement 2012/13

HMRC delivered just under £4million of arrears for around 26,500 workers for 2012/13.

Table D1: Enforcement Statistics 2012/13

Arrears	£3,974,008
Workers	26,519
Completed investigations	1,696
Total number of complaints from workers	1,408
Notices of Underpayment	736
Uplift to current rates	£195,216
Penalties Imposed	708
Penalty charges	£776,517
Resolved Worker Complaints	1,265
Average arrears per worker	£150
Incidence of non-compliance (strike rate)	43%

Table D2: Regional analysis of number of NMW complaints through Pay and Work Rights Helpline

Region	Cases	Per cent
East Midlands	132	5.88
East of England	143	6.38
London	201	8.96
North East	45	2.01
North West	204	9.09
South East	196	4.59
South West	103	4.59
Unknown	940	41.91
West Midlands	141	6.29
Yorkshire and the Humber	138	6.15
Total	**2243**	**100**

Table D3: Breakdown of cases by Standard Industry Sector

Standard Industry Sector	Total Number of Cases	Complaint Cases	Risk Assessed Cases
Agriculture, Forestry And Fishing	16	14	Fewer than 5
Mining And Quarrying	Fewer than 5	Fewer than 5	Fewer than 5
Manufacturing	91	55	36
Electricity, Gas, Steam And Air Conditioning Supply	Fewer than 5	Fewer than 5	Fewer than 5
Water Supply; Sewerage, Waste Management And Remediation Activities	26	18	8
Construction	76	71	5
Wholesale And Retail Trade; Repair Of Motor Vehicles And Motorcycles	283	225	58
Transportation And Storage	58	48	10
Accommodation And Food Service Activities	361	283	78
Information And Communication	32	22	10
Financial And Insurance Activities	19	17	Fewer than 5
Real Estate Activities	20	20	Fewer than 5
Professional, Scientific And Technical Activities	52	41	11
Administrative And Support Service Activities	196	146	50
Public Administration And Defence; Compulsory Social Security	6	5	Fewer than 5
Education	39	25	14
Human Health And Social Work Activities	161	82	79
Arts, Entertainment And Recreation	40	27	13
Other Service Activities	213	161	52
Activities Of Households As Employers; Undifferentiated Goods-And Services-Producing Activities Of Households For Own Use	Fewer than 5	Fewer than 5	Fewer than 5
Activities Of Extraterritorial Organisations And Bodies	Fewer than 5	Fewer than 5	Fewer than 5

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