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Dear David,

Thank you for your letter of 22 June to the First Minister, Alex Salmond MSP. I have been asked to reply and I welcome the opportunity to set out the Scottish Government's views on the impact of the National Minimum Wage. Our evidence for the Low Pay Commission's report is set out within Annex A of this letter.

I look forward with interest to receiving the Commission's report and I would be happy to provide any further assistance you may require in completing this and future reports.

*Fergus Ewing*  
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## ANNEX A

### SCOTTISH GOVERNMENT WAGE IN SCOTLAND

## EVIDENCE ON THE IMPACT OF THE NATIONAL MINIMUM WAGE

Economic conditions remain challenging, and recent independent forecasts suggest that the recovery will remain fragile through 2012 and into 2013. In their most recent forecast published in July 2012, the International Monetary Fund (IMF) forecast that growth would be 0.2% in 2012, and 1.4% in 2013. The most recent Average UK Independent Forecast, published each month by HM Treasury, forecast a decline in UK GDP of 0.3% in 2012, and a forecasted growth of 1.2% in 2013.

The average of the independent forecasts also indicates that UK claimant count levels will increase to 1.75 million over this period.

It is difficult to comment on the outlook in 2014 given the continued uncertainty in global economic conditions, and many of the key economic forecasters have not published forecasts beyond 2013.

### Level and Impact of the National Minimum Wage

#### Unqualified Workers

A brief analysis of the data indicates that for full-time employees, the **LFS would appear to underestimate gross hourly earnings** (comparing the earnings for the total population from the LFS to those for ASHE). However the trend is similar for both.

An exploratory analysis of LFS earnings data would appear to indicate that between 1999 and 2012:

- The percentage increase in median gross hourly earnings for full-time employees with no qualifications (up by 60% from £4.84 to £7.78) was slightly higher than that for full-time employees with any qualifications (up by 53% from £7.35 to £11.27).
- However the actual gap in earnings between full-time employees with no qualifications and full-time employees with any qualifications increased from £2.50 to £3.49.
- This would tend to indicate that the NMW has had little or no impact on closing the gap in earnings between those employees with no qualifications and those with any qualifications.

The estimates from the LFS should be used with caution. The sample sizes for those with no qualifications are relatively small, and therefore may be subject to high levels of survey variation. There is also a high level of non-response for the earnings question in the LFS.

(Source: Labour Force Survey (Jan-Mar quarters), not seasonally adjusted, ONS)

Since 1999, the percentage increase in gross hourly earnings for full-time workers with no qualifications was around 60%, similar to the increase seen for full-time workers in Scotland as a whole (based on LFS data only).

Between 2002 and 2011 (when we have comparable ASHE data), the increase for those with no qualification was 27%, lower than both the increase seen for all full-time employees

for the LFS (at 45%) and the increase for full-time workers in Scotland from the official source for earnings: ASHE (at 35%).

It should be noted that the sample size for the LFS estimates for all employees has decreased around 50% since 1999 – this may be due to increasing refusal and non-contact rates for social surveys over this period and/or increasing non-response for the earnings questions. The decrease in sample for those with no qualifications is larger (nearer 75%), and this may be partly due to the decreasing number of people in Scotland with no qualifications (as evidenced by the Scottish Governments Skills Profile national indicator which monitors those with low or no qualifications).

### Ethnic Minorities

The Scottish Government is aware that people from some ethnic minority communities tend to be concentrated in particular sectors, often low paid such as catering and retail. SG is also aware there is an 'ethnic penalty' in employment whereby people from minority ethnic communities are likely to earn less than their white majority community counterparts, and therefore the minimum wage is of significant benefit in redressing these inequalities. However, for some people from minority ethnic communities, in particular women, who are employed in family businesses, the NMW may be beyond their reach.

### Disabled People

NMW has had little if any effect on the labour market position of disabled people. The current recession *may* have had one but there is little firm evidence as yet.

Prior to the introduction of NMW in 1999, the employment rate of working age disabled people was running at 39% in Scotland. By 2009 the proportion of working age disabled people in employment had risen to 49%. These figures suggest that if there is any correlation between the Minimum Wage and the proportion of disabled people in employment it is in fact a positive one (i.e. its introduction actually assisted disabled people in securing employment).

However, it could be argued that what assisted disabled people in securing employment was a growing UK economy that drew in disabled people and other previously marginalised groups (older people, younger people, immigrants from Eastern Europe, etc) to meet growing labour market demand. The Minimum Wage merely ensured that they were paid a "decent" amount for their work once they had secured employment, although it may have helped some disabled people enter and remain in employment who would otherwise not have thought work "worthwhile" (e.g. because the impact on their benefits actually made them worse off in low paid work).

Evidence of the employment rate of disabled people since the onset of the recession is not what we'd have expected as the figures from 2009/10 suggest that the proportion of disabled people in employment actually *rose* during that year. This was contrary to some expectations as it was thought that disabled people might be first in line for redundancies. However, this unexpected rise was based on employers' returns and it may be that employers are simply becoming better at recording the proportion of disabled people in their workforce. Nevertheless, it does mean that there is no hard statistical evidence, at least so far, that the fact that disabled people are now paid the Minimum Wage makes them any less employable.

## Gender

Following the National Minimum Wage Act 1998 (and also the Equal Pay Act 1970), there has been a gradual improvement in closing the pay gap between men and women in Scotland. In 1998, it was nearly 21% for full-time workers, based on average (mean) hourly earnings, excluding overtime. Latest (2011) figures show that it is now just under 11% (mean) – and nearly 6% (median).

The factors we can identify to explain this improvement are complex. Since 2001, the Scottish Government has been in a partnership project, *Close the Gap*, to raise awareness about the pay gap and its various causes. The project has worked hard to encourage employers and employees to take action to reduce the pay gap and the Government has allocated funding for the project to continue its work for the next 3 years.

In times of economic crisis, with widespread concern that measures to address the crisis are disproportionately impacting on women, especially those who are lone parents, thereby increasing the inequalities between the sexes, any increase to the National Minimum Wage would undoubtedly be welcome as it would benefit many thousands of low paid workers in Scotland – approximately two-thirds of whom are women.

## **Young People, Apprentices and Interns**

The Scottish Government has received minimal correspondence indicating that employers are unhappy at the affordability of NMW (as opposed to the apprentice minimum wage) rates for employing young people.

With respect to the apprentice rate, we have received communications which indicate that this has limited the affordability of living independently. The Scottish Government is aware of concerns, particularly in rural areas, regarding the affordability on apprentice rates of travel to and from work; anecdotal evidence suggests that transport costs consume a major portion of apprentices wages.

There has been minimal impact of the apprentice minimum wage on provision, take up and completion of apprenticeship opportunities, subject to the concerns already noted above. There has been some correspondence from concerned individuals who have become aware of apprentice rates (e.g., from job adverts for retail workers around Christmas) and who are of the view that this amounts to “slave labour”.

## **Scottish Living Wage**

Addressing low pay is an explicit objective of public sector pay policy. The Scottish Government has taken direct action to raise minimum rates of pay for those parts of the public sector under its direct responsibility.

The public sector pay policy provides flexibility within an overarching policy of pay restraint for public bodies to provide support for the lower paid and it works towards making sure that pay is fair and non-discriminatory.

The Scottish Government supports the Scottish Living Wage (SLW) through the public sector pay policy. The rate is currently set at £7.20 per hour (up from £7.15 in 2011-12). The Scottish Government is committed to continuing to support the SLW in the 2013-14 pay policy.

The requirement, for those employers governed by the public sector pay remits, to pay a SLW was introduced in the 2011-12 public sector pay policy and assisted about 6,000 staff (including NHS staff).

The Scottish Government's public sector pay policy remit does not extend to local authorities. As independent corporate bodies it is the responsibility of local authorities themselves to agree the terms and conditions under which their own staff are employed. It is therefore for individual local authorities to set the rates of pay for their staff and to decide whether to implement the living wage. Currently, 15 of Scotland's 32 local authorities pay the SLW, with a further nine committed to introducing it during 2012-13.

## Estimates for median gross hourly earnings for full-time workers aged 16 and over in Scotland

Year	Employees with no qualifications aged 16-69		Employees with any qualifications aged 16-69		Earnings gap between employees with no qualification and employees with any qualifications	Total employee population aged 16-69		Official Estimate from ASHE (population aged 16 and over) Median Gross Hourly Pay <sup>2</sup>
	Median Gross Hourly Pay <sup>1</sup>	Sample Size	Median Gross Hourly Pay <sup>1</sup>	Sample Size		Median Gross Hourly Pay <sup>1</sup>	Sample Size	
1996	£4.40	39	£7.02	375	£2.62	£6.32	602	
1997	£4.93	97	£6.68	655	£1.75	£6.33	774	
1998	£4.70	134	£6.86	1009	£2.16	£6.41	1189	
1999	£4.85	124	£7.35	1001	£2.50	£6.86	1157	
2000	£5.26	104	£7.58	909	£2.32	£7.26	1036	
2001	£6.08	103	£8.11	860	£2.03	£7.54	982	£9.22
2002	£5.92	90	£8.75	845	£2.83	£8.18	957	£9.53
2003	£6.04	63	£9.24	572	£3.20	£8.71	937	£9.82
2004	£6.84	66	£8.78	888	£2.87	£8.78	941	£10.29
2005	£6.60	74	£9.71	752	£3.11	£9.11	820	£10.66
2006	£7.60	71	£10.10	759	£2.50	£9.61	824	£11.09
2007	£7.78	82	£10.14	809	£2.36	£9.79	888	£11.60
2008	£7.27	52	£11.00	783	£3.73	£10.63	834	£12.02
2009	£7.70	41	£11.06	687	£3.36	£10.83	732	£12.26
2010	£7.78	34	£11.13	594	£3.35	£10.91	627	£12.44
2011	£7.78	28	£11.27	592	£3.49	£11.11	617	~
2012	60%		53%			62%		~
Change 1999 - 2012	27%		37%			45%		35%

Source:

- 1 - Labour Force Survey (Jan-Mar quarters), ONS, not seasonally adjusted  
2 - Annual Survey of Hours and Earnings, ONS

Notes:

\* - data unreliable and has been suppressed.

~ - ASHE data for 2012 is not available till 12 Dec 2012

‡ - No data available.

a - The official source of data for earnings is the Annual Survey of Hours and Earnings. However, this does not contain data for qualifications b - The Labour Force Survey (LFS) gathers data on earnings in main job. The LFS is not the official source for earnings data.

c - The LFS question on earnings is not mandatory and respondents may not give a response to it

Non-response for the earnings question for employees aged 16-69 in the LFS is typically around 75%.

Given the high non-response rate, although the quality of an estimate may be deemed precise, this does not give any indication of its accuracy.

d - The LFS question is only asked of employees aged 16 to 69. It is not asked for those in self-employment.

## Key

Coefficient of Variation	Quality of Estimate
5% or lower	Precise
over 5%, up to 10%	Reasonable precise
over 10%, up to 20%	Acceptable, but use with caution
over 20%	unreliable, figures suppressed

Estimates for median gross hourly earnings for full-time workers aged 16 and over in Scotland

	People with no qualifications aged 16-69	Total population aged 16-69	Official Estimate from ASHE (population aged 16 and over)
	Median Gross Hourly Pay <sup>1</sup>	Median Gross Hourly Pay <sup>1</sup>	Median Gross Hourly Pay <sup>2</sup>
1996	£4.40	£6.32	
1997	£4.93	£6.33	
1998	£4.70	£6.41	
1999	£4.85	£6.86	
2000	£5.26	£7.26	
2002	£6.08	£7.54	£9.22
2003	£5.92	£8.18	£9.53
2004	£6.04	£8.71	£9.82
2005		£8.78	£10.29
2006	£6.84	£9.11	£10.66
2007	£6.60	£9.61	£11.09
2008	£7.60	£9.79	£11.60
2009	£7.78	£10.63	£12.02
2010	£7.27	£10.83	£12.26
2011	£7.70	£10.91	£12.44
2012	£7.78	£11.11	

