Department for Business Innovation & Skills

NATIONAL MINIMUM WAGE

Final government evidence for the Low Pay Commission's 2015 Report

JANUARY 2015

Ministerial Foreword

The National Minimum Wage (NMW) has played a vital role, helping to balance higher employment during and since the recession while supporting wages.

That has meant some challenging decisions. For example, during the recession Average Weekly Earnings growth was low and fell in real terms. The increases in the NMW relative to average earnings has been an important means to help shield low income workers from the full impact of the recession, but has still meant a challenging time for many workers and their dependents. The Government has also taken action to raise the threshold for National Insurance Contributions and increased the personal allowance for income tax, reducing the tax burden or removing individuals from income tax altogether, so that their take home pay is higher.

During 2014 there were continued signs of strong recovery in the UK economy. Since the Government's interim evidence, the number of people in employment has continued to grow to record levels. There are indications that median pay may now be growing faster than inflation. In October 2014 the NMW also rose in real terms for the first time since 2007. The Low Pay Commission noted that this is the start of a new phase of higher increases in the NMW which should start to restore the real value lost since 2007, providing the economic recovery continues – as it has done. Of course, the NMW is the legal floor the Government sets, to prevent exploitation. Pay and progression is important for everyone, and the Government encourages all employers to consider whether they can afford to pay their employees more.

This final evidence has also been able to take account of the results of the Apprenticeship Pay Survey research, published at the end of last year. It showed that median wages of Apprentices had risen since the last survey. Non-compliance of Apprentices with the relevant NMW had also fallen although action is still required to reduce this further.

The Government is committed to increasing compliance with the NMW legislation and effective enforcement of it. Everyone who is entitled to the NMW should receive it. That is why we have continued to take bold enforcement measures including: an enhanced naming and shaming scheme for employers who have not complied with the law; raising the maximum civil penalties for non-compliance from £5,000 to £20,000 per worker; and increasing the enforcement budget from 2015/16 by a further 30 per cent. In 2013/14 a record £815,269 in penalties were issued to non-compliant employers and 22,600 workers were helped to get their underpayments back (a 17% increase on the numbers helped in 2009/10). Our reforms are designed to improve awareness, increase the incentive on employers to comply with the NMW legislation and to increase the penalties where they do not.

I look forward to receiving the Commission's 2015 report.

Jo Swinson

JO SWINSON MP
Minister for Employment Relations and Consumer Affairs

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Executive Summary

This report is divided into four main chapters with wider issues of interest to the Low Pay Commission (LPC) in the annexes. It sets out what evidence and policy developments the Government would like the LPC to consider before making their recommendations on the National Minimum Wage (NMW) in February.

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 that the LPC have previously shown an interest in.

The main messages from each of the chapters are:

Macroeconomic conditions and outlook

The latest figures from the Office for National Statistics (ONS) provide encouraging signs of a strong recovery in the UK economy, due to positive quarter-on-quarter growth for all of 2014. Compared with the same quarter a year ago GDP is 2.6 per cent higher in Q3 2014.

The employment rate has continued to sustain near record levels at 73.0 per cent for August to October 2014, 0.2 percentage points lower than the record high of 73.2 per cent. Similarly, unemployment rates have also indicated a robust economic recovery, falling 1.4 percentage points over the year with the largest fall in long-term unemployment since 1997.

Given the momentum the economy has carried into 2014, short term forecasts have been revised upwards. The Office for Budget Responsibility (OBR) is now forecasting GDP growth of 3.0 per cent for 2014, 2.4 per cent for 2015 and 2.2 per cent in 2016.

Evidence on pay

The Government's ambition is to increase the real value of the NMW without an adverse impact on employment.

Since 2007 growth in Average Weekly Earnings has been low and has fallen in real terms. However recent data has been positive with growth in August to October showing signs of higher, above inflation growth. Going forward, average earnings growth is predicted to rise.

Between 2007 and 2012 the NMW increased faster than average earnings and, following a slight fall in 2013 and the biggest cash increase since 2008, is now closer to the average median wage than ever before at 55 per cent of the median wage. This high bite has not been at the cost of employment.

Between 2009 and 2013 labour costs grew more slowly than gross weekly wages for the bottom 60 per cent of the gross weekly wage distribution. This has made it relatively less expensive to take on low paid workers.

Labour market

The employment rate fell by around 2.4 percentage points over the recession despite a 6 per cent fall in GDP. It remained resilient in 2010 and 2011 at around 70.4 per cent with exceptionally strong growth since 2012.

This growth in employment has continued through 2014 and led to record levels in the number of people in employment, both overall and for specific groups such as women, workers over 50 and the disabled.

Youth employment has been on a long-term downward trend and was more severely affected by the recession. However, employment for those not in full time education increased over the past year and the proportion of 16-24 year olds who are not in full-time education or employment is less than its pre-recession level.

Apprentices

The apprentice rate was introduced in 2010. Before that apprentices under 19 or in the first year of their Apprenticeship were exempt from the NMW.

Since 2010, the apprentice rate has increased almost at the same rate as the adult NMW rate and faster than average earnings and both youth NMW rates.

The Apprentice Pay Survey shows that the median hourly pay for all Level 2-5 apprentices in Great Britain was £6.31 in 2014.

The 2014 pay survey found a considerable reduction in Apprentice NMW non-compliance on previous surveys. This is likely to be due to a range of factors. However, at 15%, this is still a larger degree of non-compliance with the NMW for apprentices, compared to non-apprentices.

The Government has asked the LPC to consider the case for simplifying the Apprentice NMW in order to improve compliance.

Compliance

Given the importance that the Government places on compliance and enforcement, the Government will continue to take tough action where employers break the law and will increase the focus on high risk sectors. To support this, the Government announced in the Autumn Statement an increase in the enforcement budget of Her Majesty's Revenue and Customs (HMRC) by over £3million.

This extra funding will enable HMRC to increase the number of NMW compliance officers dedicated to NMW enforcement. As well as responding to every complaint made to the Pay and Work Rights Helpline, HMRC compliance officers also undertake targeted enforcement, focusing on the worst offending employers in high-risk sectors.

The Government is taking tougher action on employers that do not comply with the law. We are naming and shaming employers that fail to pay their workers at least the Minimum Wage and have also increased the NMW penalty. We plan to go further still through primary legislation so that we can apply the penalty on a per worker basis which means employers will face substantially higher penalties.

Remit for the Low Pay Commission 2015 Report

Low Pay Commission Remit – 2015 Report

Our 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. As the economy continues to recover, the Government's ambition is to increase the real value of the NMW.

Against this background, the LPC is asked to consider in their recommendations whether, as they concluded in their 2014 Report, we are entering a new phase where real increases in the NMW can be afforded.

The Government asks the LPC to:

1. 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 2015.

2. Consider whether:-
    - Any changes can be made to the apprentice rate to make the structure simpler and improve compliance: and
    - The structure and level of the apprentice rate should continue to be applied to all levels of apprenticeship, including higher levels.

3. Review the conditions that need to be in place to allow the value of the Minimum Wage to increase in real terms. This would include an update on your advice on the future path of the NMW.

In making recommendations in the areas set out above, the LPC is asked to take account of the state of the economy, employment and unemployment levels, and relevant policy changes.

Timing

The LPC is asked to report to the Prime Minister, Deputy Prime Minister, and the Secretary of State for Business, Innovation and Skills as early as possible in February 2015.

Section 1: Remit issues - Macroeconomic conditions and outlook

Summary

The latest figures from the ONS provide encouraging signs of a strong recovery in the UK economy, due to positive quarter-on-quarter growth for all of 2014. Compared with the same quarter a year ago GDP is 2.6 per cent higher in Q3 2014.

The Employment rate has continued to sustain near record levels at 73.0 per cent for August to October 2014, 0.2 percentage points lower than the record high of 73.2 per cent. Similarly, unemployment rates have also indicated a robust economic recovery, falling 1.4 percentage points over the year with the largest fall in long-term unemployment since 1998.

Given the momentum the economy has carried into 2014, short term forecasts have been revised upwards. The Office for Budget Responsibility (OBR) is now forecasting GDP growth of 3.0 per cent for 2014, 2.4 per cent for 2015 and 2.2 per cent in 2016.

Economic background

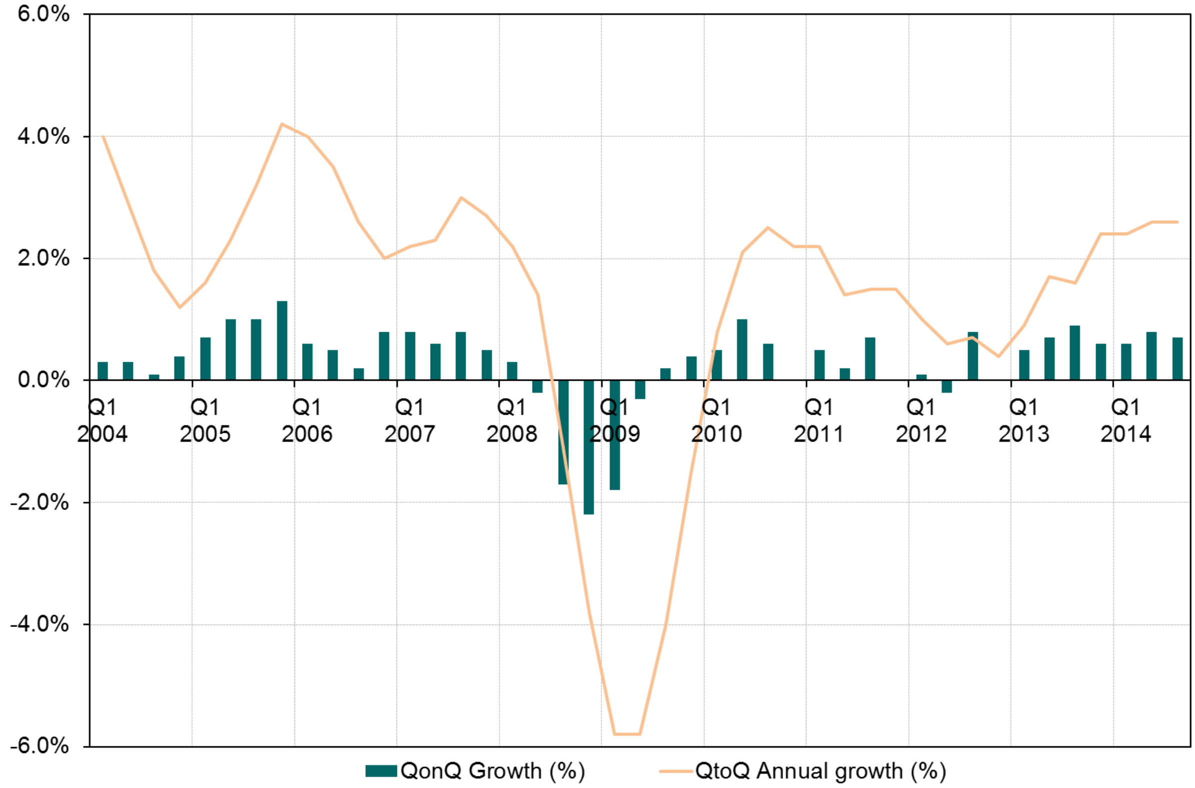
Economic growth

In Q3 2014, UK GDP increased by 0.7 per cent[1] and is 2.9 per cent above the pre-downturn peak (Q1 2008). This is 2.6 per cent higher when compared with the same quarter a year ago.

The latest data show GDP growth has been more robust over this parliament than previously thought, expanding by 8.3 per cent between Q1 2010 and Q3 2014. This is partly due to business investment being 6.7 per cent higher than it was in Q1 2008.

[1] Quarterly National Accounts

Chart 1.1: Annual growth (QtoQ) and quarter on quarter growth, 2004 - 2014



Source: Quarterly National Accounts, Q3 2014, Office for National Statistics,

The most recent quarterly data from Eurostat[2] estimates show Euro area and EU28 GDP to be up by 0.2 per cent and 0.3 per cent in the quarter of Q3 2014 respectively. Compared with the same quarter of the previous year, GDP is up 0.8 per cent for the Euro area and 1.3 per cent for EU28. However average growth masks varied growth rates by EU member states and, based on the data currently available, two EU28 countries remain in recession[3], compared with three in the previous quarter.

Inflation: Consumer Price Index (CPI): the latest figures

In November 2014, CPI inflation fell to 1.0 per cent in the year, down from 1.3 per cent in October. In the November 2014 *Inflation Report* the MPC judged that inflation is set to remain below the 2 per cent target, and is likely to temporarily fall below 1 per cent within the next 6 months.

Headline CPI inflation is now approximately 1.1 percentage points below its November 2013 rate. Of that decline, 0.49 percentage points is accounted for by a decline in food and non-alcoholic drinks, whilst 0.03 per cent of the fall is due to falling prices for housing & household services.

Food prices were 1.7 per cent lower in November 2014 compared to the previous year. This is however largely offset by higher prices for electricity and gas. Since the particularly low service price inflation experienced in May 2014, consumer services

[2] Eurostat 2014 Q3 Flash Estimates
[3] Italy and Cyprus are currently in a recession.

prices have risen 2.4 per cent over the year in November, 0.2 percentage points higher than the 2014 trough.

Even though the economy has continued to perform strongly, inflation has gradually reduced over the year reaching 1.0 percentage points below the official target rate of 2 per cent. OBR forecasts CPI inflation to remain near the 2 per cent target over the forecast horizon.

Since January 2013, Euro area core inflation has fallen well below the European Central Bank's inflation target and is measured 0.3 per cent in November 2014. Ongoing weakness in the Euro area has had a wider effect on the UK economy as the EU is the UK's largest export market.

Recent changes in the Labour Market

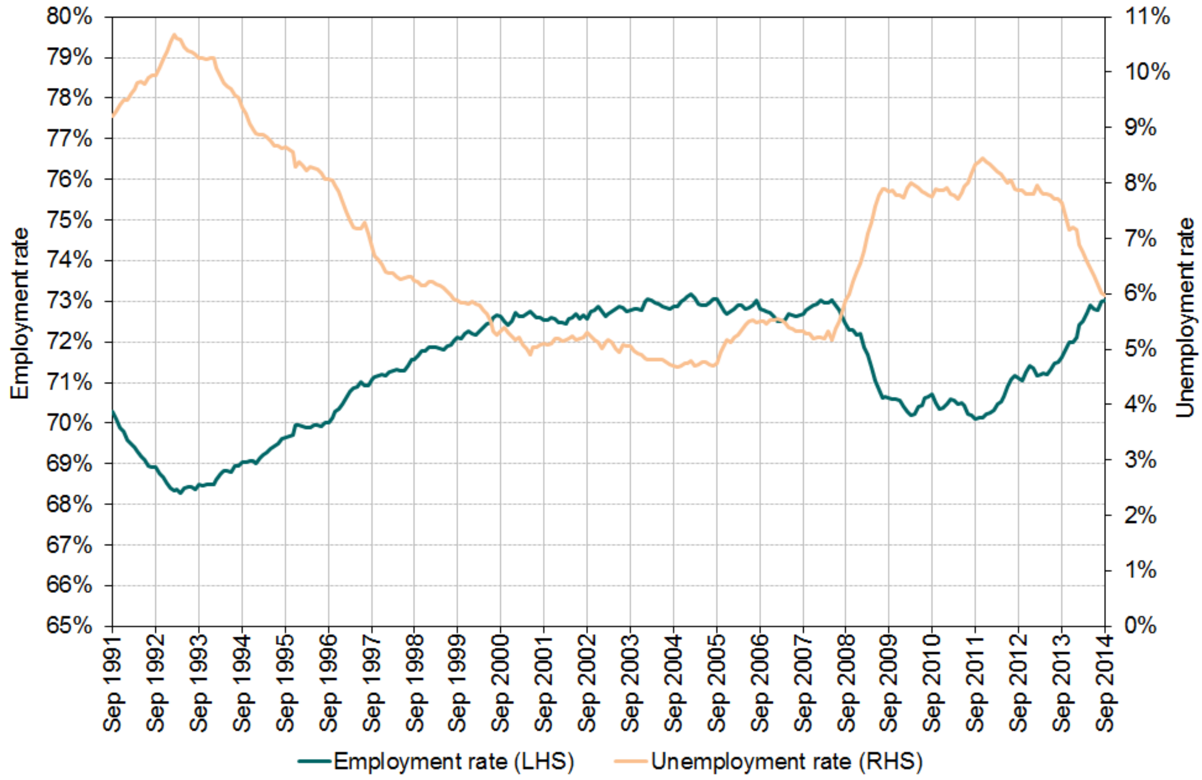
Employment growth in the UK has been strong, with overall growth of nearly 600,000 in the year to October. The employment rate has continued to be near record levels, at 73.0 per cent for August to October, 0.2 percentage points lower than the record high of 73.2 per cent recorded in the three months to February 2005. The employment rate in the UK is above average for both the G7 and EU countries. In addition, employment levels in the three months to October 2014 is over 1.0 million (16+) higher than the pre-crisis peak, reflecting significant improvement in the labour market since the start of 2008.

The UK unemployment rate is currently at its lowest rate since the three months to September 2008, at 6.0 per cent (16+). The rate has fallen by 1.4 percentage points on the year, however the current rate still remains higher than the pre-recession trough of 5.2 per cent. The level of unemployment has fallen below 2 million on the ILO measure, down 455,000 on the year. Long-term unemployment saw the largest annual fall since 1997, down 191,000 on the year to 684,000. The claimant count, at 900,100 in November, has fallen for the 25th consecutive month.

Youth unemployment levels have also shown some improvements. In October 2014, youth unemployment reduced by 208,000 over the year, following the general downward trend since mid-2013.

The level of inactivity increased by 9,000 over the year and the inactivity rate increased by 0.2 percentage points on the quarter to 22.3 per cent in the three months to October.

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 October 2014, contained HM Treasury's (HMT) average of independent forecasts from August 2014 and Office of Budget Responsibility forecasts from March 2014. The December 2014 average of independent forecasts for GDP growth, compiled by HM Treasury, was 3.0 per cent for 2014 and 2.6 per cent for 2015. The OBR forecast[4] that annual GDP growth will be 3.0 per cent in 2014 and 2.4 per cent in 2015.

[4] Economic and Fiscal outlook, December 2014

Table 1.1: Forecasts for GDP growth 2014 to 2016

Forecasts for GDP growth (per cent)	2014	2015	2016
OBR (December 2014 Statement)	3.0	2.4	2.2
Bank of England mode projection* (November *Inflation Report* 2014)	3.5	2.9	2.6
Avg. of independent forecasters (December 2014)**	3.0	2.6	2.4[5]
Forecasts for consumer price inflation (CPI) (per cent)			
OBR (December 2014 Autumn Statement)	1.5	1.2	1.7
Bank of England mode projection, Q4* (November *Inflation Report* 2014)	1.2	1.4	1.8
Avg. of independent forecasters, Q4 (December 2014)**	1.3	1.7	2.0[7]

Notes:
*Assuming market interest rate expectations and £375bn asset purchases
**Forecasts for the UK economy: A comparison of independent forecasts, November 2014, compiled by HM Treasury.

The UK was 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 well established.

The UK economy has continued to grow each quarter since Q1 2013. This positive trend has continued into 2014 with GDP growth recording 0.6 per cent, 0.8 per cent and 0.7 per cent[6] in the first three quarters respectively. The recovery is also balanced across all the main sectors of the economy, with manufacturing, construction and services all growing strongly compared to the previous year.

In October, the International Monetary Fund (IMF) revised the world GDP growth forecasts, expecting a prolonged uneven global recovery. 2014 projections were reduced to 3.3 per cent, down 0.1 percentage points, and 2015 GDP being lowered to 3.8 per cent, down 0.2 percentage points.

The most recent publication of the World Economic outlook (WEO) highlighted that growth for the main sectors in the UK economy have become more balanced, driven by both consumption and business investment. The IMF forecast for UK growth was unchanged at 3.2 per cent for 2014 and 2.7 per cent for 2015. Compared to the other G7 countries, the UK is projected to have the fastest rate of growth in 2014 at 3.2 per cent.

Given the momentum the economy carried into 2014, the OBR also revised upwards their forecast for GDP growth in 2014 by 0.3 percentage points to 3.0 per cent and in 2015 by 0.1 percentage points to 2.4 per cent. The upward revision to UK GDP growth is the result of a smaller output gap across the forecast period compared to expectations in the forecast period. The OBR expects the output gap to be -0.5 per cent in 2015 and 2016 before closing in 2019.

[5] Forecasts were published in November 2014.
[6] Quarterly National Accounts

The Bank of England's economic outlook and forecasts

In the Bank of England's November 2014 Inflation Report, the Monetary Policy Committee (MPC) noted that the expansion in UK domestic demand has continued throughout 2014. Even though the growth forecasts are slightly weaker than estimated in August, we believe that the MPC's outlook on the UK's growth rate still seems encouraging. The MPC envisages that a gradual pick up in the level of productivity, demand abroad and household real incomes will continue to occur in the medium term, underpinning the expansion in UK output.

The Consumer Prices Index (CPI) grew by 1.0% in the year to November 2014, up from 1.3% in October. Inflation is expected to remain below the 2 per cent target in the near term, and is likely to fall temporarily below 1 per cent at some point over the next six months. Inflation is expected to rise gradually back to target, as external pressures fade and unit labour cost growth picks up.

The MPC stressed that their guidance on the expected path for Bank Rate continues to apply. Once the rate begins to increase, the pace at which it will rise is expected to be gradual, and is likely to remain below average historical levels for some time. The actual path the committee will pursue over the next few years is uncertain and will depend on economic conditions.

Key global risks

Since our last evidence submitted to the LPC in October 2014, which emphasised an improvement in the global recovery, external risks facing the UK have increased. The UK is not immune to the problems being experiences in Europe and other parts of the world economy.

The most recent IMF World Economic Outlook published in October described global growth as 'mediocre' and revised the global growth projection for 2015 down 0.2 percentage points to 3.8 per cent. An uneven global recovery is set to continue.

The largest external risk to the UK continues to be the deteriorating outlook in the euro area. Other risks include a slowdown in China and other emerging markets, risks associated with falling oil prices and a worsening of geopolitical risks.

Section 2: Remit issues - Evidence on pay

Summary

The Government's ambition is for the NMW to increase in real terms, and restore some of the value lost over the recession without an adverse impact on employment.

Although the NMW has fallen in real terms by 4.5 per cent since 2007, between 2007 and 2012 the NMW increased faster than average earnings. Following a slight fall in 2013, the NMW is now closer to the median wage than ever before at 55 per cent of the median wage.

This recent increase in the bite (the ratio of the NMW to median earnings) is mainly because growth in average wages has been low. The Annual Survey of Hours and Earnings shows that average wages grew by just £1 between April 2013 and April 2014 or 0.1 per cent. However, for workers in continuous employment, average wage growth was 4.1 per cent on the year.

Growth in Average Weekly Earnings has also been low. However, recent data has been positive with growth in August to October, showing signs of higher, above inflation growth. Earnings growth is predicted to rise.

Following the introduction of new Apprenticeship data in the Annual Survey of Hours and Earnings the bite for the youth rates has fallen. It is still significantly above the adult bite, despite the youth NMW upratings being smaller than the adult upratings.

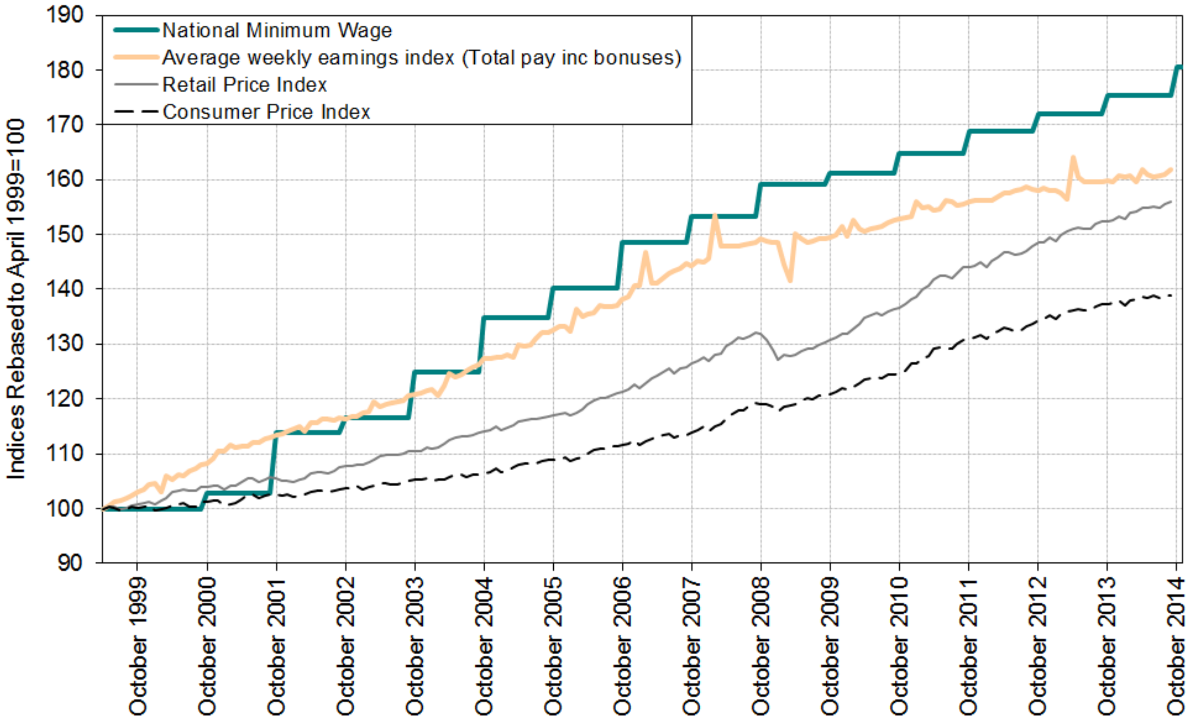
From an employer's perspective, between 2009 and 2013 labour costs grew more slowly than gross weekly wages for the bottom 60 per cent of the gross weekly wage distribution, but the opposite was true at the top of the distribution. This was mainly due to the fact that the employer National Insurance Contributions (NICs) threshold increased on average by 7.7 per cent annually over this period, which to some extent offset the one percentage point increase in the employer NICs rate seen in 2011/12.

Growth in the adult National Minimum Wage rate

Since it was introduced, the adult NMW rate has increased substantially faster than both average earnings and prices removing exploitation and protecting the earnings of people on low incomes. The October 2014 NMW rate is over 80% higher than the original April 1999 level. In comparison, between April 1999 and September 2014 the rise in Average Weekly Earnings[7] (total pay, including bonuses) is estimated to be around 62% and the increase in the Consumer Price Index (CPI) is estimated to be around 40%.

Chart 2.1: Adult NMW rate changes compared to earnings growth and inflation[8]

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.

We support the LPC's assessment that there have been three distinct phases in the path of the adult NMW. From 1999, the NMW was set at a cautious level and increased in line with inflation until 2001. Between 2001 and 2007, the second phase, the Commission recommended a series of increases above average earnings growth. Since the onset of the recession in 2007, the third phase has been characterised by more cautious growth, in line with average earnings, protecting jobs in the face of low output growth. However, since 2010, the NMW has increased relative to average earnings, and is currently closer to the average than ever before.

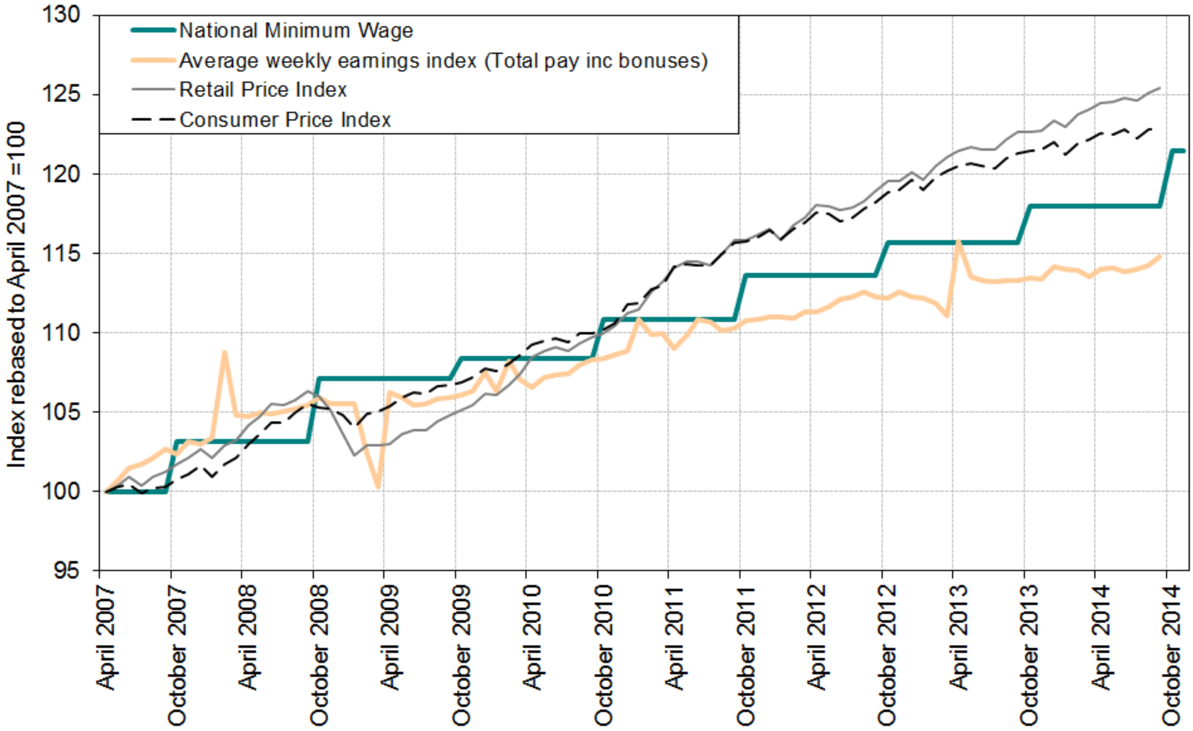
[7] AWE series began in 2000. Before that it was AEI.

[8] It is important to note that RPI is no longer regarded as a national statistic by the Office for National Statistics. However we use this in our analysis as it is used by the LPC as part of their evidence report and it includes housing costs in its basket of goods which can make up a significant proportion of an individuals' costs, especially for the low paid.

Although the NMW has fallen in real terms by 4.5 per cent since 2007 when deflated by CPI, in October 2014 the NMW rose in real terms for the first time since 2007. The LPC noted that this is the start of a new fourth phase of higher increases in the Minimum Wage which should start to restore the real value lost since 2007. The UK economic recovery is now well established and growth is broadly balanced across sectors which should be reflected in an increase in the NMW in real terms.

Chart 2.2: Adult NMW changes compared to earnings and inflation

Index rebased to April 2007 =100



Source: Office for National Statistics; Consumer Price Index, Retail 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.

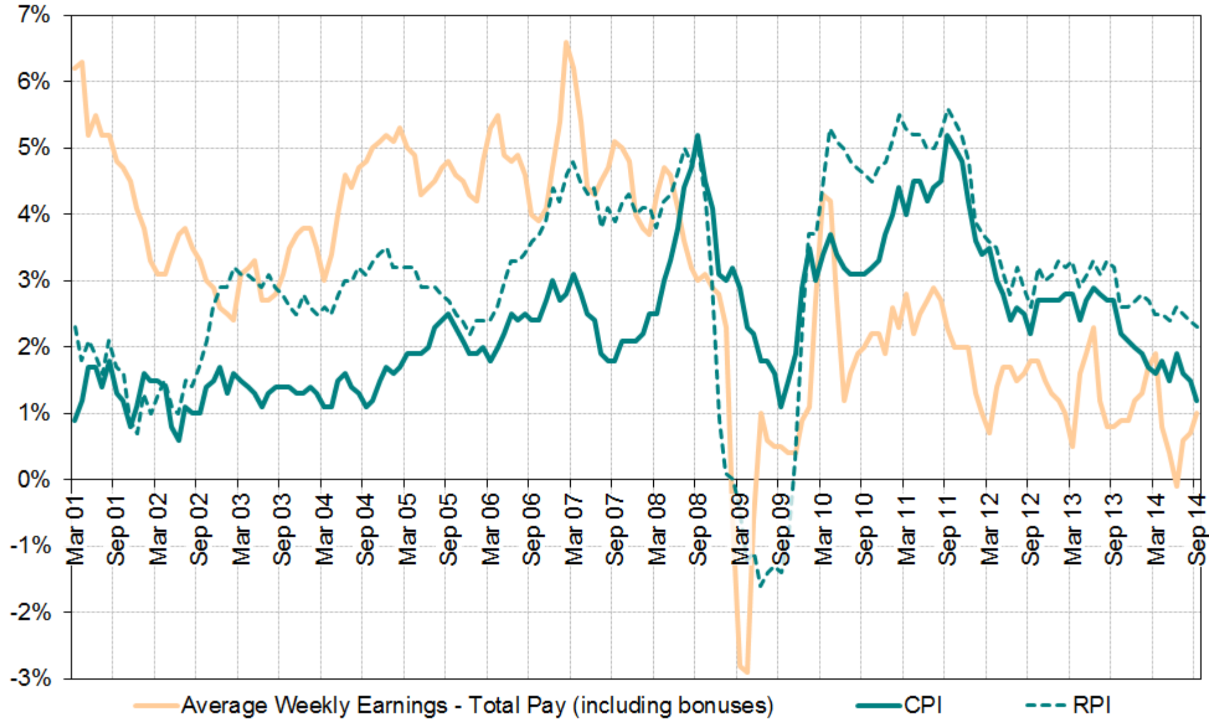
Chart 2.3 shows the annual change in Average Weekly Earnings – Total Pay (including bonuses), as well as the annual changes in consumer and retail price inflation. Increases in average prices have been larger than increases in average wages since around mid-2008. Between April 2007 and May 2014 real average earnings fell by 8.3%.

For September 2014, the Average Weekly Earnings – Total Pay (including bonuses) and regular pay increased to 1.4 per cent and 1.8 per cent respectively[9]. With CPI inflation measuring at 1.2 per cent in September 2014, real Average Weekly Earnings increased for both total and regular pay, improvement the well-being of workers. However, it should be noted than this a monthly estimate.

[9] Average Weekly Earnings monthly estimates

Average Weekly Earnings (AWE) data is also affected by the changing composition of the UK workforce, which may have had an impact on real wages, particularly the shift from higher paid workers in the manufacturing sector towards lower paid services industries. ONS data shows that the average compositional effect of AWE – Total Pay growth has been -0.3%[10] in September 2014, due to larger employment growth in low paid jobs.

Chart 2.3: Annual change in average weekly earnings, consumer and retail prices



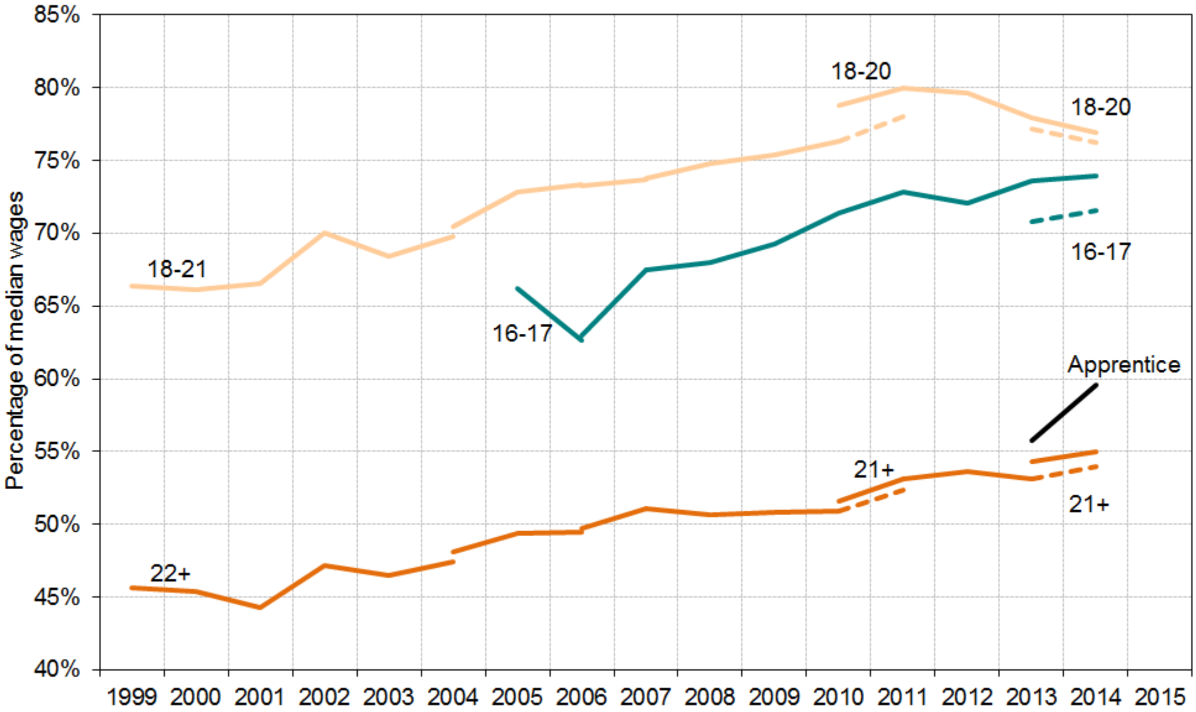
Source: Office for National Statistics. Average weekly total pay growth on a year ago 3 month average (KAI9). RPI, percentage change over 12 months (CZBH). CPI annual growth rate (D7G7).

[10] BIS analysis of August 2014 AWE release

The bite of the National Minimum Wage rate

The NMW rate as a proportion of median earnings is known as the 'bite' and is used as 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 extreme values such as changes among very high earners.

Chart 2.4: 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. 2006-2014 ASHE data - new methodology.

Since its introduction, the bite of the adult NMW rate has steadily increased from 45.7% of the median wage in 1999 to a peak of 55% in April 2014. Over the recession it has remained broadly stable and above 50%, protecting the incomes of the lowest paid workers during this difficult period. For 2013 and 2014, chart 2.4 re-categorises each group by the required Minimum Wage each employee must receive. New data and methodology can take into account apprentices due the apprentice rate, using the new apprentice variables. As a result, the 2013-14 bite estimates are more accurate for each group. However, the 2014 adult BITE remains fairly similar to the rate in 2012 when not accounting for apprentices.

This methodological change explains the reduction in the 16-17 and 18-20 bites.

Between April 2013 and April 2014, the adult bite increased by 2.8 percentage points to 55 per cent of median earnings[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. Similarly, the rise in the adult bite in April 2013 is due to the more accurate re-categorisation of groups.

The bite for non-apprentices aged 18-20 fell slightly over the year to 76.2%. However, it is still significantly higher than the adult bite. 21 year olds moving out of scope of the 18-20 rate are likely to have contributed to the relatively large jump in the associated bite between April 2010 and April 2011.

The bite for 16-17 year olds increased between April 2013 and April 2014 to 71.5%. Compared to the bite in April 2012, the bite has reduced significantly. This is partly due to composition changes amongst the 16-17 year old group. Prior to 2013, some of those due the Apprentice rate would have been included in the 16-17 group; however since 2012 apprentices aged 16 or 17 can be identified and removed from the data.

For apprentices under 19 or in their first year of an apprenticeship, the bite is up 3.8% over the year at 59.6%. Compared to the 16-17 and the 18-20 NMW groups, the bite is much lower.

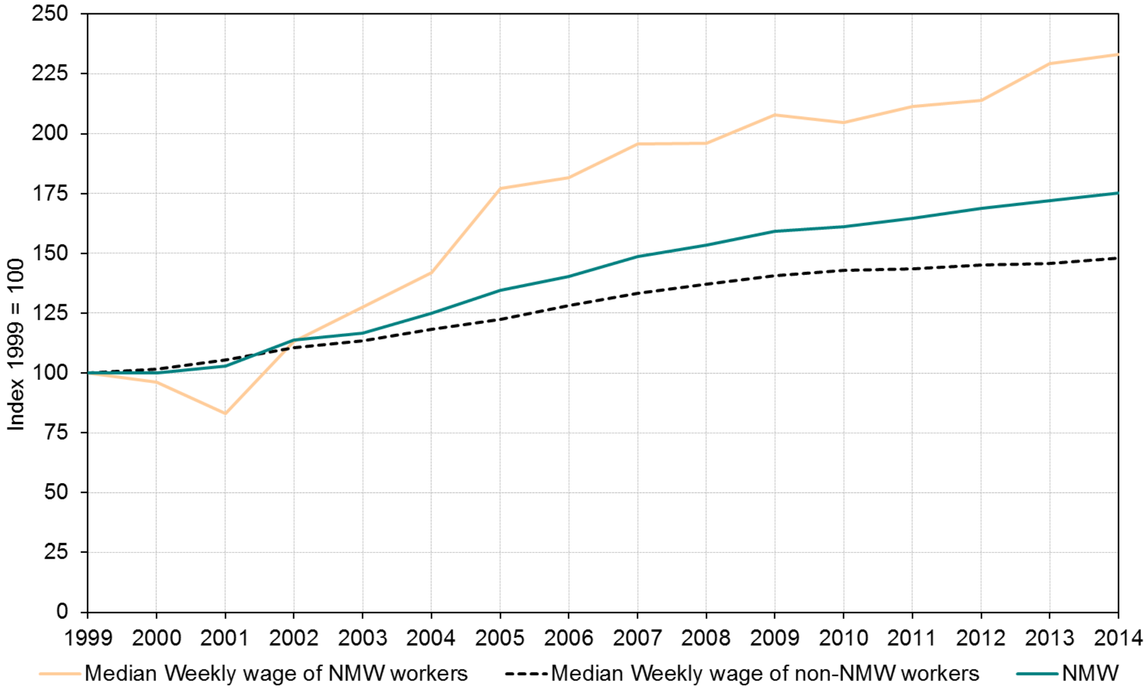
[11] In this report we use earnings' data from the 2014 Annual Survey of Hours and Earnings and calculate bites based on the appropriate NMW rates for April 2014. ASHE is the main source of structural earnings data in the UK and is regarded by ONS as the best source of earnings information for cross-sectional analysis. Results are based on a 1% sample of employee jobs in Pay-As-You-Earn income tax schemes obtained from HMRC.

Growth in the weekly earnings of NMW workers

We have seen how the NMW has grown since it was introduced in 1999, both nominally and with respect to average earnings. However growth in the hourly NMW does not always translate into growth in the weekly wages of NMW workers, as employers can modify their employment decisions, such as changing hours and discretionary (non NMW) pay such as overtime or bonuses.

Chart 2.5 shows the growth in the weekly earnings of NMW workers compared to growth in the NMW and weekly earnings of non-NMW workers. Since 2001, the weekly wages of NMW workers have nearly trebled, however, since 2007 this growth has slowed and it has grown by only 1.0% more than the hourly NMW. This suggests that since 2007 employers have continued to increase hours or discretionary pay and so a rise in the NMW has translated into a rise in weekly wages although to a lesser extent than between 2001 - 2007. This suggests that a rise in the NMW is more likely to feed through into weekly earnings and more likely to have a positive impact on household disposable income, compared to prior to 2013.

Chart 2.5: Growth in median weekly earnings of NMW workers, non-NMW workers and the hourly NMW



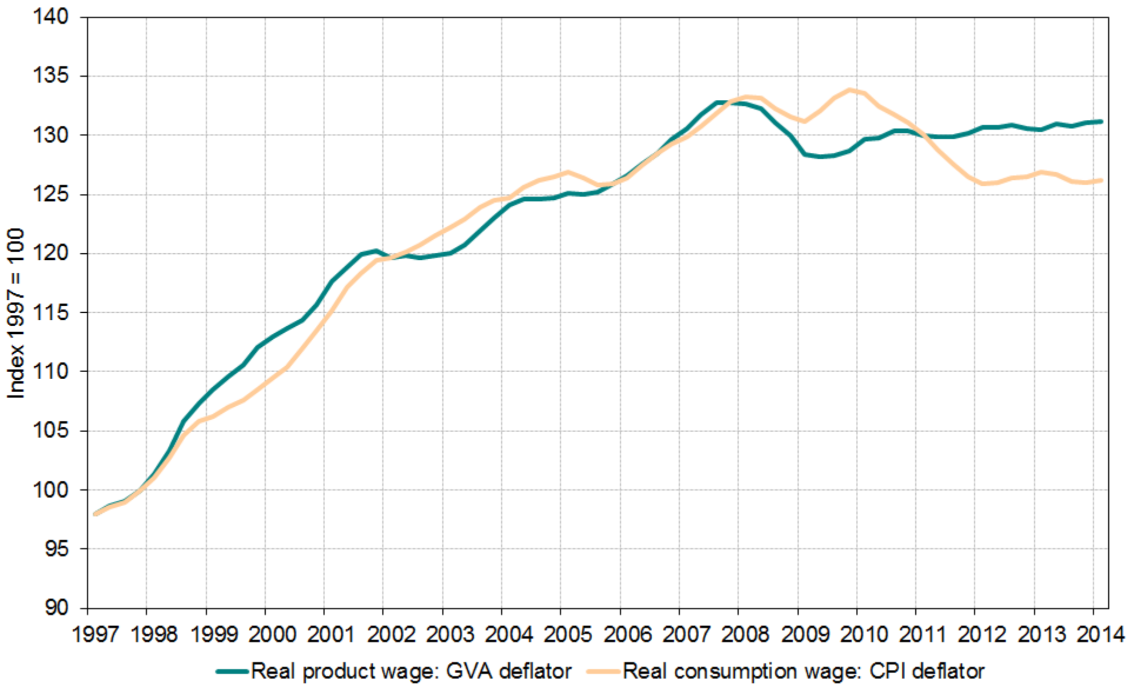
Source: Office for National Statistics, Annual Survey of Hours and Earnings. 1999-2004 ASHE data - excluding supplementary information 2004-2006 ASHE data - old methodology. 2006-2014 ASHE data - new methodology.

Comparing the Consumer Wage and the Product Wage

Employers and employees will consider different aspects of wages. Employers consider the real product wage, that is, the level of labour costs relative to the price of the products they sell which is typically proxied by the Gross Value Added (GVA) deflator. Employees care about the real consumption wage, which is the level of labour income relative to the price of the goods and services they wish to consume, measured by the CPI. So the product wage includes non-wage labour costs such as employers' NICs and pension contributions, while the consumption wage is obtained after the deduction of income tax and employee NICs.

A falling real product wage means that the expected labour cost to businesses of selling goods or services is reduced. Chart 2.6 shows that from 1999 to 2008 both the real product wage and real consumption wage were increasing. However, since 2008, growth of the consumer wage has declined slightly but remained relatively flat. The product wage has been broadly stable since 2008, indicating that relative labour costs have remained broadly at their pre-recession levels.

Chart 2.6: Growth in the real product and consumption wage



Source: Office for National Statistics National Accounts

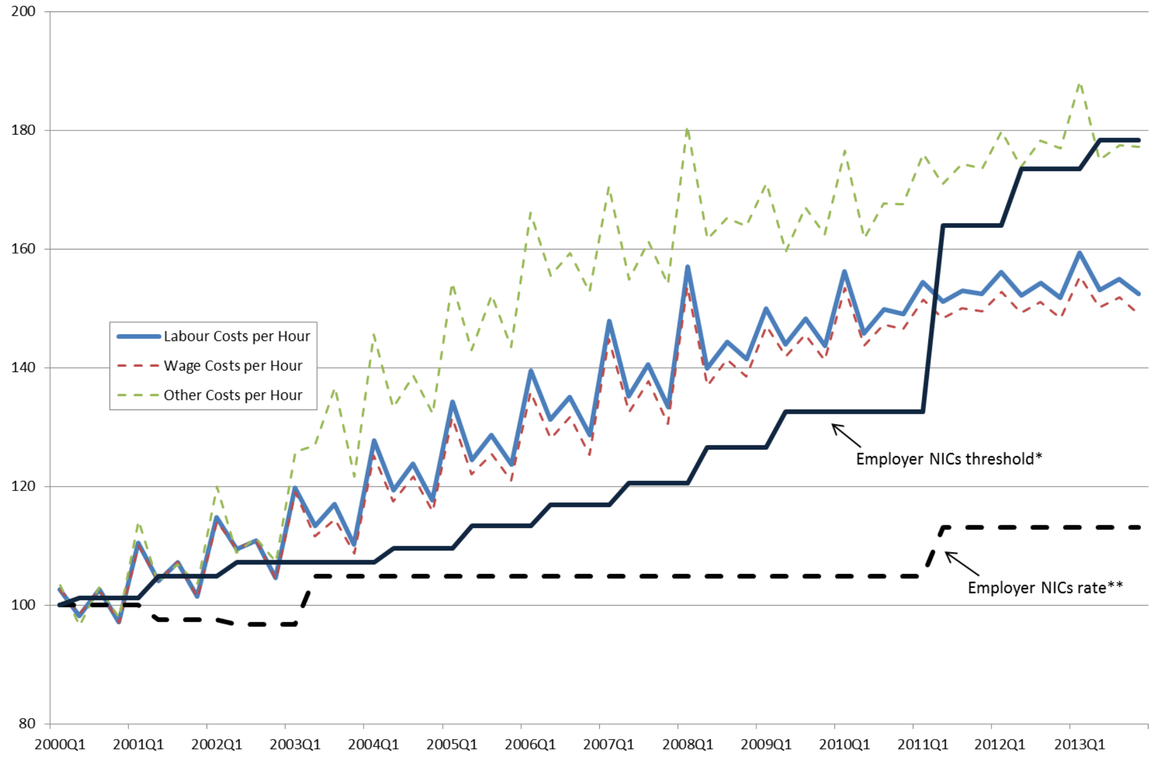
Since 2009 the CPI has been higher than the GVA deflator and, although both are expected to fall, the OBR forecast CPI to remain higher than the GVA deflator until 2017.

Labour costs

According to the ONS's Index of labour costs per hour, average hourly labour costs have generally been increasing over time. Up to around 2003, wage and non-wage labour costs followed a similar trend, but have since diverged. This coincides with an increase in the employer NICs rate increase between 2002-03 and 2003-04 from 11.8 per cent to 12.8 per cent. Between 2003-04 and 2005-06, average non-wage labour costs increased significantly faster than wage labour costs. Between 2005-06 and 2009-10 the index of wage and non-wage labour costs converged slightly but since then, non-wage costs have grown slightly faster than the index of wage costs.

In 2013, average wage costs per hour were around 50 per cent higher than in 2000 and average non-wage labour costs per hour increased by almost 80 per cent over the same period.

Chart 2.7: Index of labour costs per hour and employer NICs changes, indexed. Q1 2000 = 100



Source: Annual Survey of Hours and Earnings

Table 2.1 below shows a more disaggregated breakdown of the index of labour costs per hour for selected years. The vast majority of non-wage labour costs can be accounted for by employer NICs contributions and employer pension contributions.

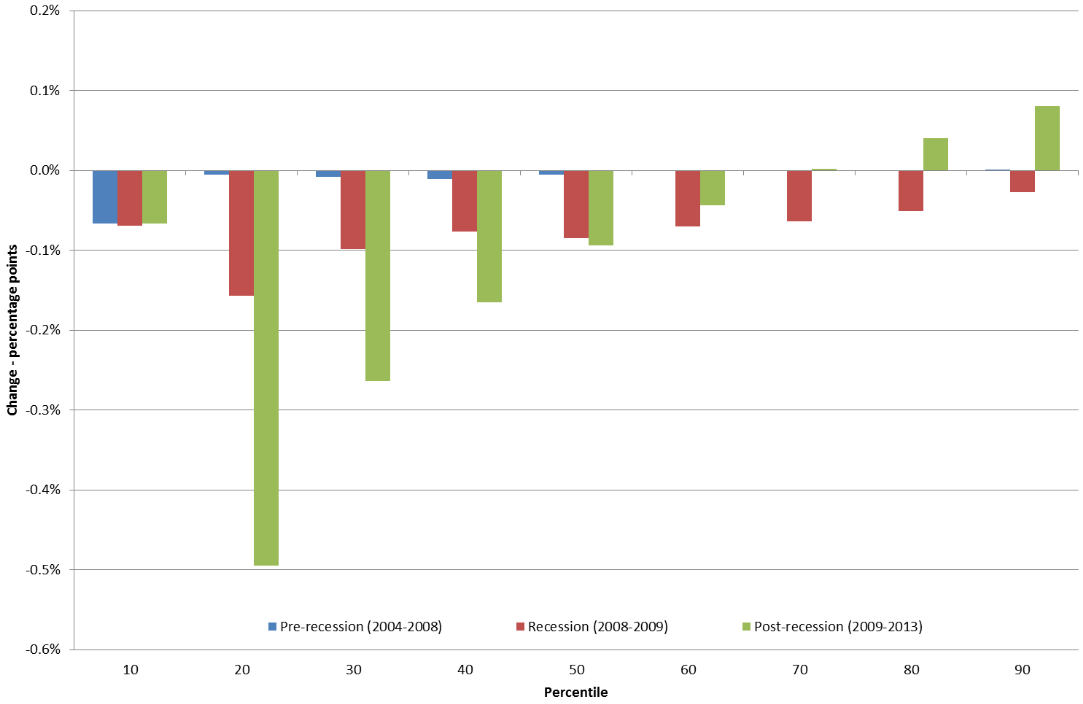
Table 2.1: Disaggregation of ILCH experimental statistics

	Wages and salaries	Statutory Maternity Pay	Benefits in Kind	Pensions	NICs
Average for 2009	85.4%	0.7%	1.2%	5.9%	7.6%
Average for 2013	84.8%	0.6%	1.1%	6.0%	8.0%

Employer National Insurance Contributions (NICs) and distributional impacts

Chart 2.8 shows the percentage point difference in the annualised growth in gross weekly wages and the growth in 'labour costs' before, during and since the recession across the wage distribution.

Chart 2.8: difference between annual growth in labour costs and annual growth in gross weekly earnings



Source: Annual Survey of Hours and Earnings

Between 2004 and 2013, labour costs increased at a slower rate than gross weekly wages across nearly all of the distribution. However, there are differences across the distribution. Before the recession, gross weekly wages and labour costs increased at a very similar rate across the distribution, with the exception of the bottom 10 per cent of earners - between 2004 and 2008, gross weekly wages increased by just over 0.1 percentage point more annually than labour costs at the bottom decile. Although the employer NICs rate remained constant over this period, the threshold at which an employer had to pay NICs increased more than gross weekly wages at the first decile.

Between 2009 and 2013 labour costs grew more slowly than gross weekly wages for the bottom 60 per cent of the gross weekly wage distribution, but the opposite was true at the top of the distribution. This was mainly due to the fact that the employer NICs threshold increased on average by 7.7 per cent annually over this period, which to some extent offset the one percentage point increase in the employer NICs rate seen in 2011/12. The 2nd decile saw the largest difference between labour cost and wage growth between 2009 and 2013 (labour costs grew almost 0.5 percentage points slower than gross weekly wages), partly driven by the fact that gross weekly wages at the second decile grew slower than at other deciles.

This may suggests that changes to the employer NICs regime helped to lessen labour costs that employers would face when employing employees at the bottom of the wage distribution compared to those towards the top of the distribution.

As mentioned above, there are also other non-wage labour costs which will have had an impact on employers' recruitment decisions, as well as other labour market factors.

Employer pension contributions

Employer contributions to occupational pension schemes are a substantial component of overall labour costs. The experimental statistics discussed above suggest that employer pension contributions make up around 6 per cent of total labour costs, compared to around 8 per cent for employer NICs. However, employer pension contributions are very unevenly distributed across employees, particularly as 54 per cent of employees are not active members of a workplace pension (Pension Trends 2013, Office for National Statistics), though auto-enrolment will have changed this.

Income tax and national Insurance contributions for adult NMW workers

Chart 2.9 below shows the percentage change in gross weekly pay, 'Take-home pay'[12] and 'Labour costs',[13] for each of the percentiles of the gross weekly pay distribution of adult NMW workers between April 2000 and April 2007[14]. The chart also shows the percentage increase in the hourly NMW rate, the CPI and the GVA deflator over the period for comparison.[15]

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 at which the gross weekly pay of NMW workers is high enough for them to enter the tax system. Workers up until this point pay no income tax or NICs.

Gross weekly pay of adult NMW workers increased faster than both NMW and CPI over this period. 'Take-home pay' also increased faster than CPI and faster than the NMW for most workers. '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.

'Labour costs' associated with employing the workers increased by more than gross weekly earnings, 'take-home pay' and the GVA deflator.

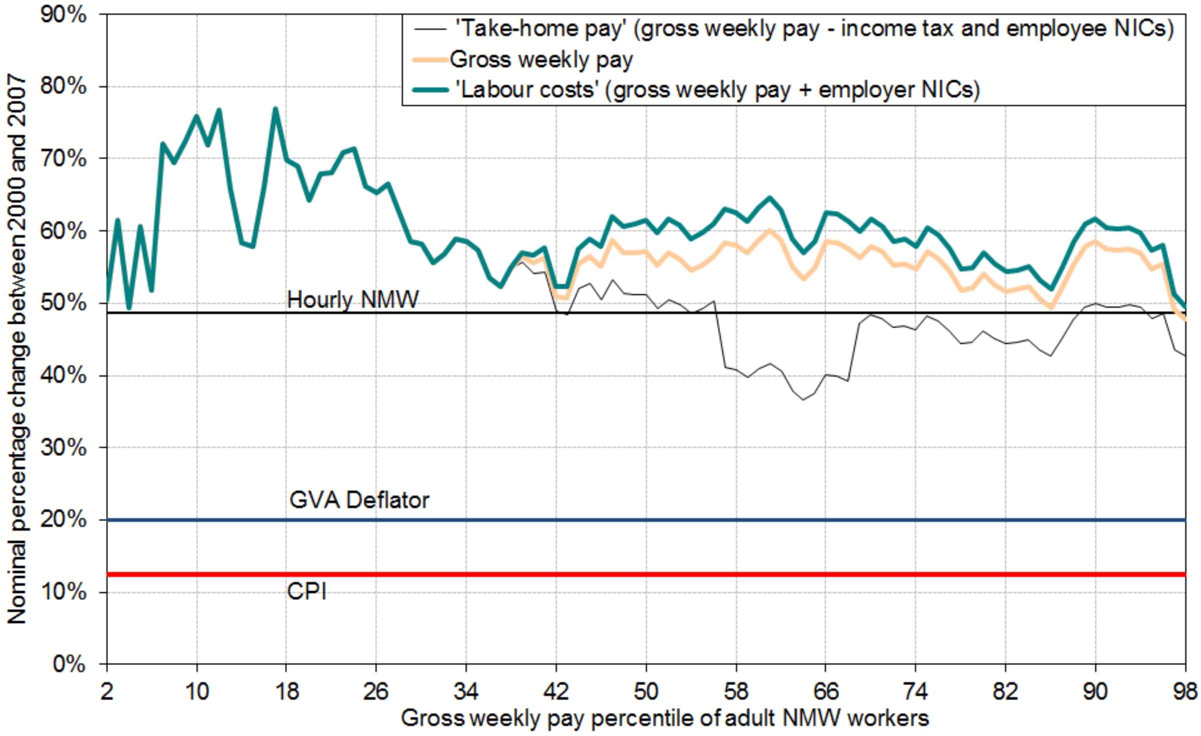
[12] 'Take-home pay' in this context is defined as post tax earnings or gross weekly pay with employee National Insurance Contributions (NICs) and income tax subtracted. This assumes that all eligible adult NMW workers pay the main contribution rate (and if eligible the additional contribution rate) 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.

[13] '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.

[14] 2000/01 and 2007/08 tax years used for calculations

[15] 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 the effect of an increase in the Minimum Wage on net household income is smaller than that shown in Chart 2.5.

Chart 2.9: 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, ONS CPI Price Inflation, GVA Deflator Quarterly National Accounts

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

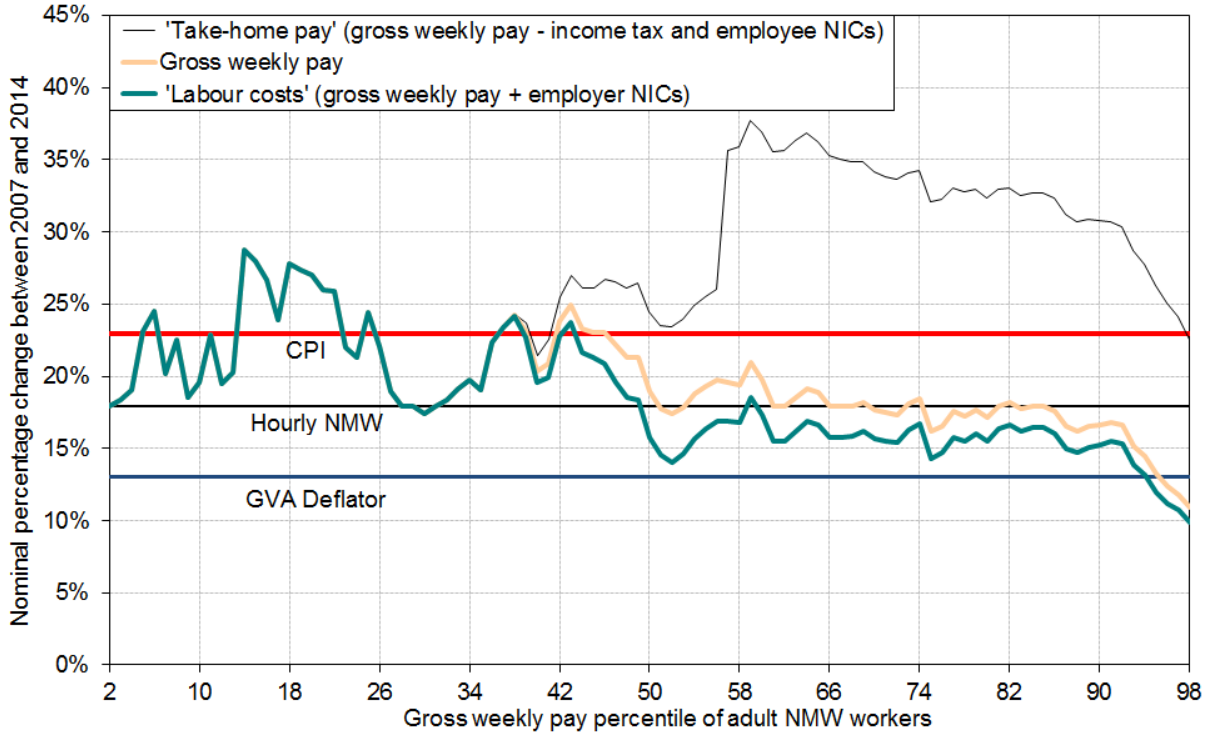
Between April 2000 and April 2007, there was a 1 percentage point increase in the NICs main contributions rate (from 10% to 11%). In addition to this, the primary threshold (the point at which employees start paying NICs) increased from £76 in 2000/01 to £100 in 2007/08; a 32% increase –faster than the increase in CPI 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%. In contrast, the threshold for the '10 pence tax rate' increased by 19% – 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%) and the rate increased by 0.6 percentage points, starting at 12.2% in 2000/01 rising to 12.8% in 2007/08.

Chart 2.10 below illustrates movements in the same variables as Chart 2.8 above but over the time period 2007 and 2014.

Chart 2.10: Percentage changes in gross weekly pay, 'take-home pay' and 'labour costs' at each gross weekly pay percentile for NMW workers, 2007 to 2014



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

Between 2007 and 2014, the increase in 'take-home pay' was much larger than the increase in both the gross weekly pay and 'labour costs', with the latter increasing the least. This is in stark contrast to the period between 2000 and 2007, in which the pattern is the opposite. Overall labour costs decreased between 2007 and 2014 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.

As a result of the employment allowance, the government estimates that 500,000 small businesses and charities will pay no employer NICs at all in 2014-15.

Gross weekly pay for NMW workers above 50% has mostly increased in line with the NMW. However, their 'take-home pay' increased proportionately more than both the NMW and CPI. These increases in 'take-home pay' were driven by large increases in the personal allowance (91.4% between 2007 and 2014 compared to 19% in 2000 - 2007). These have long since compensated any losers from the abolition of the 10p tax rate, making over 26 million individuals better off, with more than 3.2 million individuals taken out of income tax altogether.

Box 2.2: Changes to income tax, the personal allowance and NICs between 2007/08 and 2015/16 (Born after the 5th April 1948)

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

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

Over this time period, the personal allowance increased from £5,225 in 2007/08 to £10,000 in 2014/15, an increase of 91.4%. 2007/08 was the final year of the '10p tax rate' and 22% basic rate, meaning that the change in structure of income taxation to a basic (20%) is also captured in this time period.

At Budget 2014, the government announced that the personal allowance will be increased to £10,600 from April 2015, a rise of 6 per cent compared to the 2014/15 allowance. Overall 24.4 million individuals will benefit, and a further 430,000 individuals will be removed from Income Tax altogether in 2015-16.

Section 3: Remit issues – Evidence on labour market and the impact of the NMW

Summary

The employment rate fell by around 2.4 percentage points over the recession despite a 6 per cent fall in GDP. It remained resilient in 2010 and 2011 at around 70.4 per cent with exceptionally strong growth since 2012.

This growth in employment has continued through 2014 and led to record levels in the number of people in employment, both overall and for specific groups such as women, workers over 50 and the disabled.

The jobs growth in low paying sectors since 2010 has been strong although over the last 12 months, the majority of new jobs were in relatively higher-paying sectors.

Youth employment has been on a long-term downward trend and was more severely affected by the recession.

The proportion of 16-24 year olds who were NEET in Q3 2014 compared to Q3 2013 has fallen by a significant 1.9 percentage points to 13.1%, down 142,000 to the rate since 2004. The number of 16 to 24-year-olds who are NEET and who have been unemployed for more than 6 months decreased significantly by 68,000 on the year.

Economic background

Employment and real wages since the recession

Chart 3.1 shows average weekly earnings regular pay deflated by CPI (and RPI[16]) alongside the employment rate for those aged 16-64. While the economy was in recession, real wages peaked in January 2009, but have continued to steadily fall since then, reaching levels similar to 2003.[17]

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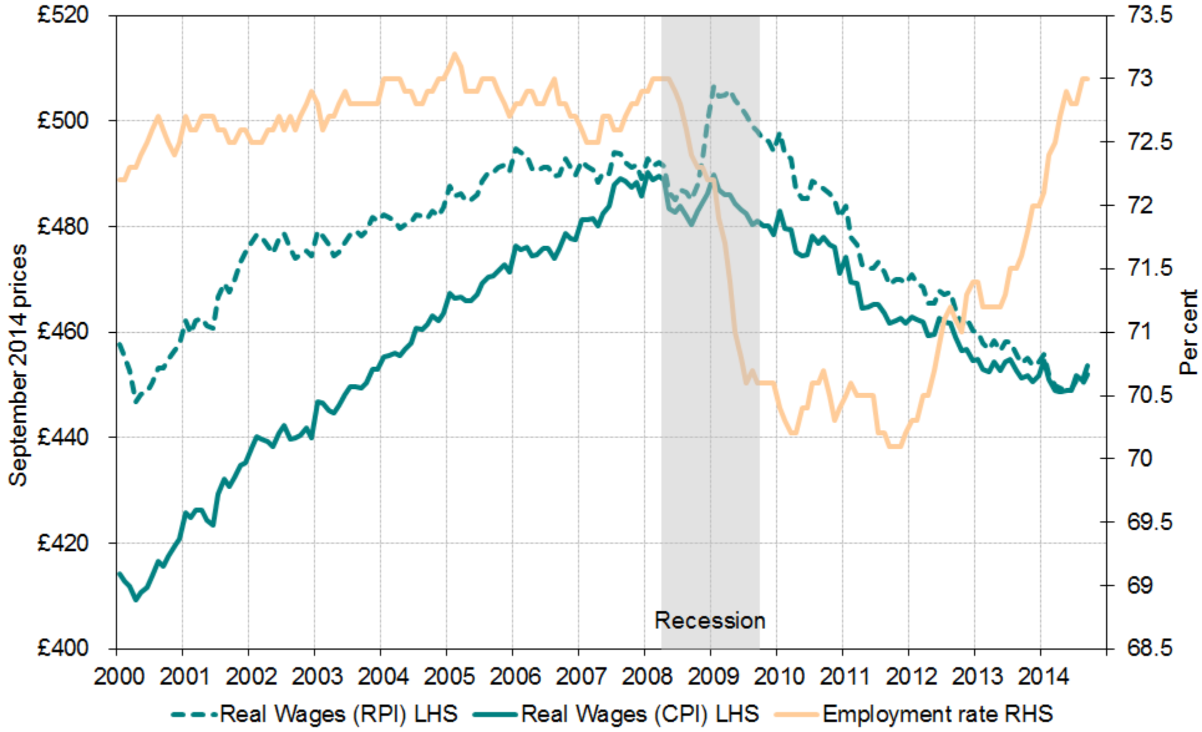
[16] It is important to note that RPI is no longer regarded as a national statistic by the Office for National Statistics. However we use this in our analysis as it is used by the LPC as part of their evidence report and it includes housing costs in its basket of goods which can make up a significant proportion of an individuals' costs, especially for the low paid.

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

Employment growth has been very strong since the beginning of 2012. During the recession there was a steep fall in the employment rate between the three months to May 2008 and the three months to April 2010. Since 2012, the level of employment has shown a strong growth trend, achieving its highest ever level, higher than its pre-recession peak.

Chart 3.1: Real average weekly earnings (regular pay) and employment rate (16-64)



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

The growing UK labour market

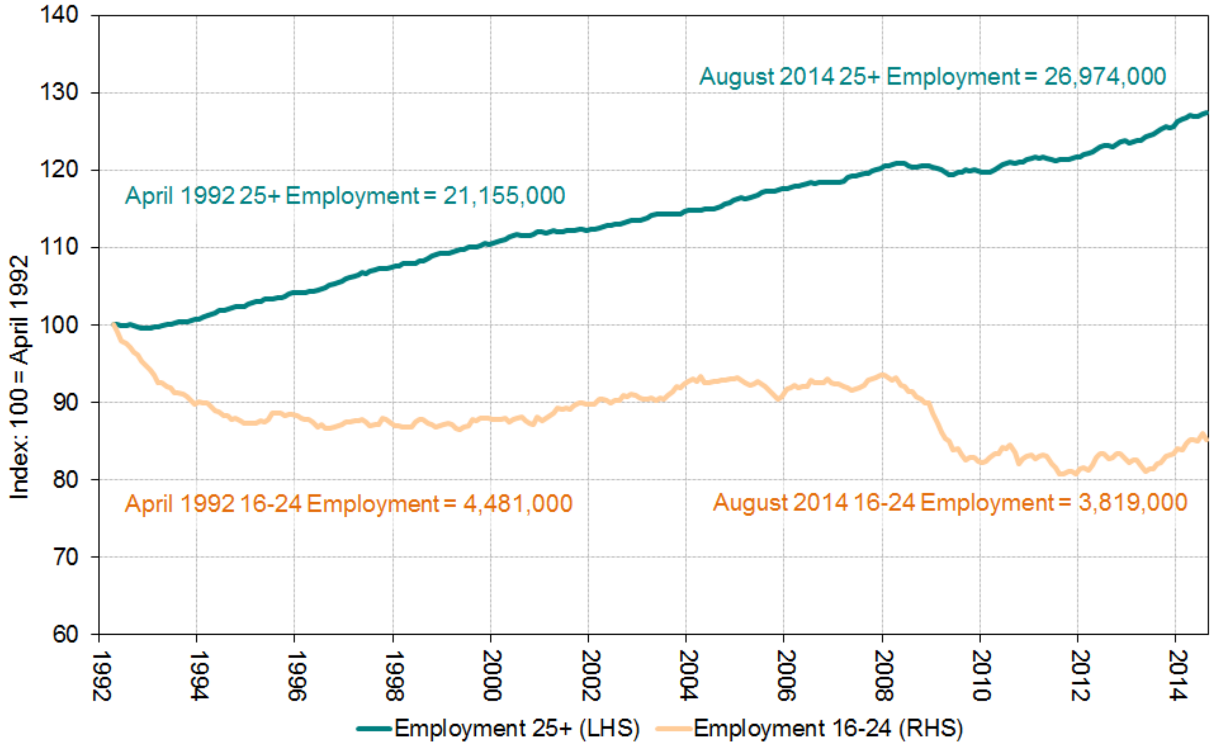
The UK labour market continued to grow strongly in 2014, reaching record levels of employment. In the three months to October 2014 employment rose 588,000 on the year to 30.80 million people in work, nearly its highest level on record. The employment rate rose 0.2 points this quarter to 73.0 per cent and a 1.1 percentage point increase from a year earlier.

The unemployment rate was 7.6 per cent in the three months to September 2013 and has decreased by 1.6 percentage points since, reaching 6.0 per cent in the three months to October 2014. The level of unemployment has fallen below 2 million on the ILO measure, down 529,000 on the year. Long-term unemployment saw the largest annual fall since 1998, down 191,000 on the year to 684,000. The claimant count, at 900,100 in November, has fallen for the 25th consecutive month.

Employment growth in the private sector is more than offsetting falls in the public sector as 2.5 million new private sector jobs have been created since early 2010, with roughly five private sector jobs created for every public sector job lost.

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 those over 25 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 2014 it reached approximately 27 million.

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



Source: Office for National Statistics, Monthly Labour Market Statistics

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 4.19 million. However, 16 to 24 year olds have seen a much greater decline in employment levels and these levels did not start to increase until 2012. In October 2014, youth unemployment reduced over the year to 754,000.

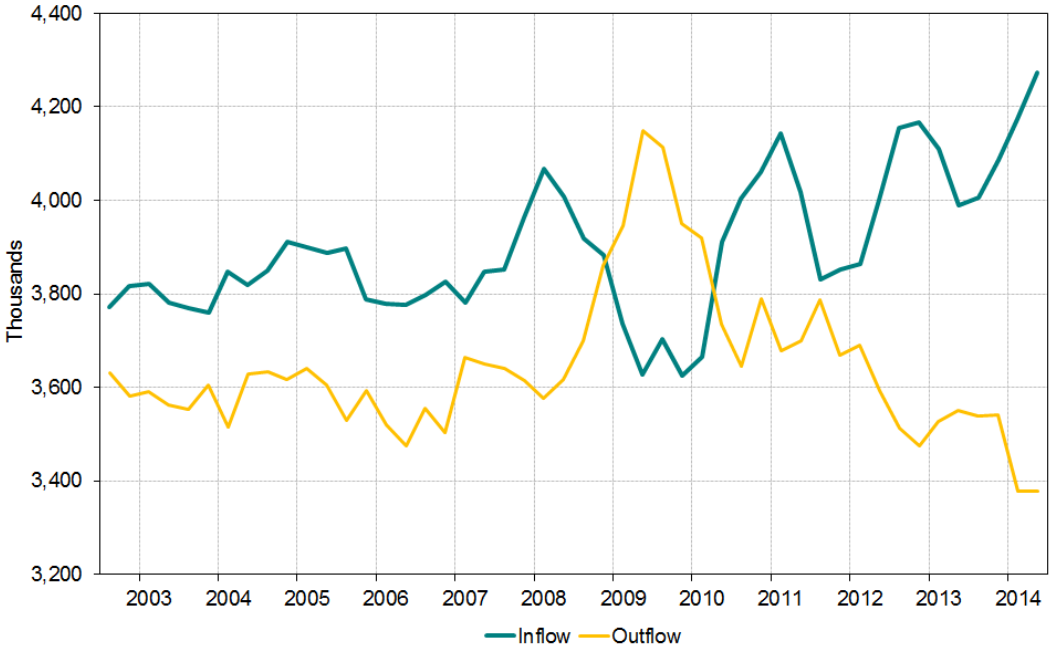
Flows in the labour market between employment and worklessness (unemployed and inactive) are an indicator of dynamic labour market activity. In any given year millions of people move between these groups and millions more move between jobs in employment. As shown below (four quarterly average data) in chart 3.3, between 3m and 4.5m people move in and out of employment every year.

Job separations[18] 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.

[18] Job Separations occur when an employee leaves a paid job or when an employee’s job is removed, either voluntarily or involuntarily.

Since mid-2012, outflows have fallen below pre-recession levels. Meanwhile, inflows have been at high levels indicating that the strong labour market employment performance is due to hiring new workers. These recent significant divergences can partly be explained by fall in redundancies and increases in job vacancies.

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

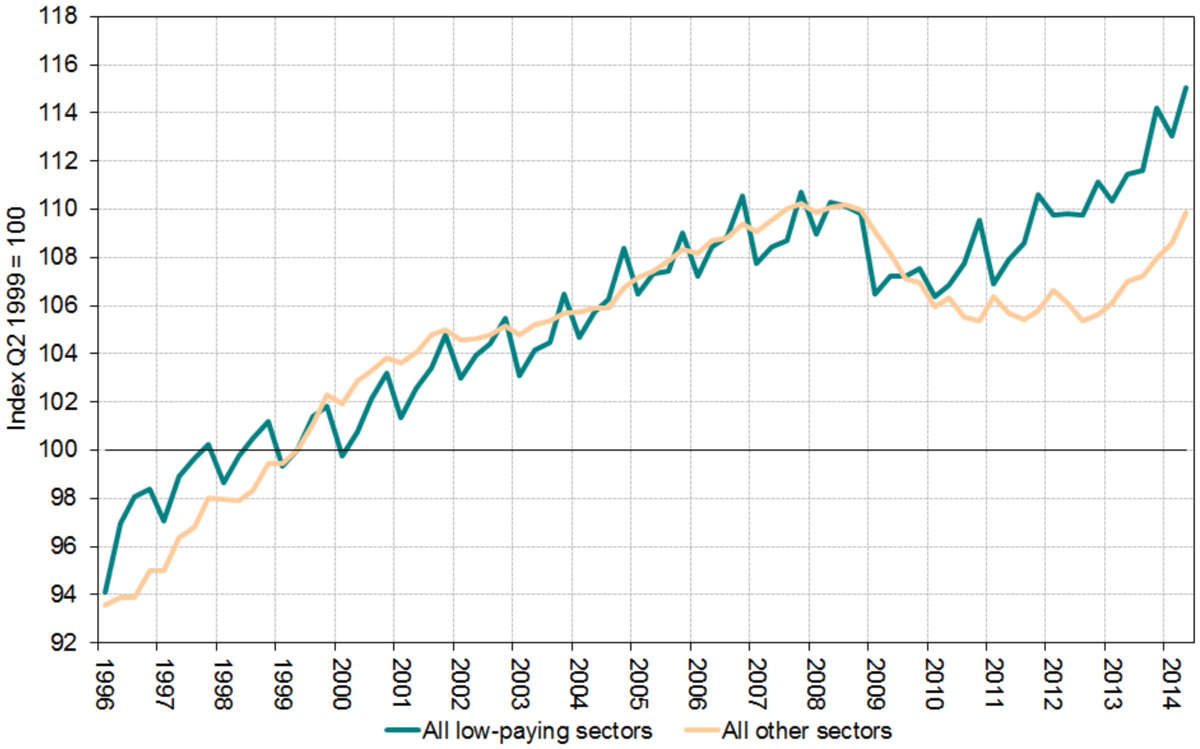
The low-paying sectors are defined by the LPC as those with a large number or high proportion of Minimum Wage workers.[19]

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 second quarter of 2014. It should be read in the context of prospects for the macro economy 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: Growth in jobs for low paying sectors (indexed; Q2 1999 = 100)

[19] Low Pay Commission National Minimum Wage Report (2014) https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/288847/The_National_Minimum_Wage_LPC_Report_2014.pdf



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

Chart 3.4 shows that jobs in the low paying sectors returned to their 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.

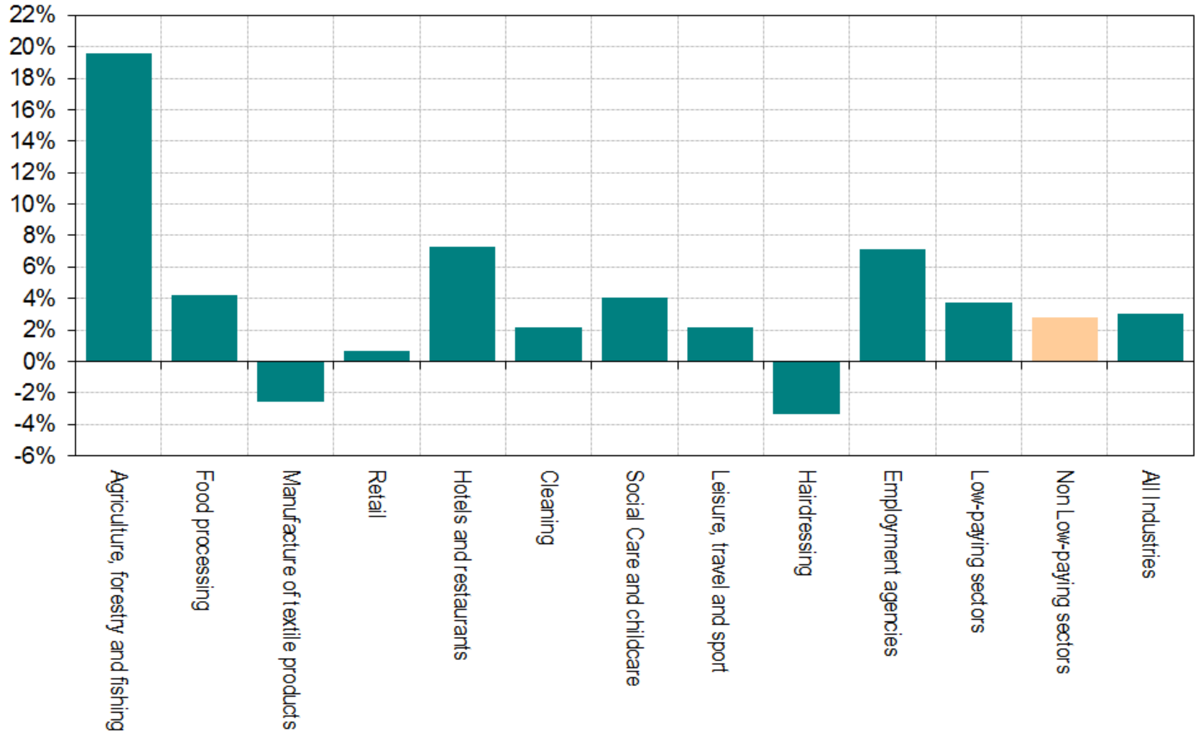
From the middle of 2009 (Q3 2009 onwards) the annual job growth for low-paid sectors has outpaced growth in all other sectors. The most recent data for 2014 Q2 shows an annual job growth of 3.3 per cent and 2.7 per cent for low paying and non-low paying sectors respectively.

Hours worked in the low-paying sectors

Between 2013 and 2014, total hours worked in low-paying sectors increased by around 3.8 per cent, compared to a 2.8 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, 2013-2014

Per cent change



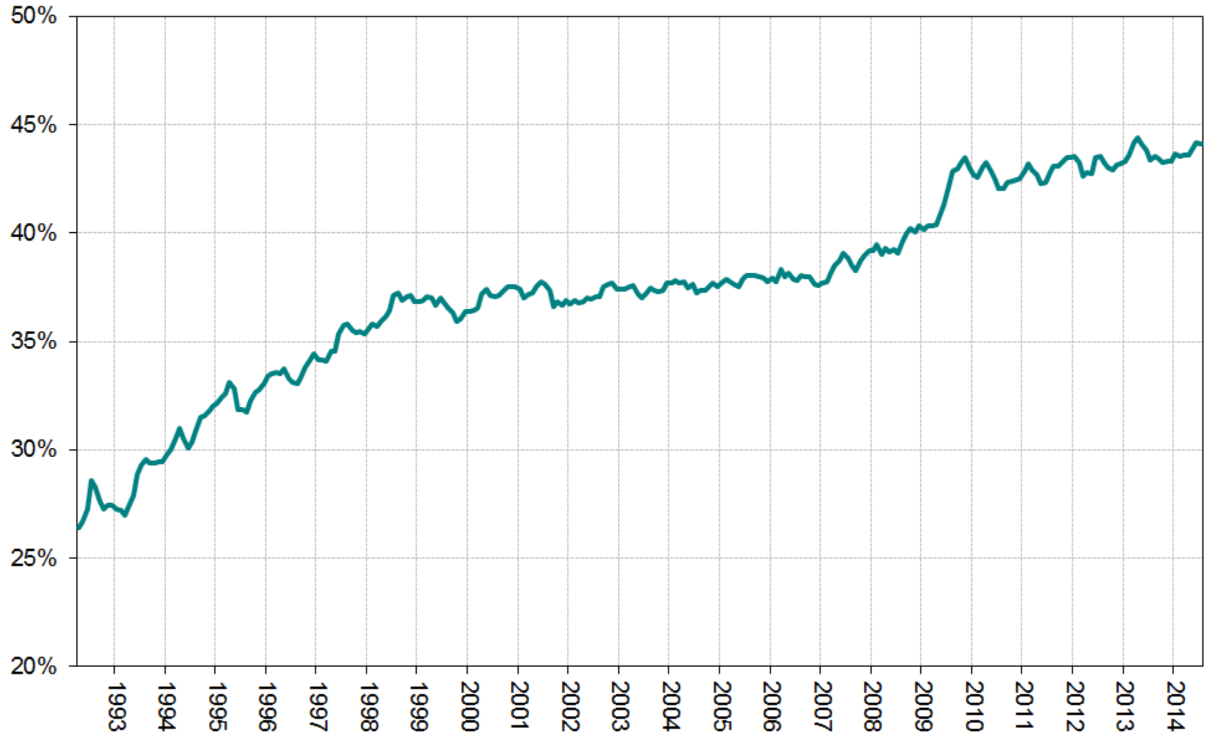
Source: Office for National Statistics, Annual Survey of Hours and Earnings. 2013 and 2014 - ASHE data - new methodology. 2013 definition of low paying sectors

Youth Labour Market

This section examines the youth labour market in more detail.

Chart 3.2 showed that employment of young people (16-24), relative to adults, was more severely affected by the recession. Chart 3.6, below, shows the proportion of young people in full time education, which partly explains the decline in the youth employment rate. The proportion of young people in full time education increased sharply over the second half of the recession and has slowly increased since - reaching its highest ever level in 2013 Q2.

Chart 3.6: Proportion of UK population aged 16-24 years in full-time education



Source: Office for National Statistics Labour Market statistics.

Youth participation rates

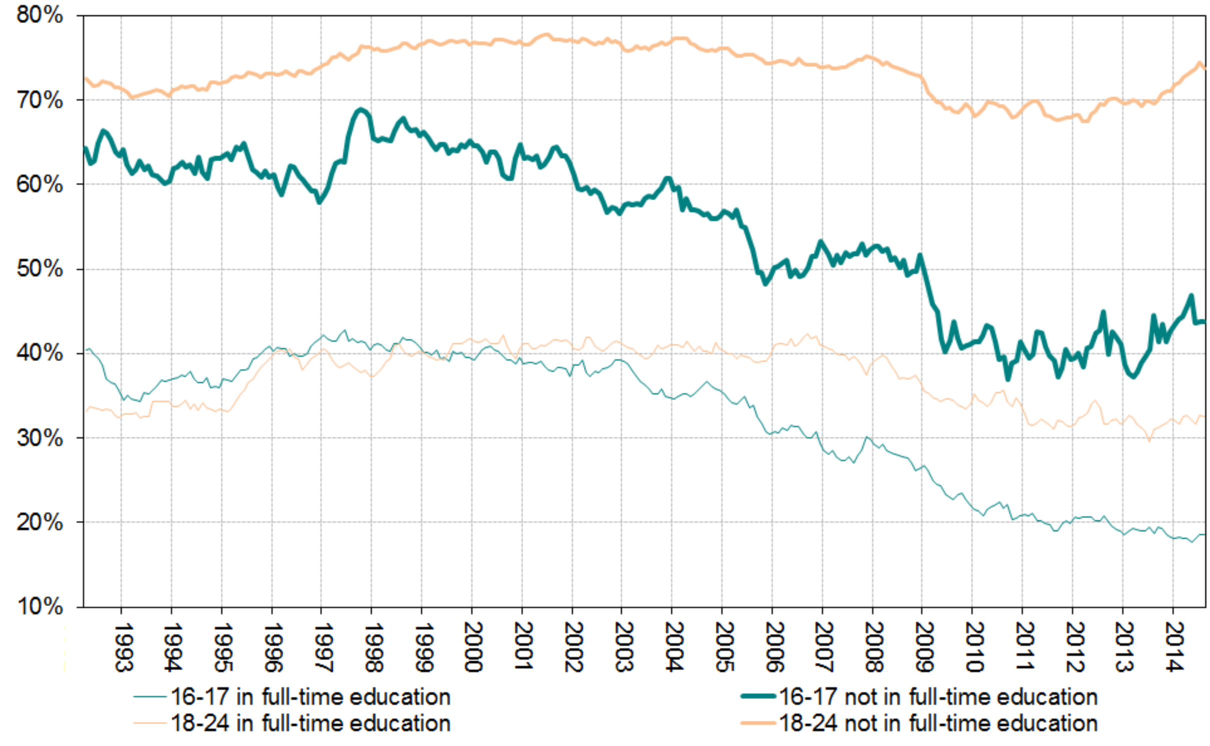
Chart 3.7 shows that the employment rates of 16-17 year olds have been on a long-term downward trend for both those in, and not in, full-time education. For 16-17 year olds in full time education, the employment rate in the three months to October 2014 was 24.5 percentage points below its peak in three months 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 25.3 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 52.6 per cent in 2008 Q1 to 43.8 per cent in 2009 Q3.

The employment rate for 18-24 year olds in full time education, on the other hand, has seen a relatively less steep fall. It had remained relatively stable up until the financial crisis, but has declined by just over 7 percentage points since then.

Chart 3.7: Employment rate of 16-17 and 18-24 year olds, split 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 from this graph.

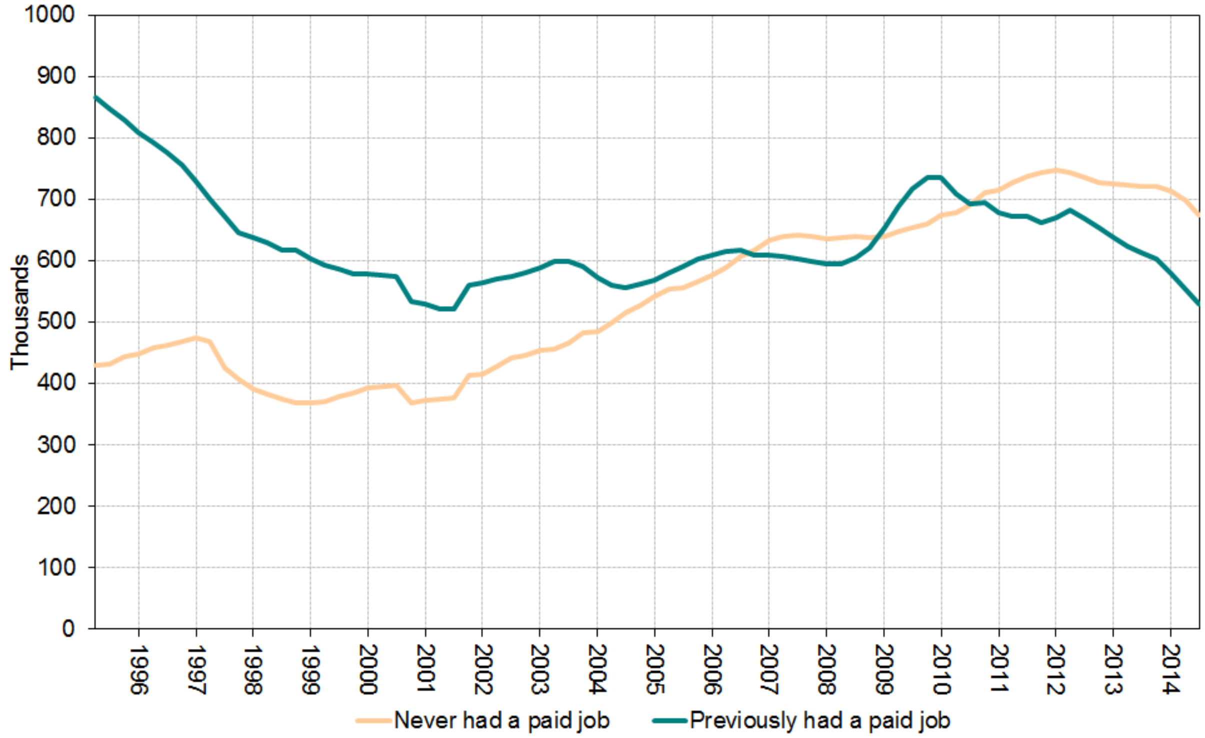
For 18-24 year olds not in full-time education, the employment rate fell over the course of the recession and appears to have stabilised, fluctuating around 69 per cent until it rose beyond 70 per cent in Q4 2013. In the three months to October 2014, at 73.0 per cent, it stands equal to than the 16+ employment rate.

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

Chart 3.8 shows that the number of workless young people not in full time education who have never worked has been on an upward trend since the beginning of 2001, reaching a peak in 2012 Q1 of 747,000. There are some signs of this improving but this suggests that young people are generally taking longer to move from education to employment.

In 2014 Q3, the level of under 25 year olds who have never held a paid job was 674,000, a fall of 47,000 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 3.8: Workless under 25 year olds (excluding those in full-time education) who have never had a job and previously had a job



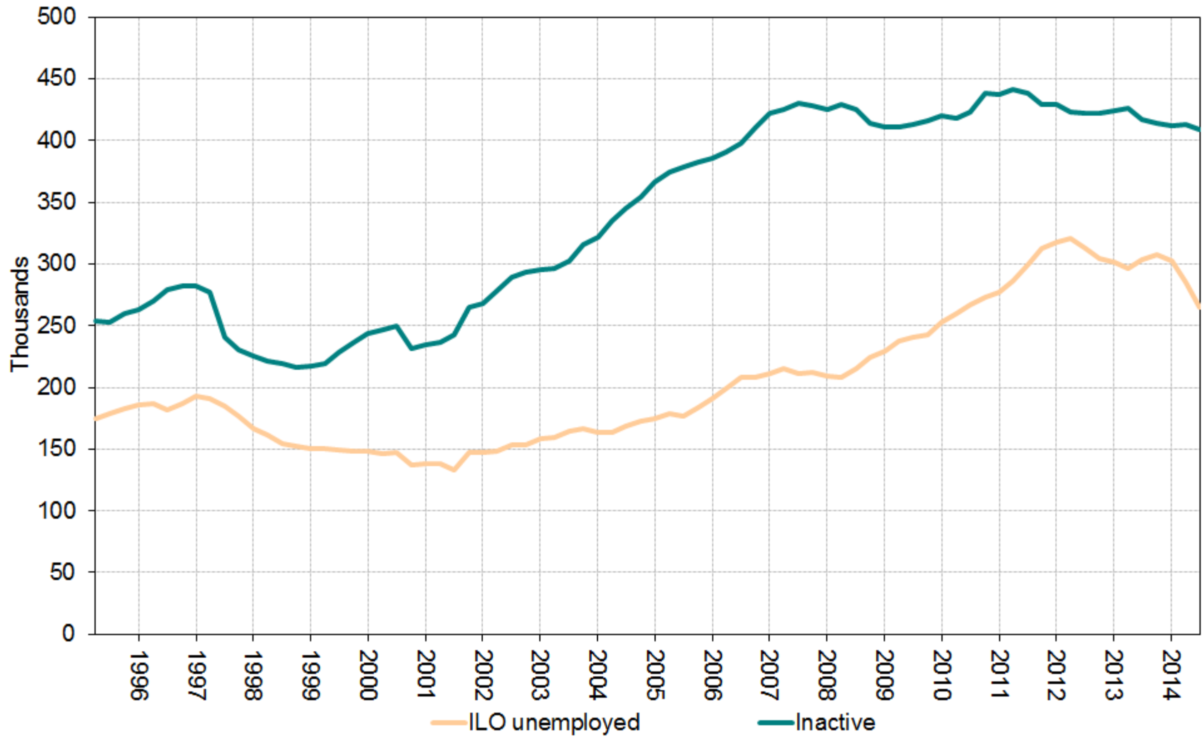
Source: BIS analysis of Labour Force Survey. 4 quarter moving average

Chart 3.8 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 206,000 to reach 529,000 in 2014 Q3. The current level is 8,000 above the pre-recession record low of 521,000 in Q3 2001.

Chart 3.9 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. This level has 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, between 2001 and 2012, although at a lower level. ILO unemployment for under 25 year olds who have never had a job has declined by 42,000 in the past year, equivalent to a 14 per cent drop.

Chart 3.9: Workless under 25 year olds (excluding those in full-time education) who have never had a job



Source: BIS analysis of Labour Force Survey. 4 quarter rolling average

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. Furthermore, youth labour market outcomes tend to be more sensitive to economic cycles than adults.[20] Also, it should be noted that it will be this age group[21] that will be affected most by the raising of the participation age in England.

Evidence suggests that labour market outcomes of workers entitled to the 16-17 or the 18-20 NMW rates are more at risk from increases in the NMW level (the evidence is based on the BITE for each age group). 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

[20] See for example, National Minimum Wage report 2013, Low Pay Commission, p166
[21] Applies to youth in England only.

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[22]. 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) 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.[23]

[22] Although the feasible implications of these results are slightly unclear.

[23] 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)).

Section 4: Remit issues – Apprentices and higher apprentices.

Summary

The apprentice rate was introduced in 2010. Before that apprentices aged under 19 or in their first year of their Apprenticeship were exempt and could be paid below the NMW. The structure of the apprentice pay is more complex than the other National Minimum Wage rates.

Since 2010, the apprentice rate has increased roughly at the same rate as the adult NMW rate and therefore faster than average earnings. Over the period it has increased faster than youth NMW rates.

The Apprentice Pay Survey shows that the median hourly pay for all Level 2-5 apprentices in Great Britain was £6.31 in 2014. This median varies greatly by level and sector – for Level 2-3 apprentices it was £6.31, while for Level 4-5 apprentices it was £10.88. By sector, the lowest median wage was £2.94 for Hairdressing apprentices, while the highest was £10.64 for Care Leadership and Management.

The 2014 pay survey found a considerable reduction in Apprentice NMW non-compliance on previous surveys. This is likely to be due to a range of factors. However, at 15%, this is still a larger degree of non-compliance with the NMW for apprentices, compared to non-apprentices.

There is evidence that a large proportion of non-compliance is likely due to mistake, not malice, as most underpayment was of very small magnitude.

Since the introduction of the apprentice NMW rate, the number of apprentices has risen and there has been a shift towards higher levels of Apprenticeships.

Introduction

The Apprentice NMW (ANMW) recognises that there are particular costs for employers and benefits for young people in providing and undertaking an apprenticeship. There is a cost to the employer of providing the training and lower productivity during training. For instance, this can be due to off the job training and the cost of managing the apprentice at the workplace. However the employer will also reap gains of increased productivity of the apprentice, particularly if they remain with the employer after training.

The ANMW rate is designed to recognise these additional costs and alongside the need to ensure sufficient volume, quality and sectoral variety of apprenticeship places to meet government targets. It currently applies to apprentices under 19, or those over 19 and in the first year of their apprenticeship – all other apprentices qualify for the relevant age-related NMW rate.

The Government has asked the LPC to consider whether:

- Any changes can be made to the Apprentice rate to make the structure simpler, to improve compliance.
- The structure and level of the Apprentice rate should continue to be applied to all levels of Apprenticeship, including higher levels.

There are concerns that the pay structure for Apprentices is overly complex. This may result in employers underpaying Apprentices, which could result in the relatively high Apprentice NMW non-compliance rates.

Apprentice numbers and key facts for England

Apprenticeships are at the heart of the Government's drive to equip people of all ages with the skills employers need to grow and compete. The programme has delivered 2 million apprenticeship starts in this Parliament. There were 868,700 people undertaking an apprenticeship in the 2012/13 academic year and over 220,000 employer workplaces employed an apprentice in 2012/13.

Apprenticeships deliver strong returns for the economy, employers and apprentices and the policy aim is for it to become the norm for young people to choose between an apprenticeship and university as equally prestigious routes to a great career.

Over 1,000 employers are already engaged with an ambitious reform programme which aims to:

- Put employers in the driving seat by giving them the role of designing apprenticeships so that they are more responsive to the needs of business and by giving them control of the funding so that they become more demanding customers;
- Publish clear standards written by employers in a language they understand; and
- Increase the quality of apprenticeships through more rigorous testing and grading at the end of the apprenticeship.

Those who complete an Intermediate Apprenticeship earn, on average, between £48,000 and £74,000 more over their lifetime than similar individuals with other Level 2 qualifications. Those with an Advanced Apprenticeship earn on average between £77,000 and £117,000 more. Higher apprentices could earn £150,000 more on average over their lifetime compared to those with L3 vocational qualifications. In surveys, 88% of apprentices are satisfied with their apprenticeship; 83% of apprentices said their ability to do the job and their career prospects had improved.

The number of Higher Apprentices in England is continuing to rise. In 2013/14 there were 18,100 people doing a Higher Apprenticeship - a 40% increase from the previous year - of which 9,200 were new starts. Further increases are expected as employers continue to develop and offer more Higher Apprenticeships - 40% of the reformed apprenticeships published so far are Higher Apprenticeships, including several at degree and master's degree level. In November, we also announced a new type of Higher Apprenticeship for the Digital sector that is expected to go live in September 2015. These degree apprenticeships will integrate paid work and study for an honours degree and will be co-designed by employers and universities specifically for apprentices. This model could have considerable applicability for other sectors and we expect further degree apprenticeships to be developed.

The National Audit Office Report, published Feb 2012, demonstrates the high level of return to investment delivered by the apprenticeship programme, indicating that adult apprenticeships deliver £18 of economic benefits for each pound of Government investment.

Apprentice numbers and key facts for Scotland

The Scottish Government has committed to provide 30,000 new Modern Apprenticeship(MA) opportunities every year by 2020. This is a year on year increase from the previous commitment to provide 25,000 new Modern Apprenticeship opportunities each year of this Parliament. The continued expansion of the MA programme will form part of the ambition for developing and delivering a world class vocational education system for Scotland. In fact we delivered 25,284 Modern Apprenticeship starts in 2013-14, with 77,402 new opportunities delivered over the past three years.

Apprentice numbers and key facts for Wales

The Welsh Government's *Programme for Government*[24] places jobs right at its heart, and the apprenticeship programme plays a significant part in job creation and job retention in Wales.

Apprenticeships in Wales are defined through 'frameworks' which specify the qualifications and training that must be achieved to earn an apprenticeship certificate. There were over 51,000 apprentices on the programme in 2013/14, and more than 150

[24] Welsh Government, Programme for Government http://wales.gov.uk/about/programmeforgov/?lang=en

Welsh frameworks in place which cover a wide range of skills, trades and occupational areas by sector.

Learners pursuing apprenticeships in Wales:

	Foundation Apprenticeships	Apprenticeships (Level 3)	Higher Apprenticeships
2011/12	18,895	15,785	280
2012/13	23,345	18,755	2,470
2013/14	25,385	20,890	5,345

Source: Further Education, Work-based Learning and Community Learning in Wales, 2013/14 (provisional figures)

Apprenticeships provide young people with the opportunity to develop job–related competence, technical skills, numeracy and literacy skills and self–esteem. They also play an important role in helping to tackle youth unemployment.

In 2015 the Welsh Government will be launching a public consultation on the development of the apprenticeship model in Wales.

Apprentice numbers and key facts for Northern Ireland

At present, the majority of apprenticeships in Northern Ireland are delivered through the Department for Employment and Learning's ApprenticeshipsNI programme. ApprenticeshipsNI provides persons in paid employment with the opportunity to undertake a Level 2 or Level 3 apprenticeship in an industry-approved Apprenticeship Framework.

The purpose of ApprenticeshipsNI is to:

- provide apprentices with the knowledge, understanding, and competence to work at a higher level in their chosen occupation;
- offer high quality training to fulfil the requirements of an appropriate Apprenticeship Framework;
- contribute to raising the skills level of the Northern Ireland workforce;
- provide opportunities for progression to further and higher education and training; and
- encourage the direct involvement of employers in training key personnel.

In July 2014, a total of 6296 apprentices were enrolled on ApprenticeshipNI frameworks. In the 2013 / 14 academic year there were 5,412 new starts on apprenticeship programmes.

In 2013 the Department carried out a review of apprenticeships, publishing an interim report and consultation document in January 2014. A final strategy, 'Securing our Success', was published in June 2014. The new apprenticeship system will balance interests of individual participants, the employer and the economy.

In preparation for this, the Department is currently piloting a number of higher level apprenticeships across a number of sectors with the aim of testing their effectiveness to meet the specific skills needs of local employers.

Apprentice NMW rates at introduction and in 2014

Between the introduction of the ANMW in October 2010 and October 2014, the ANMW has increased by 9.2 per cent. This is a slightly smaller increase than the adult rate but over the same period, it has increased relative to the 16-17 rates.

Table 4.1:

October 2010 rates	Rate's % increase since October 2010	Ratio of 2010 Apprentice rate to 2010 age rates	Ratio of 2014 Apprentice rate to 2014 age rates
Apprentice rate £2.50	9.2%	-	-
16-17 NMW rate £3.64	4.1%	68.7%	72.0%
18-20 NMW rate £4.92	4.3%	50.8%	53.2%
Adult NMW rate £5.93	9.6%	42.2%	42.0%

An overview of Apprentice wages

The 2014 Apprentice Pay Survey (APS) is a large-scale survey of 9,359 apprentices which aims to provide an accurate and up-to-date picture of the pay of the apprentice population, both across Great Britain.

The results on apprentice hourly pay by country within level are shown in Table 4.2 below. Average pay among Level 2 and 3 apprentices in Great Britain was £6.31. It was £6.32 including all Level 2 to Level 5 apprentices. Apprentices in Wales had the highest average pay as they have a higher proportion of higher paying frameworks. Average pay for higher level apprentices in Great Britain was £9.60, considerably higher than the overall average.

Table 4.2: Mean and Median hourly pay for apprentices by level and country

	Base	Mean	Median
Level 2 and Level 3 apprentices			
Great Britain	7,265	£6.79	£6.31
England	4,240	£6.78	£6.31
Scotland	1,741	£6.61	£6.11

Wales	1,285	£7.43	£6.63
Level 4 and Level 5 apprentices			
Great Britain	713	£10.88	£9.60
England	394	£10.69	£8.97
Scotland	125	£14.45	£13.98
Wales	194	£11.10	£9.79
All apprentices Level 2 - 5			
Great Britain	7,978	£6.91	£6.32
England	4,633	£6.86	£6.31
Scotland	1,866	£6.79	£6.16
Wales	1,479	£7.84	£6.77

Base: these results are based on those for whom it was possible from their survey responses to calculate an hourly pay figure.
Source: Apprentice Pay Survey 2014

Apprentice Pay Survey estimates of the bite, split by NMW rates apprentices can be due

Table 4.3:

NMW rate Apprentice is due	Mean	Median	Bite[25]
Apprentice rate	£6.52	£6.15	43.6%
Development rate (18-20)	£6.28	£5.43	92.6%
Adult rate (21+)	£8.27	£7.10	88.9%
Total	£7.84	£6.31	-

Table 4.3 shows the average wages for apprentices due the apprentice rate, apprentices due the 18-20 rate and the adult rate and their relevant rate as a proportion of median earnings (bite).

This shows that the bite for apprentices due the Apprentice rate is much lower than the bites for the respective wider NMW rates found in section 2. Meanwhile, the bite for apprentices due the 18-20 and adult rates are significantly higher.

Results by framework are shown in table 4.4.There is considerable variation in the median wage across frameworks. This ranges from £2.94 in hairdressing, £5.02 in children's care to £8.42 in management.

[25] The NMW rate as a proportion of median earnings is often, described as termed the 'bite' and is used as a measure of how high up the earnings distribution the NMW rate cuts in.

Table 4.4: Average basic hourly pay for apprentices across G.B.

	Base:	**Mean**	**Median**
Level 2 and Level 3 Framework:	***7,265***	**£6.79**	**£6.31**
Hairdressing	*450*	£3.95	£2.94
Children's Care	*460*	£5.26	£5.02
Construction and related	*902*	£5.95	£5.37
Business and related	*812*	£6.02	£5.80
Engineering/ Manufacturing	*1,238*	£6.50	£5.83
Other	*400*	£6.82	£6.02
Hospitality and Catering	*514*	£6.88	£6.31
Customer Service	*380*	£6.97	£6.71
Retail	*456*	£7.05	£6.59
Electrotechnical	*535*	£7.39	£6.24
Health, Social Care & Sport	*764*	£7.48	£6.52
Management	*354*	£9.71	£8.42
Level 4 and Level 5 Framework:	***713***	**£13.35**	**£9.68**
Accounting	*217*	£7.99	£6.94
Care Leadership and Management	*391*	£14.97	£10.64
Other	*105*	£13.23	£10.44

Base: these results are based on those for whom it was possible from their survey responses to calculate a gross hourly pay figure.

ASHE estimate of Apprentice median wages, split by NMW rates apprentices can be due

Table 4.5:

NMW rate Apprentice is due	Mean wage	Median wage	Bite[26]
Apprentice rate - £2.68	£6.58	£4.52	59.2%
18-20 rate - £5.03	£6.66	£6.00	83.8%
Adult rate - £6.31	£9.79	£8.55	73.8%
Total – all apprentices	£7.37	£6.00	-

Source: Annual Survey of Hours and Earnings 2014, Office for National Statistics.
Note: Those on the Apprentice rate are either aged 16-18, or older than that but in their first year of Apprenticeship

The bite for apprentices in ASHE is higher than the Apprentice Pay Survey. It shows that for apprentices due the apprentice rate the bite is 59.2 per cent, 83.8 per cent for apprentices due the 18-20 rate and 73.8 per cent for the adult rate.

This shows, along with the APS, that the bite is greatest for those due the 18-20 rate and changes in this rate will have the greatest effect for Apprentices aged 19 or 20 and in the second year of their Apprenticeship.

Since April 2013, the bite for all Apprentices has increased. The bite for Apprentices on the ANMW increased over the year by 1.7 percentage points. This is due to median wages falling by 2 per cent while the NMW rate increased by 1.1 per cent to £2.68.

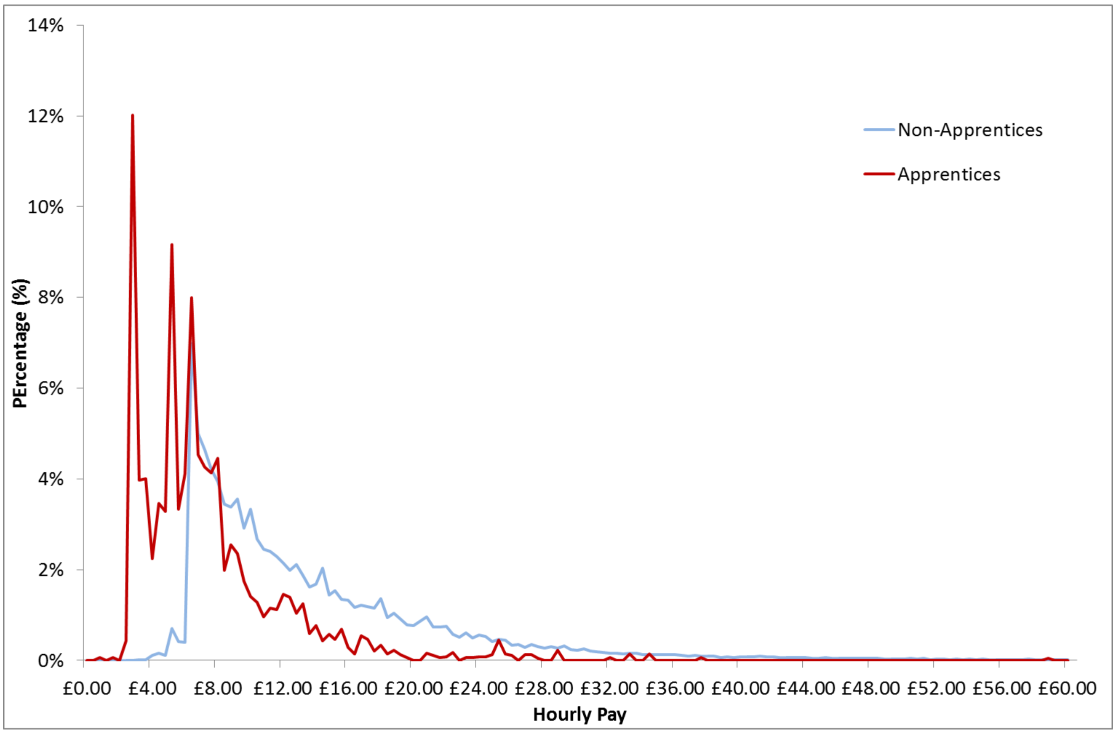
Similarly, over the same period the median wages for Apprentices on the 18-20 and adult NMW fell by 3.1 per cent and 1.3 per cent respectively. In addition, the NMW for those on the 18-20 and adult rate also increased between 1.1 and 1.9 per cent. Due to the decreasing median wages and the increasing NMW rates for all Apprentices since April 2013, the bite for all Apprentices increased.

The ASHE estimate for Apprentice median wage is less than the APS finding of a £6.91 Apprentice median wage. This will be due to issues of sampling, as ASHE is a 1% sample of PAYE records, while the APS is a targeted survey of apprentices. The APS provides a more reliable and more detailed analysis of apprentice pay.

[26] The NMW rate as a proportion of median earnings is often, described as termed the 'bite' and is used as a measure of how high up the earnings distribution the NMW rate cuts in.

Comparing ASHE Apprentice and non-Apprentice wage distributions

Chart 4.1: ASHE Apprentice and non-Apprentice wage distributions



Source: BIS analysis of the Annual Survey of Hours and Earnings 2014, Office for National Statistics

Apprentices tend to have lower pay than non-Apprentices, and are less likely to have wages over £10 an hour. This is understandable given both the age and experience profile of apprentices and the additional training costs that the employer experiences.

Around 52.3 per cent of all Apprentices earn £6.31 or lower. Apprentice wages are much less varied than non-Apprentice wages, as more non-Apprentices have higher wages.

The three peaks for the Apprentice pay distributions coincide with the three Minimum Wages that they can be due - £2.68, £5.03 and £6.31. Evidence indcates that there are a higher proportion of apprentices on the relevant Minimum Wage rate than non-apprentices.

Apprentice NMW compliance

APS 2014 evidence

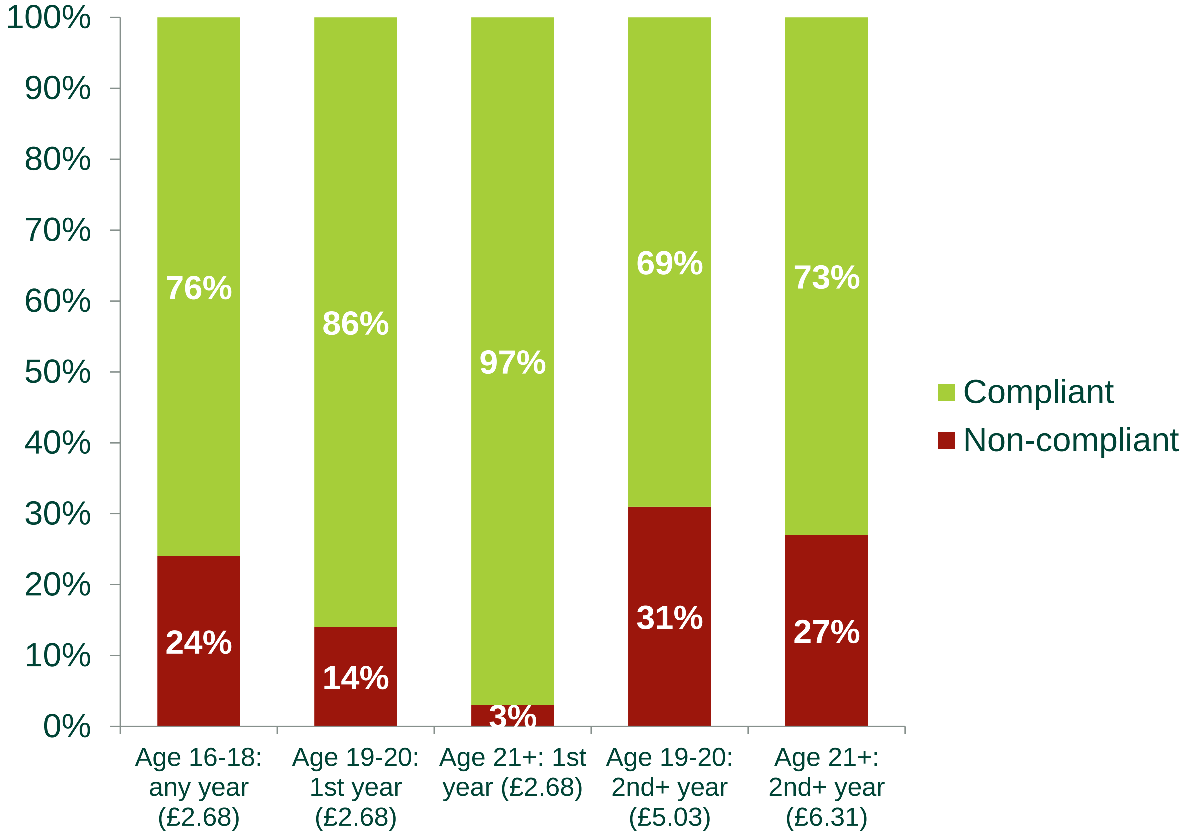
Our last evidence, submitted to the LPC in October 2014, contained Apprentice Pay survey (APS) data based on the 2012 survey. This showed that 29 per cent of Apprentices in England were paid less than the minimum requirement, up from 20 per cent in 2011. APS 2014 estimates that the apprentice non-compliance rate for level 2 and 3 apprentices is 15%.

Looking at compliance split by the different NMW for each age group and year of Apprenticeship, those aged 19-20 in their second or later year of their Apprenticeship were the most likely to be in the non-compliant category, with 31 per cent paid less than the appropriate NMW rate, £5.03 an hour. Those aged 21 or over in the second year or later were slightly less likely to be non-compliant, with 27 per cent paid less than £6.31, the minimum level for that group.

Apprentices eligible for the lowest level of NMW, £2.68, accounted for 8.5% of total non-compliance. Those aged 16-18 were the most likely to be paid below the NMW (24 per cent). Of those aged 19-20 and in their first year, 14 per cent were non-compliant, while only a small proportion of those aged 21+ and in their first year were paid less than £2.68 (three per cent).

These results are shown in Chart 4.2.

Chart 4.2: NMW Compliance by age and year of Apprenticeship (Level 2 and 3 apprentices in GB)



Base: All GB L2 & L3 where compliance can be calculated (7,896)

Source: Apprentice Pay Survey 2014

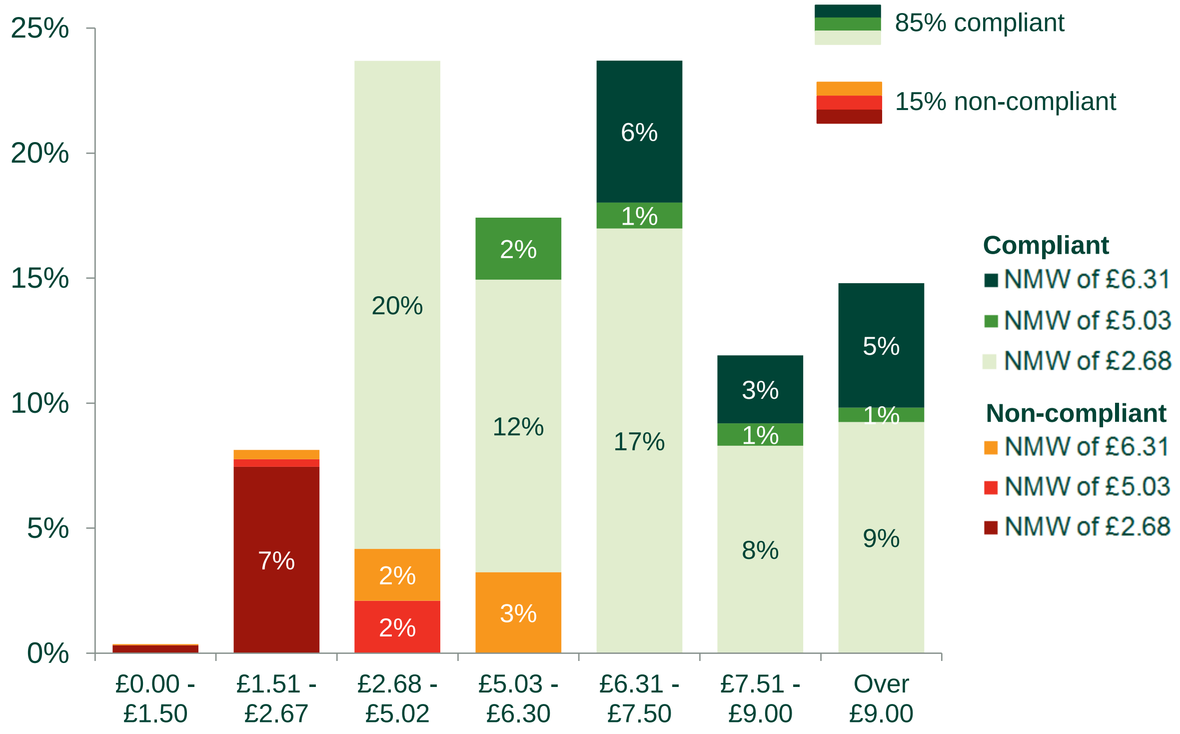
Among those whose pay was non-compliant with the NMW, 49 per cent were aged under 19 or on the first year of the Apprenticeship (hence they should have been being paid a minimum of £2.68 an hour), 15 per cent were entitled to the £5.03 NMW rate and 36 per cent should have been paid a minimum of £6.31 an hour.

Chart 4.3 shows the pay distribution for Level 2 and 3 apprentices in Great Britain, also indicating within each pay band the relevant compliance rate. This is based on respondents where it was possible to calculate an exact pay figure (7,266 of the 8,526 Level 2 and Level 3 apprentices interviewed). As well as showing the distribution of hourly pay rates, it also shows which NMW rate applied to respondents and whether the pay was compliant or not. For example, it shows in the final column that five per cent of all apprentices received over £9 an hour and needed a minimum of £6.31 an hour to be compliant, while nine per cent received over £9 an hour and needed £2.68 an hour to be compliant (i.e. they were aged under 19 or on the first year of their Apprenticeship).

A very small proportion of apprentices were paid £1.50 an hour or less (0.4 per cent). Eight per cent were paid between £1.51 and £2.67: the majority of apprentices within that range were eligible for the £2.68 minimum rate (seven per cent of all Level 2 and Level 3 apprentices), with a minority eligible for the higher rates of £5.03 or £6.31 (less than 0.5 per cent each).

Around a quarter of the Level 2 and 3 apprentices received between £2.68 and £5.02 an hour (24 per cent); within this group, two per cent were non-compliant as they were eligible for NMW of £5.03, and a further two per cent were eligible for NMW of £6.31.

Chart 4.3: Level 2 and Level 3 Apprentice Pay Rates and non-compliance distribution (GB)



Base: All GB L2 & L3 with calculated hourly pay figure (7,266)

Figures not shown for results of <0.5%

Source: Apprentice Pay Survey 2014

Just under a fifth of all Level 2 and 3 apprentices were paid between £5.03 and £6.30 an hour (17 per cent); within this group, three per cent were receiving non-compliant pay, as they were eligible for the minimum rate of £6.31 an hour.

Half (50 per cent) of all Level 2 and 3 apprentices received £6.31 an hour or more.

The survey notes that, particularly for those due £2.68, a fairly high proportion were close to the NMW level, indicating that the non-compliance could in these cases be due to measurement or calculation error (e.g. respondents giving rounded figures).

One factor that impacts on compliance is the length of time the apprentice had spent on the course: over a quarter (27 per cent) of those that had been on the course for more than a year were being paid less than NMW, compared with nine per cent of those who had been on their course for a year or less. This could imply that a substantial proportion of non-compliance cases are due to apprentices moving up to the next NMW bracket, without their pay being increased.

Other aspects of an apprenticeship that affected non-compliance were:

- Apprentices that did not have a written contract were also more likely to be paid below the appropriate NMW (28 per cent) compared with those that did have a written contract (13 per cent).
- Apprentices who worked unpaid overtime hours were more likely to be non-compliant at 27 per cent compared to those who did not work any unpaid overtime at 14 per cent.
- a third (29 per cent) of apprentices who received tips from customers were non-compliant compared with 14 per cent of those who did not receive any tips.

Non-compliance of higher apprenticeships

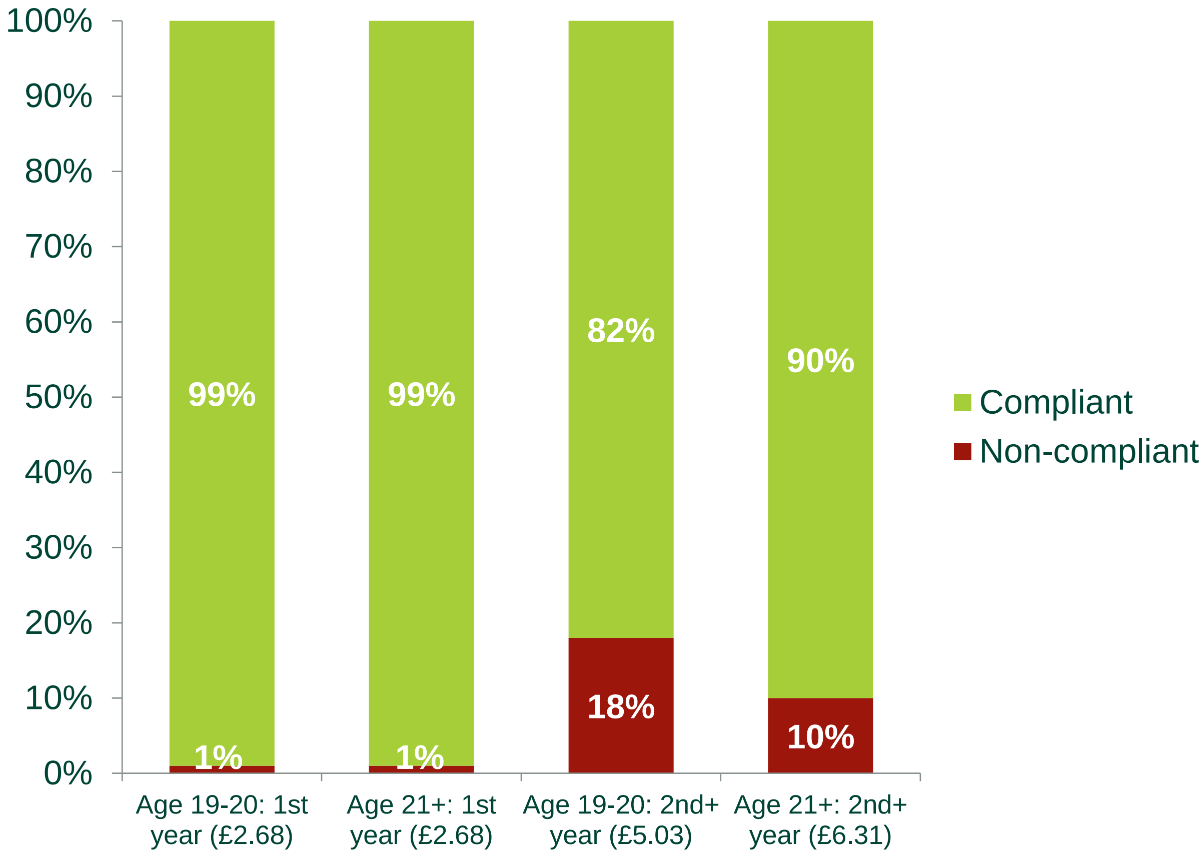
Non-compliance amongst higher apprenticeships was much lower than non-compliance for level 2 and 3. Looking only at apprentices for whom compliance could be calculated, 95 per cent had a gross hourly wage at or above the appropriate NMW, while five per cent had a gross hourly wage below the appropriate NMW

Similarly, with non-compliance for levels 2 and 3 there was higher non-compliance (11 per cent) for those that had been on the course for more than a year, compared with those who had been on their course for a year or less (1 per cent).

These results are shown in Chart 4.4.

Figures for those aged 16-18 are not shown, due to the very low base size (only nine Level 4 and 5 apprentices were aged 16-18, and all of these reported compliant levels of pay).

Chart 4.4: NMW Compliance by age and year of Apprenticeship (GB Level 4 and 5)



Base: All GB L4 & L5 where compliance can be calculated (804)

Source: Apprentice Pay Survey 2014

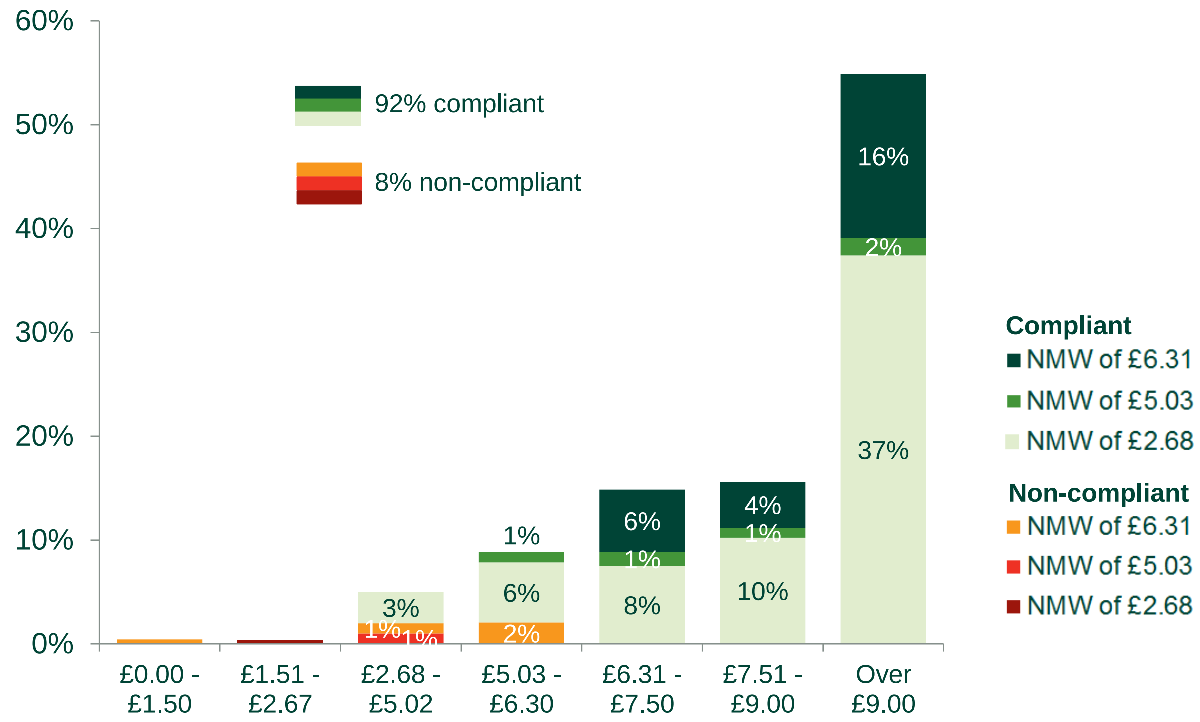
Chart 4.5 shows the pay distribution for Level 4 and 5 apprentices in Great Britain. This is based on respondents where it was possible to calculate an exact gross hourly pay figure (714 of the 841 Level 4 and Level 5 apprentices interviewed). As well as showing the distribution of hourly pay rates it also shows which NMW rate applied to respondents and whether the pay was compliant or not. For example, it shows in the final column that 16 per cent of all apprentices for whom a gross hourly pay could be calculated received over £9 an hour and needed a minimum of £6.31 an hour to be compliant, while 37 per cent received over £9 an hour and needed £2.68 an hour to be compliant (i.e. they were on the first year of their Apprenticeship).

Five per cent of the Level 4 and 5 apprentices for whom exact pay figures could be calculated received between £2.68 and £5.02 an hour; within this group, one per cent were non-compliant as they were eligible for NMW of £5.03, and a further one per cent were eligible for NMW of £6.31.

One in eleven apprentices was paid between £5.03 and £6.30 an hour (nine per cent); within this group, two per cent were receiving non-compliant pay, as they were eligible for the minimum rate of £6.31 an hour.

The majority of all Level 4 and 5 apprentices with a calculable hourly pay figure received £6.31 an hour or more (85 per cent); of these, 15 per cent were paid between £6.31 and £7.50 an hour, 16 per cent were paid between £7.51 and £9.00 an hour, and more than half (55 per cent) were paid more than £9.00 an hour.

Chart 4.5: Level 4 and Level 5 apprentice Pay Rates and non-compliance (GB) [27]



Base: All GB L4 & L5 with calculated hourly pay figure (714)

Figures not shown for results of <0.5%

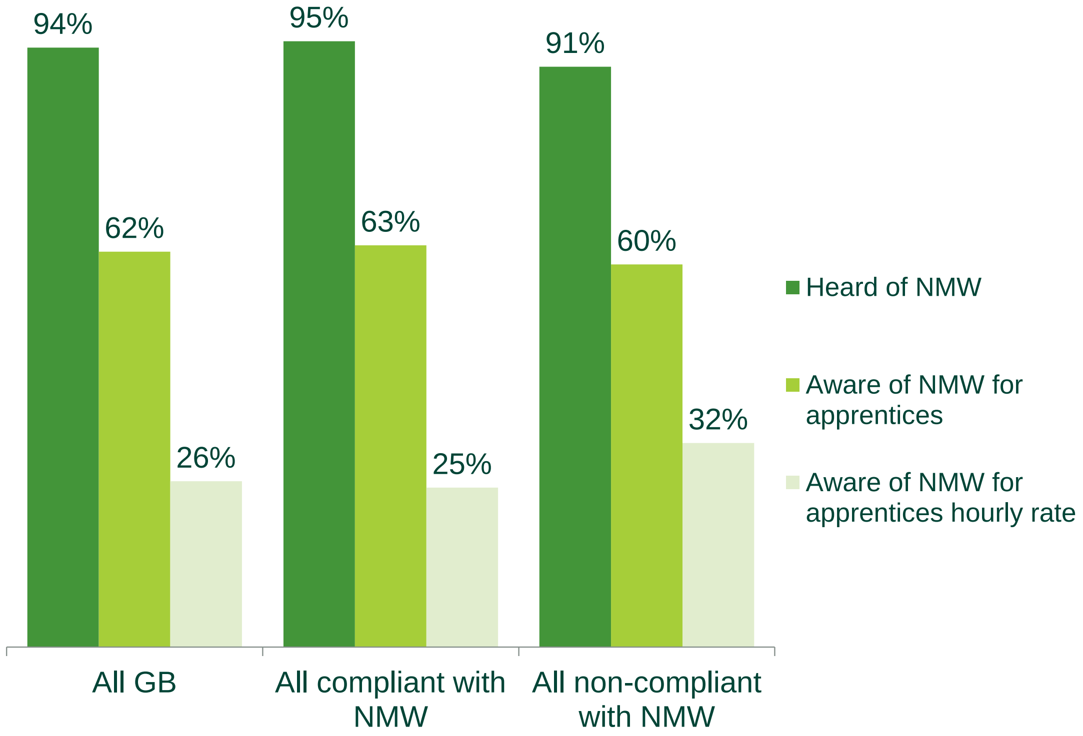
Source: Apprentice Pay Survey 2014

[27] Note that the different base results in slightly different compliance figures compared to the Level 4 and 5 overall: eight per cent of those with calculable pay had a non-compliant pay level, compared with five per cent of all Level 4 and 5 apprentices in Great Britain.

Awareness of the Apprentice Rate of the National Minimum Wage

The vast majority of Apprentices (94 per cent) had heard of the NMW. Awareness of the NMW was lower among those with non-compliant pay (91 per cent, compared with 95 per cent of those with a compliant pay level). This is a significant improvement from the 2012 pay survey where just over half of the apprentices had heard of the NMW.

Chart 4.6: Knowledge of National Minimum Wage (GB)



Base: All GB L2 & 3 (8,526); all compliant (6,633); all non-compliant (1,263)

Source: Apprentice Pay Survey 2014

Awareness of the NMW was lower among the following groups:

- 16-18 year olds (90 per cent, compared with 95 per cent of those aged 19 plus);
- Non-white ethnic groups (89 per cent of Asian/Asian British apprentices and 90 per cent of Black/Black British apprentices, compared with 95% of White British apprentices);
- Apprentices in Scotland (90 per cent, compared with 95 per cent in Wales and 95 per cent in England);
- Apprentices in the Hairdressing framework (86 per cent).

Apprentices were also asked if they were aware that there is a NMW rate for certain apprentices. Three-fifths of all Level 2 and Level 3 apprentices (62 per cent) were aware, which is an increase on the proportion aware in England in 2012 (52 per cent). Again, awareness of the NMW for apprentices was lower among those with non-compliant pay (60 per cent, compared with 63 per cent of those with a compliant pay level); however, in contrast to awareness of the general NMW, older apprentices were less likely to be aware of the NMW for apprentices: only half of those aged 25 or older (51 per cent) were aware, compared with 66 per cent of those aged 16-18, 68 per cent of those aged 21-24, and 73 per cent of those aged 19-20.

Government evidence on Apprentice Minimum Wage reform

As set out above, compliance evidence indicates that a sizeable minority of Apprentices are not paid the correct NMW rate. It is possible that one of the reasons for this is the complexity of the Apprentice rate which is determined by:

- The Apprentice being on a recognised Apprentice scheme;
- The age of the Apprentice; and
- The precise length of time they have been on their Apprenticeship.

The structure of the Apprentice rate is more complex than any other NMW rates and is therefore more difficult for employers and employees to understand. For Apprentices aged under 19, it is comparatively straight forward to apply the Apprentice rate. The employer only needs to uprate the pay of these Apprentices when the rate increases on 1st October each year, or when they turn 19 if they have completed their first year.

However for Apprentices aged 19 and over, the complexity increases as the Apprentice rate only applies in the first year of their Apprenticeship (after which an Apprentice should be paid at the relevant age rate).

In the Government's remit to the LPC the Government set out a request for the LPC to consider whether:

- Any changes can be made to the apprentice rate to make the structure simpler and improve compliance: and
- The structure and level of the apprentice rate should continue to be applied to all levels of apprenticeship, including higher levels.

In the Interim Evidence the Government said it was minded to simplify the system and is considering the option of combining the apprentice NMW and the 16-17 rate (the rate for 16-17 year olds). This new NMW rate would apply to all apprentices in the first year of their apprenticeship and all workers aged 16-17.

We would welcome the LPC's views on this option, including on how it might be implemented without adverse impact on future increases in the 16-17 rate or damage the government's goal of increasing apprentice numbers. Options here may include converging the two rates over a set period of time.

The Apprentice Pay Survey continues to indicate that:

- Non-compliance, while perhaps not as large a problem in the Apprentice Pay Survey 2012, is still higher than for other NMW rates.
- Non-compliance appears to be particularly prevalent amongst Level 2-3 apprentices ages 16-18, as well as all other apprentices in their second or subsequent year.
- The magnitude of underpayment is usually very low, which may indicate accident rather than employers trying to financially gain.

The Government values and welcomes LPC analysis and views on how simplification can help improve compliance.

Annex A: Compliance and enforcement

Summary

The Government is committed to increasing compliance of the NMW through the provision of guidance and support to employers and workers. Where employers have been found to flout the rules, the Government takes enforcement of the NMW seriously.

The Government is taking tougher action on employers that do not comply with the law. We are naming and shaming employers that fail to pay their workers at least the Minimum Wage and have also increased the NMW penalty. We plan to go further still by introducing primary legislation so that we can apply the penalty on a per worker basis which means employers will face substantially higher penalties.

Our research shows that the level of non-compliance of the NMW has remained largely stable over time and is relatively low. The evidence also suggests that the majority of non-compliance is due to mistakes rather than malice.

Given the importance that the Government places on compliance and enforcement, we will continue to take action where employers break the law and will increase the focus on high risk sectors. To support this, we announced in the Autumn Statement an increase in the enforcement budget of Her Majesty's Revenue and Customs (HMRC) by over £3million.

This extra funding will enable HMRC to increase the number of NMW compliance officers. As well as continuing to respond to every complaint made to the Pay and Work Rights Helpline, HMRC compliance officers also undertake targeted enforcement, focusing on the worst offending employers in the highest-risk sectors and where the rules are more complicated.

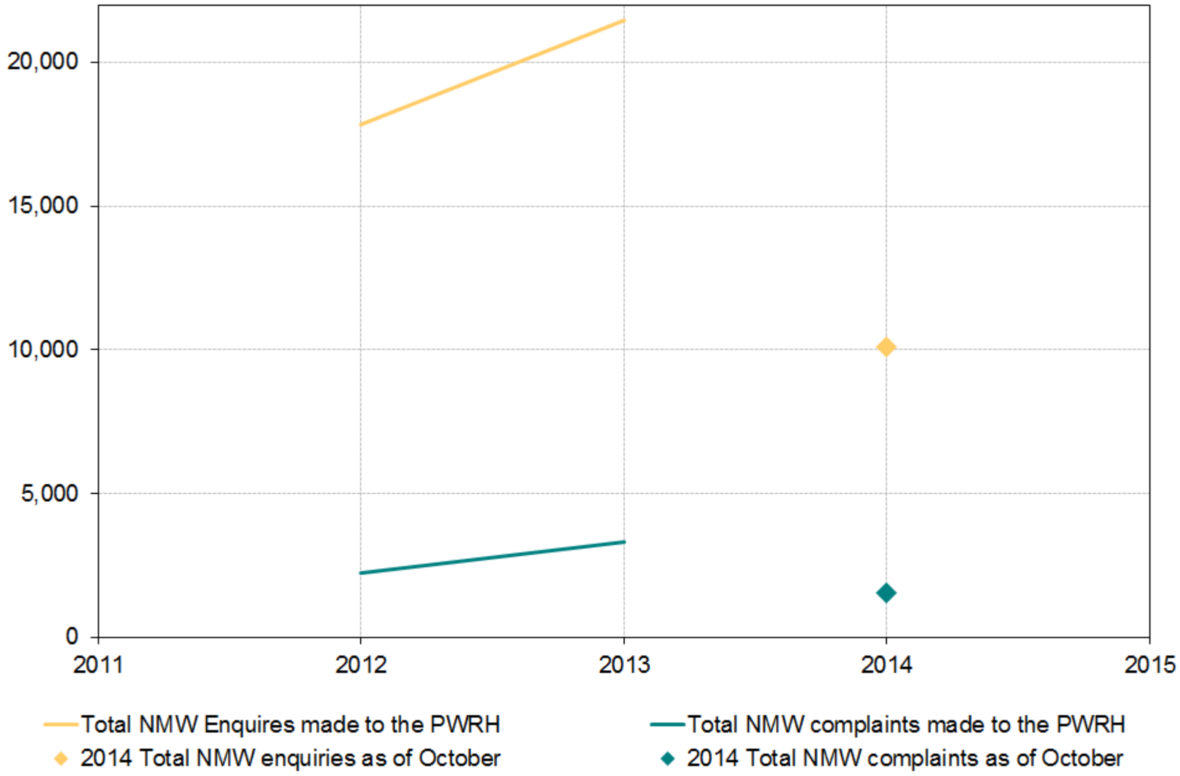
Extent of non-compliance with the NMW

Evidence of non-compliance

Although not a direct measure of non-compliance, the number of complaints to the Pay and Work Rights Helpline (PWRH) may be used to examine how much workers report non-compliance. Figure B1 shows that the number of complaints from workers has increased since the PWRH was established, rising from 2012 to 2013.

The increase in the number of complaints may be due to workers being more aware of their rights and entitlements and therefore, more likely to complain.

Chart B1: Number of enquiries and complaints to the PWRH



Source: Data from the PWRH

Non-compliance can also be estimated through the Annual Survey of Hours and Earnings (ASHE). ASHE is a survey of employees completed by employers which we can use to look at workers earning at or below the NMW rate. This is not a complete measure of non-compliance however as there are legitimate reasons to be paid below the NMW, for example those living in accommodation provided by the employer. In addition, as results from ASHE are based on a sample of employee jobs in Pay-As-You-Earn income tax schemes from HMRC it does not include workers who earn below the Lower Earnings Limit.

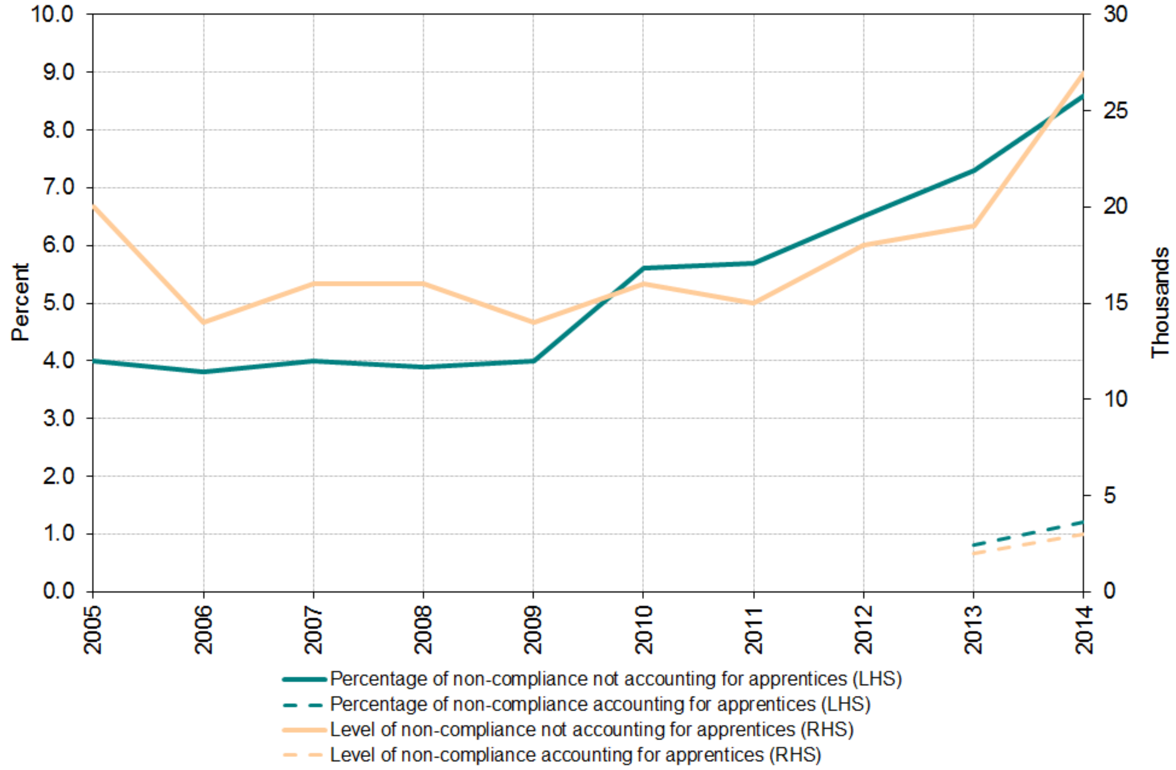
Methodology has been updated to take into account those who are apprentices and, if so, whether they are in their first year. This provides much more accurate estimates for 2013 and 2014, especially for those aged 16-17 or 18-20. NMW non-compliance for Apprentices is looked at in Section 4.

In contrast to the number of complaints shown in graph B1, the data shows that workers earning below the NMW has remained largely stable over time and is relatively low. Figures B2 – B4 show the number of workers paid below the NMW by age group, with new methodology showing estimated non-compliance by NMW rate due.

Accounting for apprentices there are proportionally fewer workers due the 16-17 NMW rate earning below the NMW (at 1.2% in 2014), than those due the 18-20 NMW rate (1.6% in 2013). Those due the 21+ NMW had the lowest proportion earning below the NMW, which remained at 0.8% in 2014.

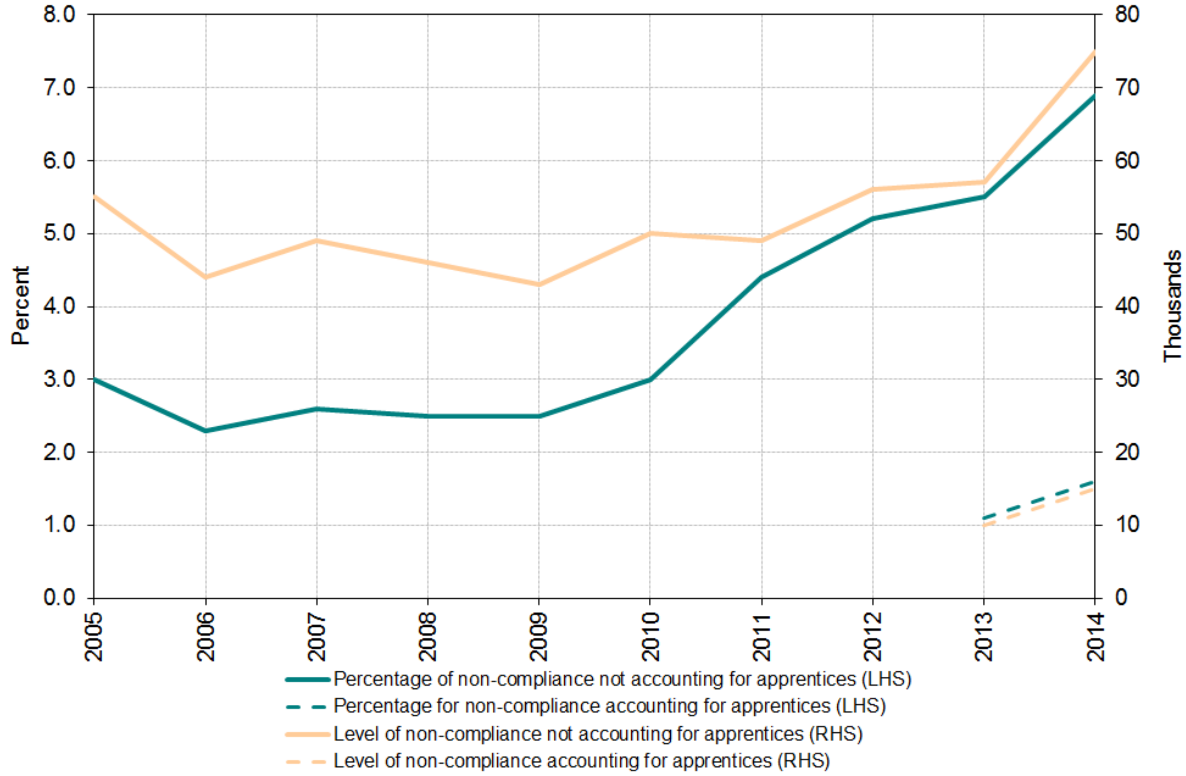
Therefore it can be concluded that although the number of complaints are increasing, the actual level of workers paid below the NMW is small.

Chart B2: Non-compliance for 16-17 year olds, old methodology and new



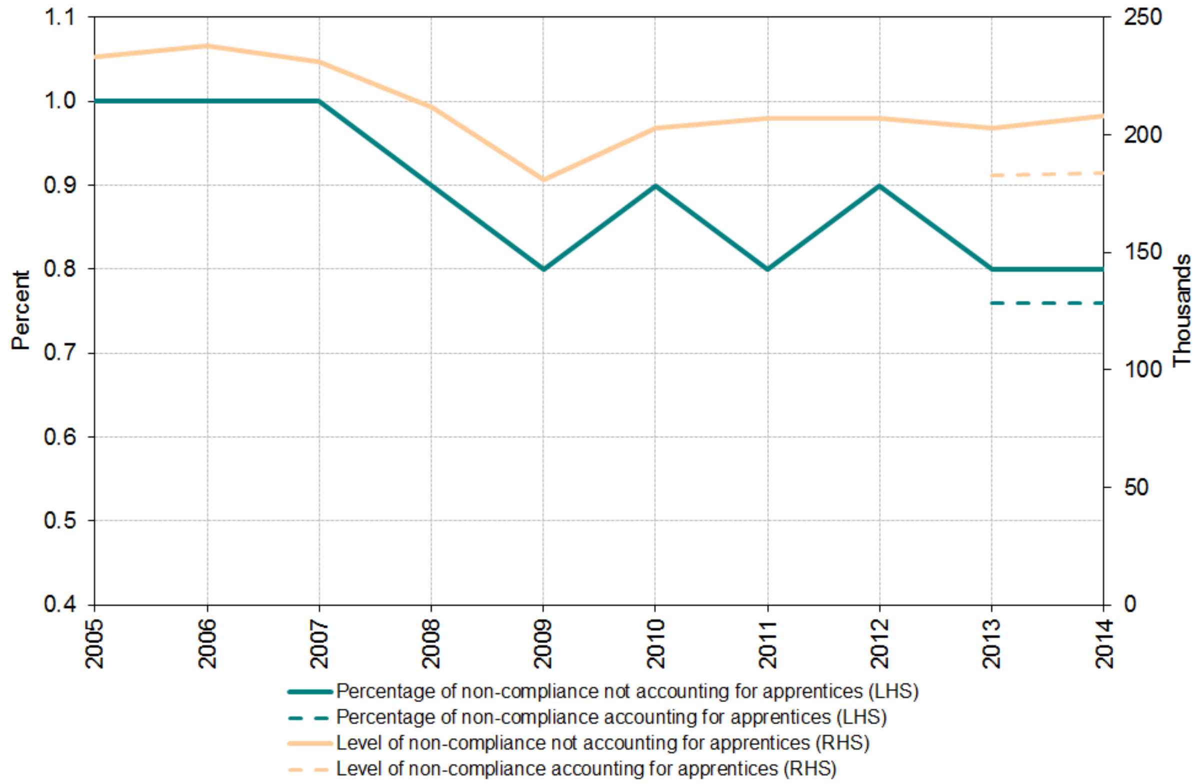
Source: Data from the Annual Survey of Household Earnings

Chart B3: Non-compliance for 18-20 year olds, old methodology and new



Source: Data from the Annual Survey of Household Earnings

Chart B4: : Non-compliance for over 21 year olds, old methodology and new



Source: Data from the Annual Survey of Household Earnings

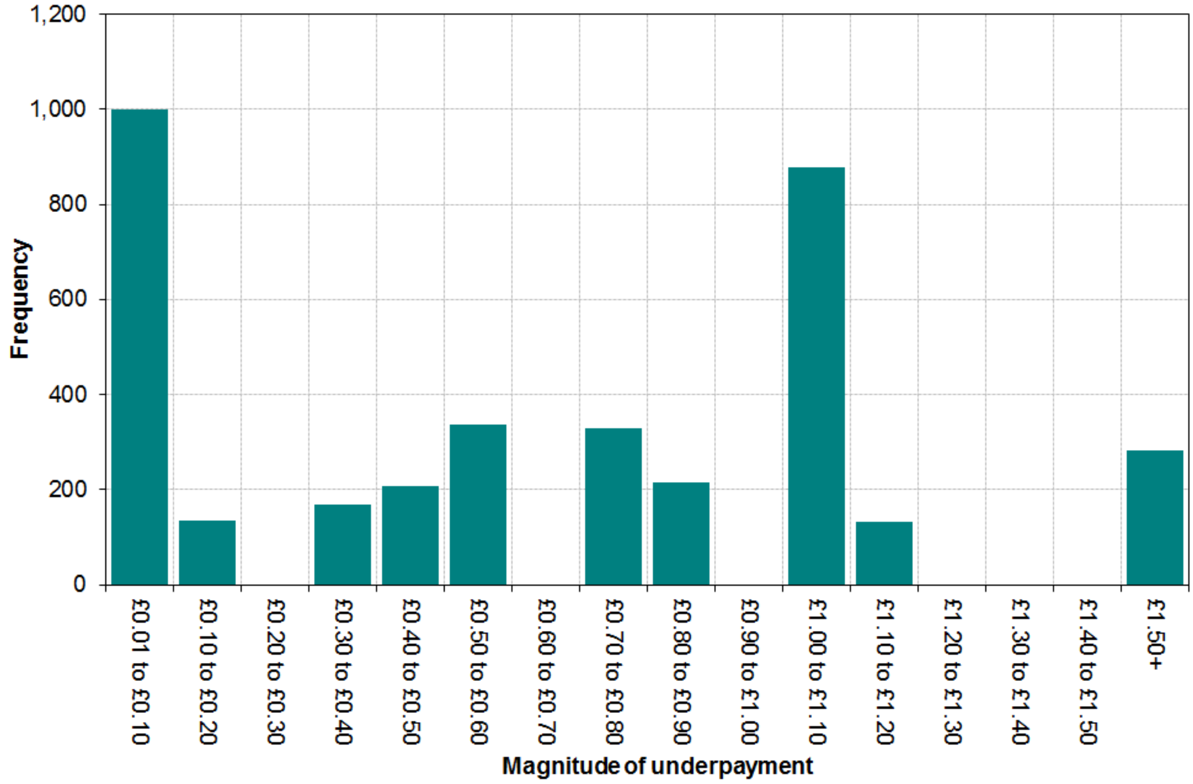
Reasons for non-compliance

Looking at the level of underpayment of the NMW, the ASHE data shows that the magnitude below the NMW hourly rate was very small for all age-groups.

As the percentage of workers being underpaid by large amounts below the NMW are small, it may be concluded that non-compliance is mostly due to error rather than deliberate non-compliance (see charts B5-B7). For example, of those non-compliant with the 16-17 rate, 39% were within 20p of the NMW and, of those non-compliant with the 18-20 rate, 52% were within 20p of the NMW. Of those non-compliant with the 21+ rate, 46% were within 20p of the NMW.

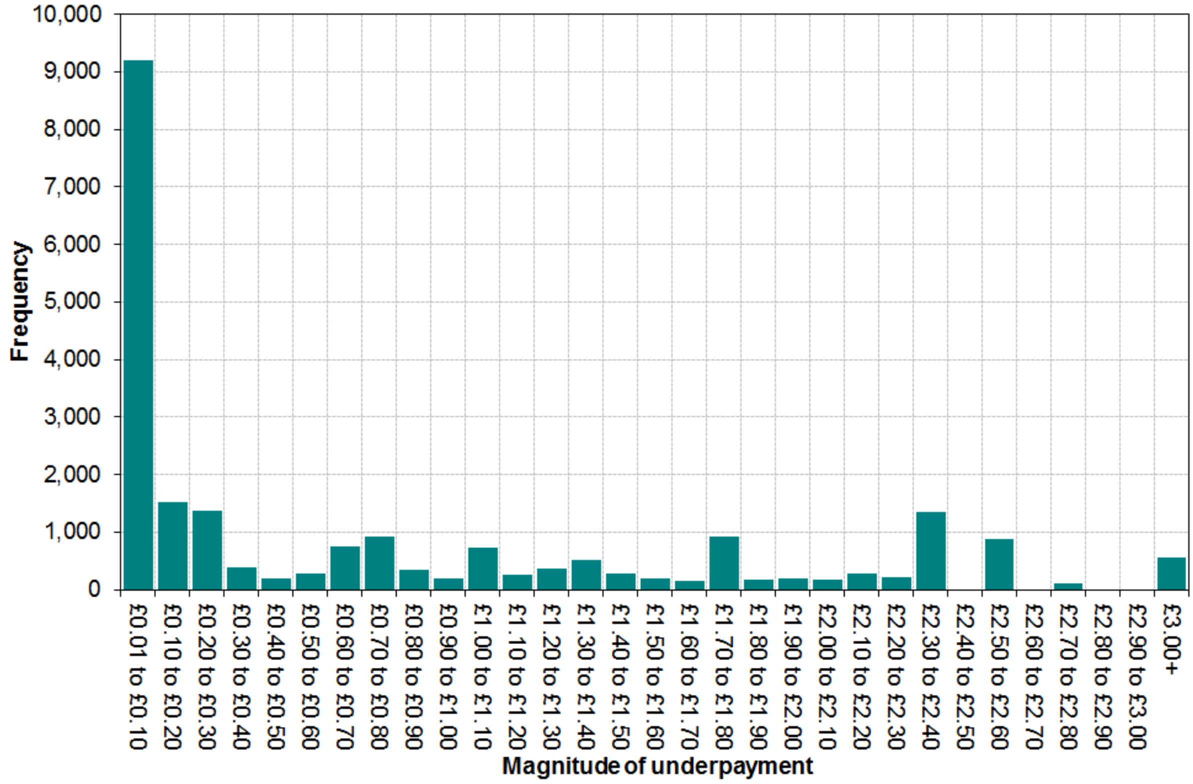
Just under 25% of underpaid workers due the 16-17 rate are underpaid by £1.10, which corresponds to wages at or around the Apprentice NMW. It is plausible that these individuals were underpaid due to a misunderstanding over NMW rates, indicating a potential externality of the current Apprentice NMW policy.

Chart B5: Underpayment of the 16-17 NMW rate (£3.72) for those due the 16-17 rate



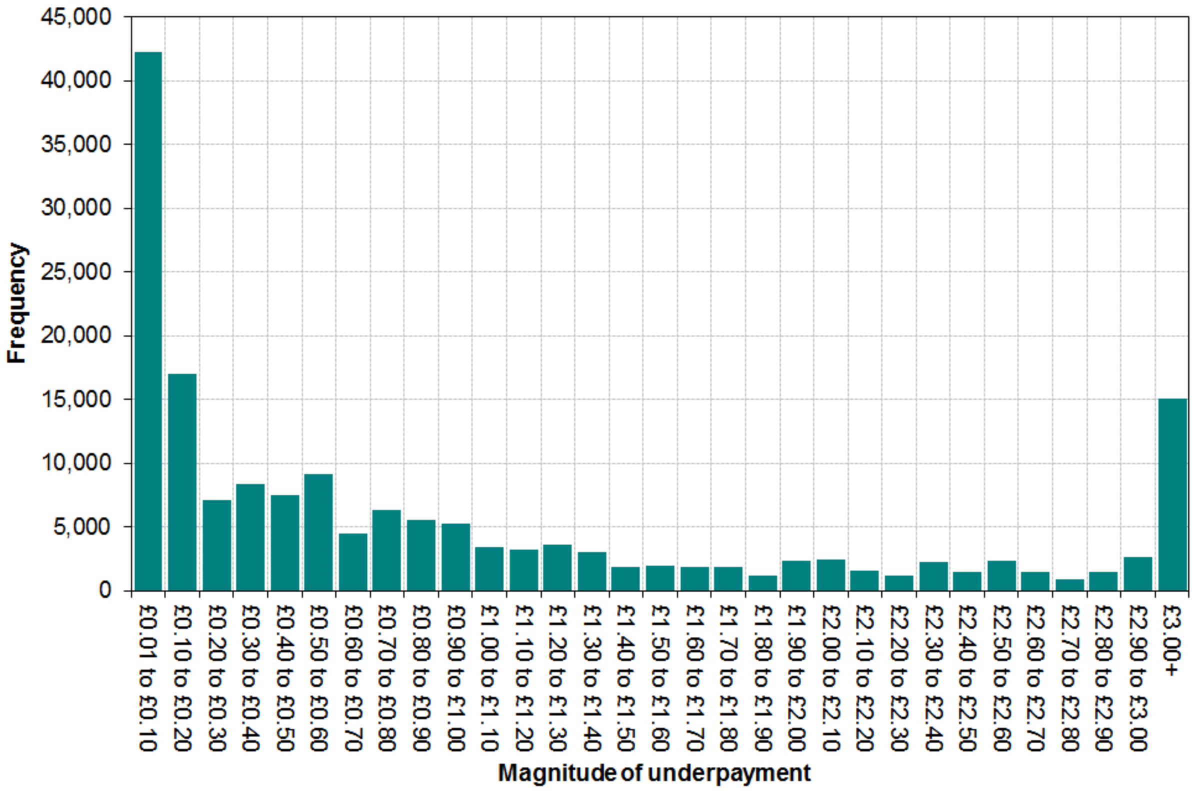
Source: Data from the Annual Survey of Household Earnings

Chart B6: Underpayment of the 18-20 NMW rate (£5.03) for those due the 18-20 rate



Source: Data from the Annual Survey of Household Earnings

Chart B7: Underpayment of the Adult NMW (6.31) for those due the 21+ rate



Source: Data from the Annual Survey of Household Earnings

Furthermore, interviews with employers and workers highlighted the fact that poor record keeping resulted in errors in applying the NMW and deductions made from wages. Workers also reported that they were unaware of deductions made and whether they were paid correctly if employers did not provide adequate records (e.g. contracts, payslips etc.)[28]

Research on understanding workers' behaviour shows that there appears to be two distinct groups of workers who work for below the NMW. One group consists of those who are aware of the NMW but choose to work below it because they receive other benefits from their employer that they value more than the NMW. The other group consists of those who are unaware of NMW and their eligibility for it.

Amongst those who were aware of the NMW and knew they were being underpaid, the following reasons were given for non-compliance with the NMW law:

- Perceptions about eligibility
- Receiving non-financial benefits
- Ability to illegally claim state benefits

[28] Understanding worker behaviour in maintaining compliance with the national Minimum Wage https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/317728/bis-14-610-national-minimum-wage-understanding-worker-behaviour-in-maintaining-compliance-with-nmw-law.pdf

- Compromising a good relationship with the employer
- Fear of losing their job

The fact that most of the arrears owed are for small amounts also points to non-compliance as a result of technical error rather than being deliberate. Data from HMRC on the cases investigated, indicated that in 2014 the average arrears recovered per worker was £205, illustrating that non-compliance as a result of gross exploitation is very low.

Therefore, it can be concluded that overall, there is a low level of non-compliance with the NMW. Furthermore, evidence indicates that non-compliance seems to be mostly due to employers and workers lack of understanding of NMW law.

Strengthening deterrents

Given the importance that the Government places on compliance and enforcement, we will continue to take action where employers break the law and will increase the focus on high risk sectors. To support this, we announced in the Autumn Statement an increase in the enforcement budget of Her Majesty's Revenue and Customs (HMRC) by over £3million.

Naming Scheme

Employers will not only face a higher NMW penalty, but are also being named and shamed under the revised NMW Naming scheme, which came into effect on 1 October 2013. The Government has made it easier to name employers that break NMW law and so far we have named 55 employers. 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. We will be continuing to name employers that do not comply with the law.

Employers should have robust procedures in place to ensure they are paying the correct Minimum Wage amount to their workers.

Raising Awareness of the National Minimum Wage

Since the publication of the last evidence report, we have published new guidance on calculating the NMW. We have also made the following updates to Gov.uk:

- General NMW landing page - https://www.gov.uk/national-minimum-wage
- NMW rates page - https://www.gov.uk/national-minimum-wage-rates
- Worker checklist - https://www.gov.uk/government/publications/national-minimum-wage-worker-checklist
- Work experience and internships - https://www.gov.uk/national-minimum-wage-work-experience-and-internships
- 2014 rate increase announcement - https://www.gov.uk/government/news/one-million-set-to-benefit-from-national-minimum-wage-rise-to-650

- Penalty increase announcement - https://www.gov.uk/government/news/national-minimum-wage-penalties-increased-on-rogue-employers
- Naming and shaming revised criteria announcement - https://www.gov.uk/government/news/national-minimum-wage-rogues-to-be-publicly-named-and-shamed-under-new-plans
- June employers named announcement - https://www.gov.uk/government/news/government-names-employers-who-fail-to-pay-minimum-wage

Annex B: Update on non-remit issues

Section B1: Non-remit issues – Updates to National Minimum Wage policy

Wider issues relating to National Minimum Wage policy

The sections below set out where NMW policy has developed since the Government submitted its interim evidence to the LPC in the autumn of 2013.

Agricultural Wages Board

Following the ruling of the Supreme Court in July 2014, which determined that agricultural wages in Wales is a devolved matter, the Agricultural (Wales) Act 2014 came into force on 30 July 2014. This provides that the Agricultural Wages Order 2012 (which previously applied to both England and Wales) continues to apply in Wales until the yet to be formed Agricultural Advisory Panel for Wales puts forward recommendations for a new Order to Welsh Ministers. Agricultural workers in England have been subject to the NMW since 1 October 2013.

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. The Government is 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 is 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 in turn make decisions about how much should be spent 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.

Since September 2013 the Department of Health (DH) has encouraged all social care employers to sign up to the Social Care Commitment which incorporates an ambition to provide a quality service by ensuring a positive culture and working environment is created. At 31st August 2014, 1,218 employers had made the Social Care Commitment and a further 380 had begun the sign-up process.

From later this year the Commitment will include a requirement about employer compliance with Minimum Wage legislation. This means that from that point on, all employers making the Social Care Commitment for the first time, or renewing their commitment for a further 12 months, will also promise to comply with Minimum Wage legislation and offer fair terms and conditions.

Delivering high quality care is dependent upon a range of factors, including having a workforce that has the right attitudes, values, skills and qualifications. It would be difficult to argue that increased pay in the sector would not have a potential impact on retention and recruitment. However, pay is not the only factor in ensuring local authorities are able recruit and retain the right numbers of staff with the right skills to deliver high quality adult social care.

HMRC have collaborated with care sector representative bodies to improve understanding of compliance risks and design controls within payroll systems that prevent workers being underpaid the Minimum Wage. Alongside this enforcement activity, the DH has developed statutory guidance to the Care Act 2014 that was published in October 2014, in conjunction with a range of stakeholders, which refers to employment law and to HMRC guidance on payment of travel time, to help Local Authorities assure themselves that the care companies they contract with comply with NMW regulations.

DH has worked with the care sector to co-produce a set of standards for local authority commissioning of adult social care – "Commissioning for Better Outcomes". These standards amplify the statutory guidance to the Care Act, including on NMW compliance. A prototype of the standards was launched in October 2014 and will now be piloted in a number of authorities before becoming part of the Local Government Association sector-led improvement resources.

DH, BIS and HMRC are also working together to identify what more can be done to address non-compliance in the social care sector, including raising awareness among both care workers and employers.

Section B2: Non-remit issues – Related policy updates

Tax and labour – NIC exemption for under 21 year olds

From April 2015 onwards, employer National Insurance contributions (NICs) will be abolished for under 21 year olds (i.e. for those aged 20 and under) on earnings up to £813 a week. For the 2% of under 21s earning above the Upper Earnings Limit (£42,285 a year, or £813 a week, in 2015-16), employers will continue to pay NICs at 13.8% on each extra £1 of earnings above that level.

The policy will make it over £500 a year cheaper to employ an under 21 year old earning £12,000, or over £1,000 a year cheaper to employ an under 21 year old earning £16,000. It will apply to both existing employers and those taking on a new under 21 employee.

Employers of nearly 1.5 million young people aged between 16 and 20 will benefit from the abolition of their NICs liabilities. The average saving per employee is about £320 per year. The saving comes from the two groups set out below:

- About 45% (640,000 individuals) have annual earnings above the annualised employer NIC threshold (projected to be £8,164 in 2015-16). The average employer NICs reduction for this group will be about £610.

- About 55% (810,000 individuals) have annual earnings below the annual threshold, but earn enough for their employer to pay NICs during certain periods of the year. The average employer NICs reduction for this group will be just under £85.

Of the 1.5 million young employees, 48% are within the wholesale and retail sector, 20% in the accommodation and food service sector and 7% in admin and support services. In 2015-16, £385m – 75% of the total benefit – will go to regions outside London and the SE.

As this policy makes it cheaper to employ young people under the age of 21, employers might take on more young workers. However, workers on the 18-21 rate would need to work over 30 hours a week to earn enough for employer NIC to apply to them under current rules. Therefore it is likely to be a small group of NMW workers who might benefit from extended working hours or new job opportunities under this policy.

Workplace Pension Reforms and Automatic enrolment

An ageing population, combined with millions of people under-saving, is one of the biggest long-term challenges the UK faces, with approximately 12 million people currently not saving enough to deliver the pension income they want or expect in retirement.

To address this, the Government has placed new duties on employers to automatically enrol their eligible workers into a workplace pension scheme. The new duties went live on 1 October 2012 and will be rolled out over the next four 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 LPC in 2011 and 2012. The current status of the scheme is set out below:

- 10 Million people will be eligible for automatic enrolment;
- Department for Work and Pensions estimates that around 9 million people (within a range of 8-9 million) will be newly saving in a workplace pension scheme as a result of the reforms;
- As of the end of October 2014, 4.9 million workers have been automatically enrolled;
- Worker opt out is significantly lower than expected and the latest research shows opt outs at 9-10%;
- Consequently the Government has revised estimated opt out across the life of the programme down from 28% to 15%;
- The latest research has also shown that the percentage of private sector employees who are members of a pension scheme rose form 26 per cent in 2011 to 35 per cent in 2013;
- The earnings trigger for automatic enrolment has increased to £10,000 (14/15). This means that workers who earn £192 a week or £833 a month or more must be automatically enrolled.

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 (TPR) advertising campaign aims to increase employer understanding of their duties.

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. They are developing guidance specifically targeted at the less knowledgeable employers to help them understand what steps they must follow to be compliant.

Automatic enrolment is vital to ensure that pensions are sustainable in the long term. Life expectancy is projected to continue to rise and without changes the cost of pensions will be even greater for future generations. The automatic enrolment of workers into pension schemes between now and 2018 will raise the cost of employing a worker including those in Minimum Wage jobs but employers are being asked to make pension contributions because evidence shows that there is an association between employer contributions and increased participation in pension saving.

Young people and the Participation Strategy

The Government is committed to reducing the number of young people not in Education, Employment or Training (NEET) and plans to spend £7.2 billion in 2014-15 to fund an education and training place for every 16- and 17-year-old who wants one.

Participation in education and training among 16-18 year olds has reached its highest level since consistent records began in 1994, with 81.2% participating in education or work-based learning (apprenticeships) at the end of 2013. And in 2013 the proportion of young people aged 16-18 who were in employment but not in education and training (NET) decreased to 6.8%, and the proportion 16-18 year olds NEET decreased to 7.6%. Both the NET and NEET figures are the lowest since consistent records began in 1994.

These figures include the first cohort to be impacted by the raising of the participation age (further details below) and suggest that it is having a positive impact. The latest DfE statistics on participation and NEET can be found on gov.uk[29].

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 the following programmes which are described in greater detail below:

- raising the participation age;
- study programmes;
- work experience;
- tech level qualification;
- traineeships;
- the youth engagement fund; and
- the youth contract.

Name of Programme	**Age**	**Key components**	**Link to NMW**
raising the participation age	16-18	By August 2016 young people must be in education or training until the age of 18. Can be an apprenticeship.	Apprenticeships must be paid NMW
study programmes	16-19	Short programme for all students to help them move into further vocational or academic training or paid employment.	
work experience	16-19	An option under the study programme.	exempt from NMW
tech level qualification	16	Level 3 vocational qualifications	
traineeships	16-24	An education or training programme with work experience of maximum 6 months.	exempt from NMW
the youth engagement fund	14-17	Payment by results to organisation that keep potential NEETS in training or education	No impact on NMW, as no financial support is available to employers of young people or apprentices.
the youth contract	16-24	Targets disadvantaged young people to get them back into education, and apprenticeship or training,	Apprenticeship with wage incentive available to employers under certain conditions.

[29] https://www.gov.uk/government/collections/statistics-neet

Raising the Participation Age (RPA)

The Education and Skills Act 2008 raised the participation age in two stages so that pupils who left year 11 in summer 2013 were required to continue in education or training for at least a further year, and pupils leaving year 11 from summer 2014 are required to continue until at least their 18th birthday.

Young people have a choice about how they participate: through full-time education, a job or volunteering combined with accredited part-time study, or by undertaking an apprenticeship or traineeship.

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[30].

With regard to young people meeting the duty to participate through working with part-time study alongside then the work must be a minimum of 20 hours per week and the part-time accredited education or training must be at least 280 hours per year – this is about one day per week but can be flexible to fit around working hours. 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[31].

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. 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.

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

Work experience

On average Graduate Talent Pool carries 2,000 live vacancies per month, with around 98% being for paid internships (the remaining 2% relate to voluntary opportunities offer by registered Charities). Since 2009, the service has carried over 61,000 vacancies, and more than 108,000 graduates and over 10,000 employers have registered to use the free service.

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

[31] https://www.gov.uk/government/policies/increasing-opportunities-for-young-people-and-helping-them-to-achieve-their-potential/supporting-pages/raising-the-participation-age

Traineeships

Traineeships are exempt from the NMW similar to the exemption for young people on further education courses. A bespoke exemption came into force in March 2014.

Traineeships were launched in August 2013 for young people aged 16-23, we have now extended funding eligibility to include 24-year olds making Traineeships available to young people aged 16-24 inclusive (and up to 25 for young people with a Learning Difficulty Assessment or Education, Health and Care Plan). Traineeships are a new training route designed to give young people the skills and vital experience they need to get an Apprenticeship or other job.

Traineeships are an important part of the Government’s drive to tackle youth unemployment. They seek to address the employers’ concerns that young people often lack the right skills and attitudes when they apply for an apprenticeship or other job.

Traineeships are an education and training programme with work experience. Traineeships last a maximum of 6 months and the core content is:

- A focused period of work preparation training. This will focus on areas like CV writing, interview preparation, job-search, self-discipline and inter-personal skills;
- English and maths for young people who have not achieved a GCSE Grade C or equivalent (Level 2);
- A substantial, high quality work placement with a real employer to give the young person a chance 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 can be delivered only by providers graded Outstanding or Good by Ofsted.

The core target group for traineeships is 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 16-19 and qualified below Level 3 or 19-24 and have not yet achieved a full Level 2 (From January 2015, 19-24 year old who already have the equivalent of a full Level 2 qualification will become eligible – in line with current eligibility for 16-18 year olds); and
- whom providers and employers believe have a reasonable chance of being ready for employment or an Apprenticeship within six months of engaging in a traineeship.

The revised Traineeships Framework for Delivery for 2014-15 has been published[32].

[32] https://www.gov.uk/government/publications/supporting-young-people-to-develop-the-skills-for-apprenticeships-and-sustainable-employment-framework-for-delivery

The Welsh Government is undertaking a consultation on apprenticeships to seek stakeholder views on the 18-20 of the apprenticeship model for Wales. Following the close of the consultation at the in April 2015 an implementation plan will be developed and published.

Youth Contract (for 16-17 year olds)

The Youth Contract is part of the Government's Participation Strategy for young people. 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 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.

For 18 to 24-year olds, the Youth Contract is a flexible package of support designed to give young people the skills they need to get into work.

Under this scheme there will be an extra 250,000 work experience or sector-based work academy places over three years, taking the total to at least 100,000 a year. From August 2011 to the end of November 2013, 94,750 people started pre-employment training, of which 46,280 were 18-24-year olds (41,360 since the launch of the Youth Contract in April 2012. From January 2011 launch to the end of November 2013, 181,870 people started work experience, of which 148,570 were 18- to 24-year olds (99,640 since the launch of the Youth Contract in April 2012).

The wage incentive was a time limited element of this support package and it has supported over 65,000 young people into work. The Government is putting in place alternative support for employers who employ young people. From April 2015 it will be cheaper for businesses to employ young people because of the changes to NICs (see above). The Youth Contract also provides 20,000 incentive payments to encourage employers to take on young Apprentices, taking the total number to 40,000 in 2012/13

As part of the Youth Contract, Government is investing £150m over three years (£126m of it in England) to support the most disengaged and disadvantaged 16-17 year olds. This provides support to help them to get back into education, an apprenticeship or a job with training.

The Education Funding Agency ensures continuous improvement of the Youth Contract programme through:

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

Annex C: Statistics on NMW Enforcement 2013/14

Statistics on NMW Enforcement 2013/14

HMRC delivered £4.6 million of arrears for 22,610 workers for 2013/14

Table 1: Enforcement Statistics 2013/14

2013/14	
Arrears	£4.6m
Workers	22,610
Completed investigations	1,455
Total number of complaints from workers	3,294
Notices of Underpayment	680
Uplift to current rates	£188,647
Penalties Imposed	652
Penalty charges	£815,269
Employers that receive 50% discount on penalties	422
Resolved Worker Complaints	
Average arrears per worker	£205
Incidence of non-compliance (strike rate)	47%

Table 2: Reasons for Non-Compliance

Reason for Non-Compliance	% total of non-compliant Cases
Rates below NMW	45%
Apprentices	20%
Limited or no time records	1%
Non-allowable deductions	7%
Failure to implement annual rate rise	2%
Other	18%
Accommodation	3%
Missed birthdays	1%
Young Workers – under 18	Less than 1%
Status	1%
Non-allowable bonus or payment	Less than 1%
Commission	Less than 1 %
Fair Piece Rates	Less than 1 %
Sleeping Time	Less than 1%

Table 3: Breakdown of Cases by Standard Industry Sector

Standard Industry Sector	Total Number of Cases	Complaint Cases	Risk Assessed Cases
Agriculture, Forestry And Fishing	15	14	5 or fewer
Mining And Quarrying	10	9	5 or fewer
Manufacturing	61	55	6
Electricity, Gas, Steam And Air Conditioning Supply	5 or fewer	5 or fewer	5 or fewer
Water Supply; Sewerage, Waste Management And Remediation Activities	9	5 or fewer	9
Construction	87	86	5 or fewer
Wholesale And Retail Trade; Repair Of Motor Vehicles And Motorcycles	243	226	17
Transportation And Storage	55	51	5 or fewer
Accommodation And Food Service Activities	325	303	22
Information And Communication	47	33	14
Financial And Insurance Activities	12	11	5 or fewer
Real Estate Activities	52	51	5 or fewer
Professional, Scientific And Technical Activities	61	52	9
Administrative And Support Service Activities	137	122	15
Public Administration And Defence; Compulsory Social Security	5 or fewer	5 or fewer	5 or fewer
Education	56	55	5 or fewer
Human Health And Social Work Activities	87	76	11
Arts, Entertainment And Recreation	64	62	5 or fewer
Other Service Activities	179	164	15
Activities Of Households As Employers; Undifferentiated Goods-And Services-Producing Activities Of Households For Own Use	5 or fewer	5 or fewer	5 or fewer
Activities Of Extraterritorial Organisations And Bodies	5 or fewer	5 or fewer	5 or fewer

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