Department for Business Innovation & Skills

NATIONAL MINIMUM WAGE

Interim government evidence for the 2015 Low Pay Commission report

OCTOBER 2014

Ministerial Foreword

We greatly value the work of the Low Pay Commission and welcome its on-going focus in helping as many low paid workers as possible, without adverse impact on their employment prospects. We again encourage the Commission to retain this focus for its next report. We hope and expect that, as we almost always do, we can accept the Low Pay Commission's recommendations when you submit them in February 2015.

Last year we asked the Low Pay Commission to think ahead and consider what economic conditions would be necessary to allow faster increases in the national minimum wage for low paid workers, without harming their employment chances. We welcomed your assessment that 2014 marked the start of a new phase of bigger increases, provided economic conditions continued to improve.

This year in our evidence we have emphasized that over the past few years the economy is growing and employment is at record levels, but average weekly earnings have fallen in real terms. Furthermore, we have restated the Government's commitment to raising the National Minimum Wage as fast as possible, without a negative impact on jobs. The 3% rise of the adult rate in October 2014 meant that low-paid workers will enjoy the biggest cash increase in their pay packets since 2008.

In addition to the evidence and views that we have provided on the new National Minimum Wage rates we also asked you in the remit this year to update the assessment of the economic conditions necessary to allow for faster increases in the National Minimum Wage and to consider the structure of the apprentice rate and we have provided evidence on both these elements.

Finally, because we believe that everyone who is entitled to the minimum wage should receive it, the Government is committed to increasing compliance with minimum wage legislation and the effective enforcement of it. We have recently increased HMRC's enforcement budget from £8 million to £9.2 million in order to strengthen their operations and concentrate on what's most important, getting employers to pay back the arrears they owe their workers. Alongside this, we have increased the penalties employers face if they break the law and we are publicly naming and shaming those employers.

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

Jo Swinson MP

Minister for Employment Relations and Consumer Affairs

Contents

Executive Summary

This report is divided into four main chapters with wider issues of interest to the Low Pay Commission in the annexes. It sets out what evidence and policy developments the Government would like the Low Pay Commission to consider before making their recommendations on the NMW in February. Updated Government evidence will be provided in December, following the release of further economic and earnings data.

The Government's evidence does not set out any new policy – it brings together the economic issues and policies that affect the National Minimum Wage (NMW). The evidence therefore provides updates on remit issues as well as policy updates for areas that the Low Pay Commission 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 of National Statistics (ONS) show positive signs that the UK economic recovery is moving forward with positive quarter-on-quarter growth increase in 2014. GDP was over three per cent higher in the second quarter of 2014 compared to the previous year.
>
> Given the momentum the economy has carried into 2014, the Office for Budget Responsibility (OBR) is forecasting a GDP growth of 2.7 per cent for 2014, 2.3 per cent for 2015 and 2.7 per cent in 2016.

Evidence on pay

> The Government's ambition is to increase the real value of the National Minimum Wage without an adverse impact on employment.
>
> Recent growth in Average Weekly Earnings has been low and since 2007, has fallen in real terms. Since 2012 however this fall has been reduced as inflation has been at or below target. Increases in the NMW between 2007 and 2012 have been above average earnings growth and although the value of the NMW relative to average earnings is near record highs it is slightly lower than its peak in 2012.
>
> Going forward, average earnings growth is predicted to rise and the October 2014 increase in the NMW will be the first real increase since 2007.

Labour market

> During the recession, real wages (net of bonuses), peaked in 2009 and employment fell substantially. However overall, between 2009 and 2012, employment proved to be resilient and held up better than expected.
>
> Since mid-2012, employment growth has been exceptionally strong, increasing by one million over this period, with employment rates at near record levels. In the three months to June 2014, the number of people in employment exceeded 30 million, a record high.

Employment of young people deteriorated during and since the recession, particularly for those making the transition from education to the labour market.

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 2012 pay survey found that apprentice pay levels varied considerably. Apprentices in higher paying industries tend to receive higher pay.

The structure of the apprentice rate is more complex than the other NMW rates. The pay survey found a large degree of non-compliance with the NMW at 29%. Although we consider this to be an overestimate our judgment is that non-compliance among apprentices is greater than for the NMW as a whole.

Compliance

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 have increased the enforcement budget of Her Majesty's Revenue and Customs (HMRC) by over £1million to £9.2 million.

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 by introducing 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 National Minimum Wage.

Against this background the Low Pay Commission (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 Low Pay Commission is asked to take account of the state of the economy, employment and unemployment levels, and relevant policy changes.

TIMING

The LPC should 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.

Remit issues – NMW rates

Section 1: Remit issues - Macroeconomic conditions and outlook

Summary

The latest figures from the ONS show positive signs that the UK economic recovery is moving forward with the second consecutive quarter-on-quarter growth increase of 0.8%. Compared with the same quarter a year ago GDP was 3.2% higher in Q2 2014.

Employment has also been growing strongly, and over the last year has increased by 820,000, with the employment rate rising from 71.5 per cent to 73.0 per cent. This comes after a slow but steady increase in the employment rate in 2013.

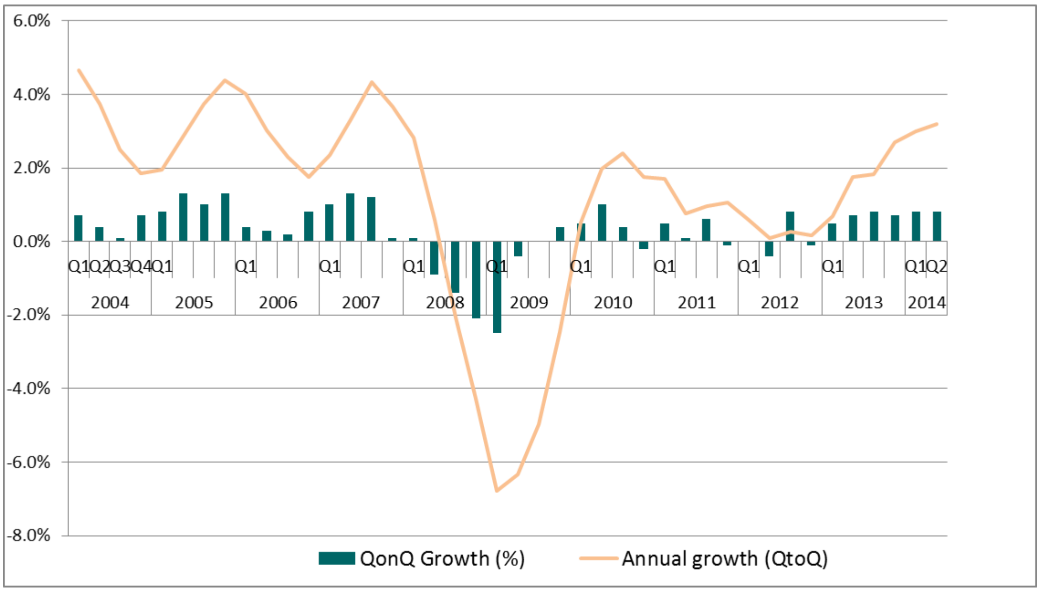
Given the momentum the economy has carried into 2014, forecasts are continually being revised up. The OBR are now forecasting a GDP growth of 2.7 per cent for 2014, 2.3 per cent for 2015 and 2.6 per cent in 2016.

Economic background

Economic growth

The ONS's estimate of GDP increased by 0.8% in Q2 2014, the second consecutive quarter-on-quarter increase of 0.8%. In Q2 2014 GDP was estimated to be 0.2% above the pre-downturn peak in Q1 2008 and 3.2% higher in Q2 2014 compared with the same quarter a year ago.

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



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

The most recent quarterly data from Eurostat[1] estimates show the euro area GDP to be stable and EU28[2] up by 0.2 per cent on the quarter in 2014 Q2. This follows 2014 Q1 growth of 0.2 per cent in the euro area and 0.3 per cent in EU28. However, compared with the same quarter of the previous year, seasonally adjusted GDP for both the euro area and EU28 is up, by 0.7 and 1.2 per cent respectively. Based on the data currently available, three EU28 countries remain in recession[3].

The factors which weighted on UK growth between 2010 and 2012 are abating. Domestic and euro financial and credit market conditions continue to improve. The recent crisis in Ukraine and the impact on financial markets in Russia has not yet had much direct effect on global economic activity; however a prolonged crisis could have a larger effect on global commodity prices and growth prospects. Risks of euro area-wide deflation remain, but a sustained period of subdued inflation is the central scenario. Since January 2013 Euro area core inflation has fallen well below the European Central Bank's inflation target at 0.3 per cent in August 2014, in addition to inflation being negative in four euro area countries. On-going weakness in the region has had a wider effect on the UK economy as the EU is the UK's largest export market.

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

In August, CPI inflation decreased to 1.5 per cent, less than half its peak of 5.2 per cent in September 2011. The MPC judged in the August 2014 Inflation Report that it is set to remain slightly below the 2 per cent target over the next year or so.

[1] Eurostat 2014 Q2 Flash Estimates

[2] The European Union expanded with the accession of Croatia on 1 July 2013, and now covers 28 countries.

[3] These are Italy, Cyprus and Romania

Headline CPI inflation is now -0.49 percentage point below its December 2013 rate. Of that decline, -0.32 percentage point is accounted for by a decline in food and non-alcoholic drinks prices inflation and -0.28 percentage point is accounted for by a decline in energy price inflation. These negative contributions are offset by smaller, upward contributions from a range of goods and services, notably the erratic 'air and sea fares' categories.

Food prices were 1.2 per cent lower in August 2014 than they were in August 2013 and while goods price inflation was around 1.0 per cent in 2014 Q2 (its lowest since 2009 Q3, in part reflecting lower import costs), services price inflation has been particularly low over 2014 to date, recording its lowest ever reading (2.2 per cent) in May 2014.

The recent strong performance of the economy has continued, and inflation has been considerably closer to the target in recent months than it has for several years. The OBR expect CPI inflation to remain at, or a little below, 2 per cent throughout the forecast period[4]

Recent changes in the Labour Market

Employment growth in the UK has been strong over the last year with a net increase of nearly 800,000 in the private sector. The employment rate has strengthened and while the South East, South West and East of England have consistently experienced the highest employment rates, over the last year the greatest increases have been for the North East, South West, East Midlands and London. Employment in the three months to June 2014 is over 1 million (16+) , higher than the pre-crisis peak and the employment rate in the UK is higher than in France, Italy, the US and the averages for the G7 and EU countries.

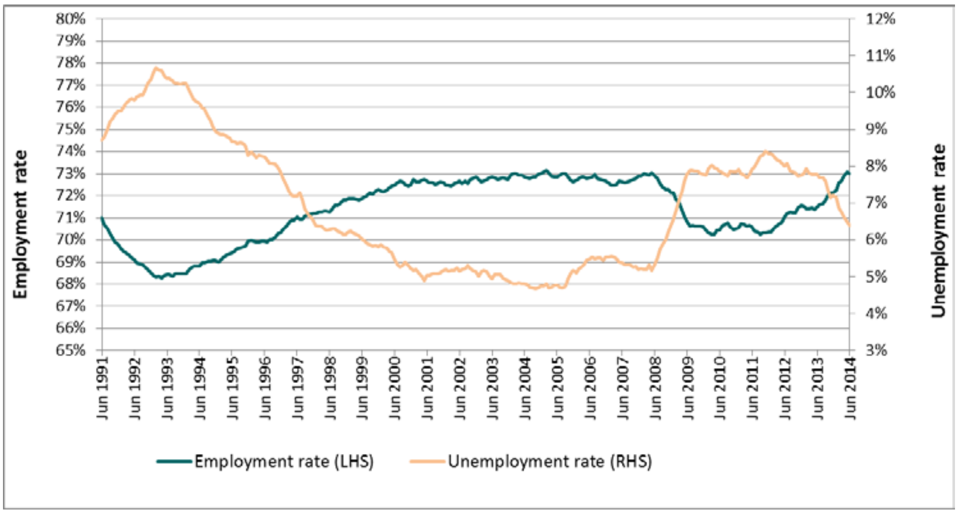
The UK unemployment rate is now at its lowest point since the three month to October 2008, at 6.2 (16+) per cent The unemployment rate has fallen by 1.4 percentage points over the year but still remains higher than the pre-recession trough of 5.2 per cent.

The youth unemployment rates have also shown some improvement, more recently. Youth unemployment has fallen by 213,000 over the year and 106,000 for February to April 2014. These were the largest quarterly and annual falls in youth unemployment since comparable records began in 1992. In addition, the number of people who were unemployment of duration 12 months or longer has fallen by 175,000 in the past year.

Although the number of people inactive in the labour market has increased to 22.1 per cent in the three months to July 2014, since mid-2011there has been a gradual decline in the inactivity rates. The overall fall in inactivity is in contrast to previous UK recessions and also the current experience of the US where labour market activity has fallen markedly.

[4] Economic and Fiscal outlook, March 2014

Chart 1.2: UK employment and unemployment rates



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

Economic outlook, forecasts and revisions

Our last evidence, submitted to the LPC in December 2013, contained HMT's average of independent forecasts from December 2013 and Office of Budget Responsibility forecasts from December 2013. The September2014 average of independent forecasts, compiled by HM Treasury, for GDP growth was 3.1 per cent for 2014 and 2.6 per cent for 2015. The OBR forecast[5] that annual GDP growth will be 2.7 per cent in 2014 and 2.3 per cent in 2015[6].

Table 1.1: Forecasts for GDP growth 2014 to 2016

Forecasts for GDP growth (per cent)	**2014**	**2015**	**2016**
OBR (March 2014 Statement)	2.7	2.3	2.6
Bank of England mode projection* (August *Inflation Report* 2014)	3.5	3.1	2.8
Avg. of independent forecasters (August 2014)**	3.1	2.6	2.4
Forecasts for consumer price inflation (CPI) (per cent)			
OBR (December 2013 Autumn Statement)	1.9	2.0	2.0
Bank of England mode projection (August2014)	1.8	1.8	1.8
Avg. of independent forecasters, Q4 (August 2014)	1.7	2.1	2.1

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

[5] Economic and Fiscal outlook, March 2014

[6] GDP estimates up to Q2 2014 suggest that GDP has grown by 3.1 per cent so far in 2014 comparing H1 (first half) 2014 to H1 2013

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 gaining further momentum.

The UK economy has gained momentum since Q1 2013, and GDP growth continues to exceed forecaster's expectations. UK GDP growth has been robust since 2013 with positive GDP growth for all quarters in 2013. This positive trend has continued into 2014 with GDP growth recording 0.8 per cent in the first two quarters of 2014 demonstrated in chart 1.1[7]. This is a clear indication of how the economy is on the road to recovery. The recovery is also balanced across all the main sectors of the economy, with manufacturing, services and construction all growing by over 3 per cent in the second quarter on a year earlier. In addition, household spending, business investment and net trade have been contributing positively to growth over the past two quarters.

HM Treasury compiles and compares independent forecasts for the economic outlook. The latest edition in August put the average GDP growth forecast for 2014 at 3.1 per cent and 2015 at 2.6 per cent. CPI inflation is forecasted at 1.7 per cent in Q4 2014 and 2.1 per cent in Q4 2015. Medium term forecasts show the rate of CPI inflation at 2.1 per cent in 2016, 2017 and 2018.

The OECD and IMF also recently released their growth forecasts which show that the global recovery remains uneven. The latest World Economic Outlook update in July forecasted world GDP growth for 2014 and 2015 at 3.4 per cent and 4.0 per cent respectively.

In July, the International Monetary Fund (IMF) published its World Economic Outlook update with growth forecasts indicating how growth in the UK is rebounding more strongly than anticipated due to easier credit conditions and increased confidence. The IMF has revised up UK growth forecasts by 0.4 percentage points to 3.2 per cent in 2014 and by 0.2 percentage points to 2.7 per cent in 2015. The UK is projected to grow at the fastest rate in the G7 in 2014 and has seen the biggest upward revision to growth amongst major advanced economies and BRICs in both 2014 and 2015.

Given the momentum the economy carried into 2014, the OBR also revised up their forecast for GDP growth in 2014 by 0.3 percentage points to 2.7 per cent and in 2015 by 0.1 percentage points to 2.3 per cent. The upward revision to UK GDP growth reflects a smaller output gap across the forecast period compared to the forecast in December 2013. The combination of a slightly stronger near-term outlook for GDP growth and a slightly narrower output gap than forecast in December means the output gap is now expected to close by mid-2018, around a year earlier than in December forecast.

OBR forecasts CPI inflation to remain near the 2 per cent target over the forecast horizon. This has been revised down from the December forecast by 0.4 per cent in 2014 and 0.1 per cent in 2015. The downward pressure has stemmed from a stronger pound sterling which has offset the reducing output gap in the economy. OBR also revised the house price inflation forecast up again, reflecting greater momentum in

[7] Quarterly National Accounts, August 2014

house prices in recent months. Forecast suggests how annual house prices inflation to peak at more than 9 per cent later this year.

The Bank of England economic outlook and forecasts

In the Bank of England's August 2014 Inflation Report, the Monetary Policy Committee (MPC) noted that robust, broadly based, growth over the past year has taken output to above its pre-crisis peak whilst unemployment has fallen sharply. The MPC envisages that productivity and household real incomes will rise over time, underpinning a sustained expansion. The remaining spare capacity in the economy is expected to be absorbed at a slower pace than in the recent past, and some slack is likely to persist for most of the forecast period.

Although CPI inflation eased to 1.5% in August, the Bank continues to expect inflation to remain close to the 2 per cent target in the period ahead. In the central case, inflation is expected to fall back a little in the near term as the appreciation of sterling bears down on import prices and, in turn, prices in the shops. By the end of the forecast period, the drag from slack has lessened and the associated recovery in wage growth is consistent with inflation being at the target.

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

Following the explicit forward guidance announced in August 2013, the MPC provided further guidance on the setting of monetary policy as the economy recovers in February 2014. Based on the more recent assessment, the MPC judges that there remains scope to absorb spare capacity further before raising Bank Rate from its current record low of 0.5 per cent.

The actual path the committee will pursue over the next few years is uncertain and will depend on economic circumstances. For example, Bank Rate may rise more slowly than expected, and increases in Bank Rate may be reversed, if economic headwinds intensify or the economy falters. The MPC remains mindful that a prolonged period of low rates could lead to risks to financial stability, and recognises that, in some circumstances, monetary policy may have a role to play in mitigating risks to financial stability, but only as a last line of defence if those risks cannot be contained by the substantial range of policy actions available to the Financial Policy Committee and other regulatory authorities.

Key global risks

Our last evidence, submitted to the LPC in January 2014, highlights the key global risks; including the euro sovereign debt crisis and the slowing growth in emerging markets. The World Economic Outlook 2014 portrays how world GDP growth is strengthening and is forecasted to further improve. OECD forecasted world GDP growth in 2014 at 3.4 per cent and 3.9 per cent in 2015; up from 2.8 per cent in 2013. Euro area GDP growth is expected to gain momentum as in July the IMF forecast 2014 GDP growth at 1.1 per cent and 1.5 per cent in 2015. Whilst the outlook for the euro area has improved since 2013, the recovery remains weak and a prolonged period of slow growth is expected as the euro area deals with the legacy of the crisis.

Section 2: Remit issues - Evidence on pay

Summary

Recent growth in Average Weekly Earnings has been very low, and below forecasters expectations. Earnings growth is predicted to rise but this is still uncertain. Since 2010, average earnings growth has fallen in real terms; however, recently this fall has been reduced as inflation has been below target.

The Government's ambition is to increase the real value of the National Minimum Wage (NMW) without an adverse impact on employment. The last six upratings of the NMW (2007 to 2012) have been above average earnings growth. Although the bite is at a near record high it fell slightly relative to average earnings in 2013. The October 2014 increase in the NMW will be the first real increase since 2007.

The bite for the youth rates is significantly higher than the adult bite, despite the youth NMW upratings being smaller than the adult NMW upratings.

From the employer's perspective the cost of labour (including employer National Insurance Contributions) grew faster than gross wages between 2000 and 2007. However, since then it has been falling both relative to wages and in real terms.

From the employee's perspective, since 2007 the weekly earnings of NMW workers has risen by less that the NMW, however their weekly take home pay has increased faster than both. This is because the Government is protecting the incomes of working households by raising the personal tax free allowance. By April 2015, when the allowance increases to £10,500, this will have taken 3.2m people out of income tax.

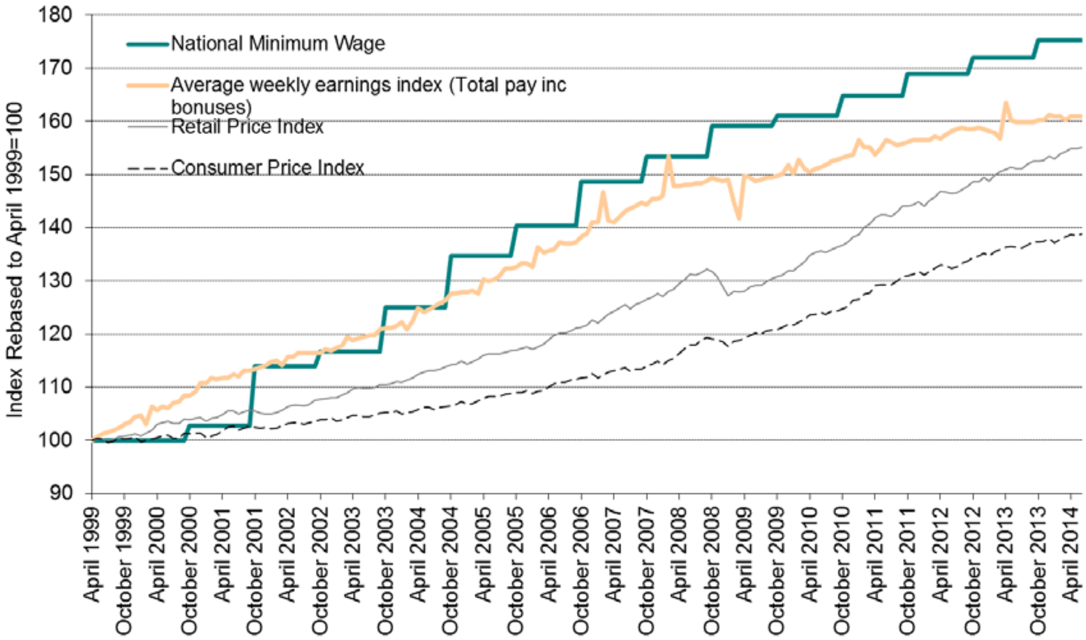
Growth in the adult National Minimum Wage rate

Since it was introduced, the NMW rate has increased substantially faster than both average earnings and prices protecting the earnings of people on low incomes. The October 2014 NMW rate will be over 80 per cent higher than the original April 1999 level. In comparison, between April 1999 and May 2014 the rise in Average Weekly Earnings[4] (total pay, including bonuses) is estimated to be around 61 per cent (see Chart 2.1), the increase in the Consumer Price Index (CPI) is estimated to be around 40 per cent.

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

Chart 2.1: Adult NMW rate changes compared to earnings growth and inflation[5]

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.

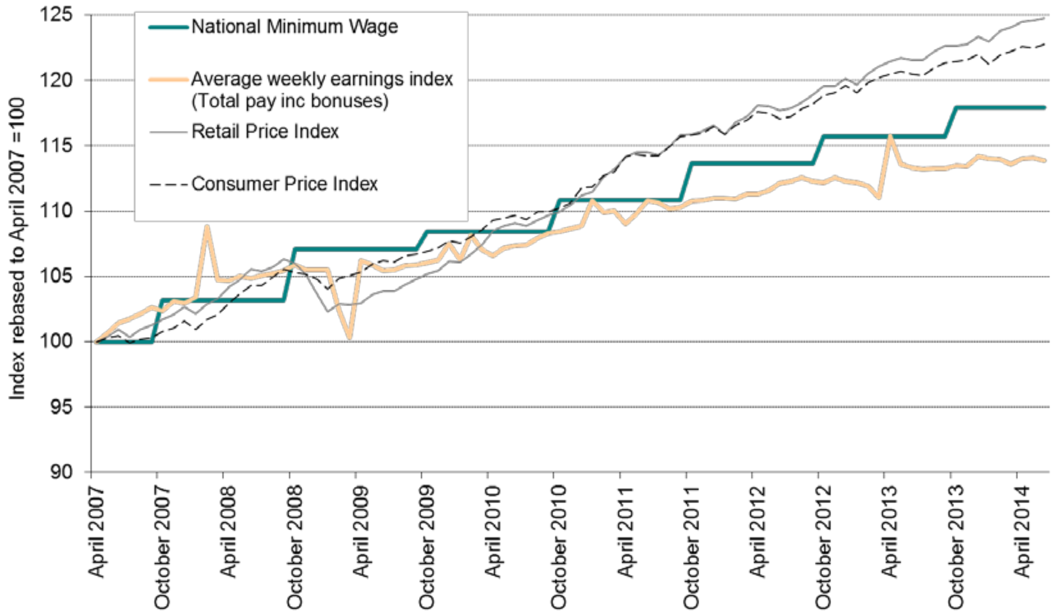
We support the LPC's assessment that there have been three distinct phases in the path of the adult NMW. From 1999 the NMW was set at a cautious level and increased in line with inflation until 2001. Between 2001 and 2007, the second phase, the commission recommended a series of above average earnings growth. Since the onset of the recession in 2007 the third phase has been characterised by more cautious growth, in line with average earnings. However since 2010 the NMW has increased relative to average earnings, getting closer to the average than ever before in 2012, although it has fallen in real terms, relative to prices. Since 2007 the NMW has fallen by 4.5 per cent deflated by CPI.

From October 2014 the NMW will rise 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.

[5] 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.

Chart 2.2: Adult NMW changes compared to earnings and inflation

Index rebased to April 2007 =100



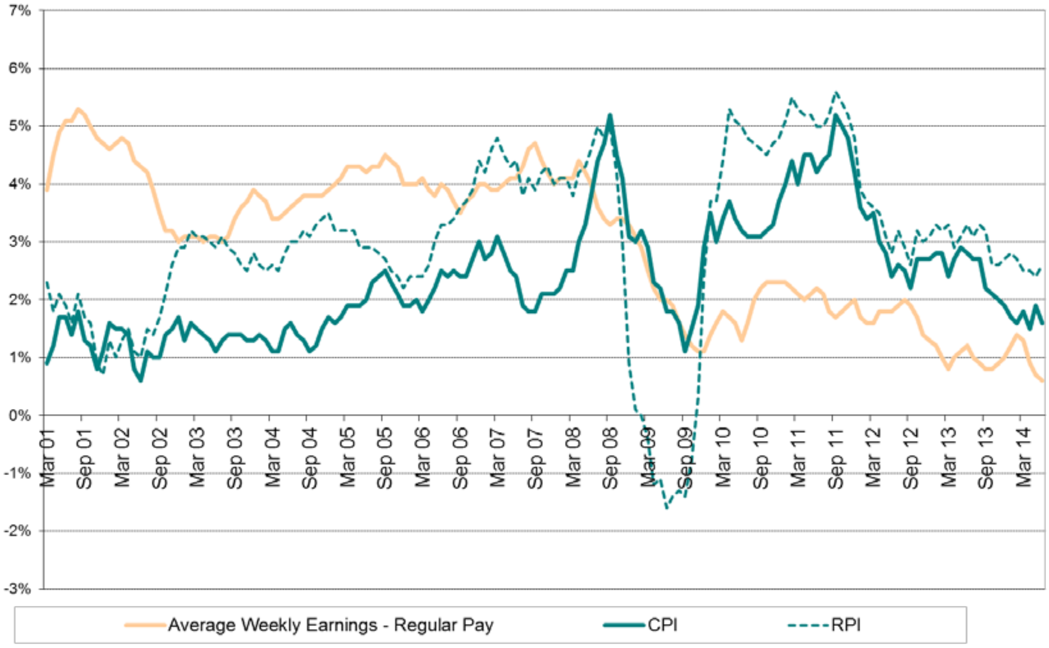
Source: Office for National Statistics; Consumer Price Index, Retail Price Index, and Average Weekly Earnings; Low Pay Commission. Between April 1999 and December 1999 Average Weekly Earnings was extrapolated using the Average Earnings' Index.

Chart 2.3 below shows annual change in average weekly earnings– regular pay, with price inflation. Increases in average prices have been larger than increases in average wages since around mid-2008. Between April 2007 and May 2014 average earnings has fallen by 7.4 per cent.

Average Weekly Earnings 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 on average the compositional effect of AWE growth has been -0.5[6] per cent in so far in 2014 due to larger employment growth in low paid jobs.

[6] BIS analysis of August 2014 AWE release

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

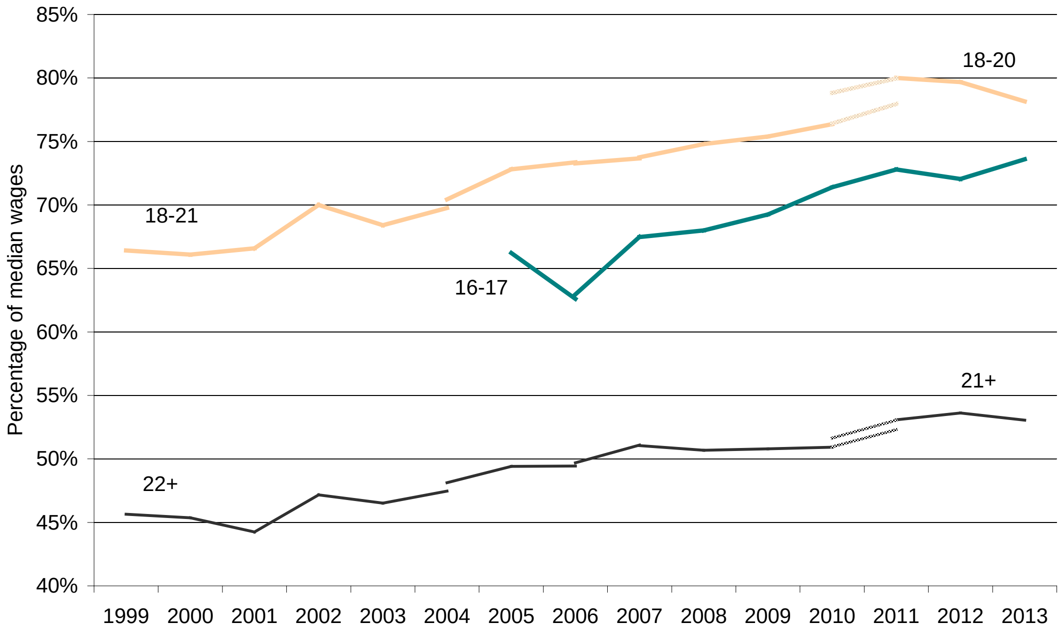


Source: Office for National Statistics. Average weekly total pay growth on a year ago 3 month average (KAI9). RPI, percentage change over 12 months (CZBH). CPI annual growth rate (D7G7).

The bite of the National Minimum Wage rate

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. 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. 2006-2013 ASHE data - new methodology.

Since its introduction, the bite of the adult NMW rate has steadily increased from 45.7 per cent of the median wage in 1999 to reaching its highest level in April 2012 of 53.6 per cent. Between April 2012 and April 2013, the adult bite decreased by 0.6 percentage points and now stands at the same level as in 2011.This indicates that median earnings have increased faster than the NMW.[7] 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. However, the dotted black line in chart 2.3 illustrates that the bite for both age groups, 21+ and 22+ increased over this period.

The 'adult bite' has increased by around 8 percentage points since the NMW was introduced in 1999. Over the recession it has remained broadly stable and above 50 per cent, protecting the incomes of the lowest paid workers during this difficult period however from it's peak in 2012 it has fallen by 0.6% to the 2011 level. Our most recent bite estimate does not measure the impact of the October 2014 uprating in the NMW rate, as median earnings' data for this period is not yet available.[8] The Final Government evidence to the LPC will include new information on how the earnings have changed between 2013 and 2014.

The bite for 18-20 year olds fell slightly for the second consecutive year between April 2012 and April 2013 to 78.2 per cent of the median, however, it is still a lot higher than the adult bite. 21 year olds moving out of scope of the development rate are likely to

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[7] In this report we use earnings' data from the 2013 Annual Survey of Hours and Earnings and calculate bites based on the appropriate NMW rates for April 2013. 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 per cent sample of employee jobs in Pay-As-You-Earn income tax schemes obtained from HMRC.
[8] Pay data for April 2014 from the Annual Survey of Hours and Earnings is released in December

have contributed to the relatively large jump in the associated bite between April 2010 and April 2011. The impact of this change was greater for this age group than for adults.

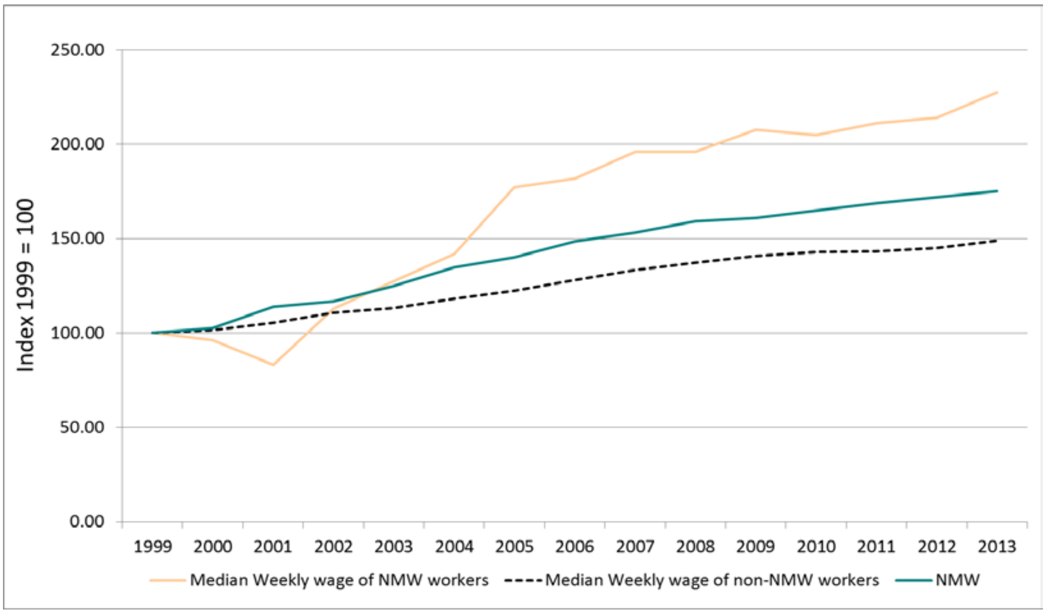
The bite for 16-17 year olds increased between April 2012 and April 2013 to 73.6 per cent, following a fall in the bite the previous year. The rise in the bite comes despite the freeze in the 16-17 year old and development rate in October 2012.

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 has more than doubled however since 2007 it has been growing slightly less than growth in the hourly NMW. This suggests that the below trend output growth since 2007 has led to employers cutting back on hours or discretionary pay and so a rise in the NMW has not translated into a rise in weekly wages.

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.

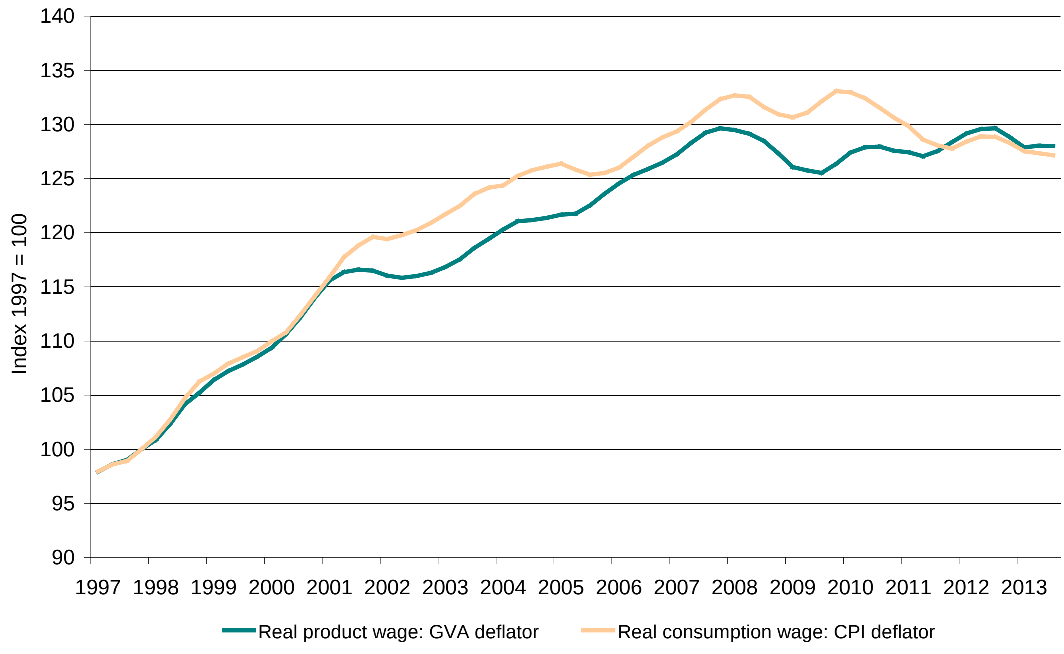
However in the last year, the growth of NMW workers' weekly pay has increased faster than the hourly rate. Firms employing NMW workers are increasing their hours or discretionary pay faster than the increase in the hourly NMW rate. This suggests that a rise in the NMW is more likely to feed through into their weekly earnings and more likely to have a positive impact on household disposable income.

Comparing the Consumer Wage and the Product Wage

It is important to note that employers and employees have different concerns over wages. Employers care about 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 GVA deflator. Employees care about the real consumption wage, that is the level of labour income relative to the price of the goods and services they wish to consume, measured by the Consumer Prices Index (CPI). So the product wage includes non-wage labour costs such as employers' National Insurance Contributions (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 producer wage and real consumption wage were increasing. However, since 2008, growth of the consumer wage has declined slightly but remained relatively flat around the decreased 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 he GVA deflator until 2017.

Income tax and national Insurance contributions for adult NMW workers

Chart 2.7 below shows the percentage change in gross weekly pay, 'Take-home pay'[9] and 'Labour costs',[10] for each of the percentiles of the gross weekly pay distribution of adult NMW workers between April 2000 and April 2007[11]. The chart also shows the percentage increase in the hourly NMW rate, the CPI and the GVA deflator over the period for comparison.[12]

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 National Insurance Contributions (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.

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

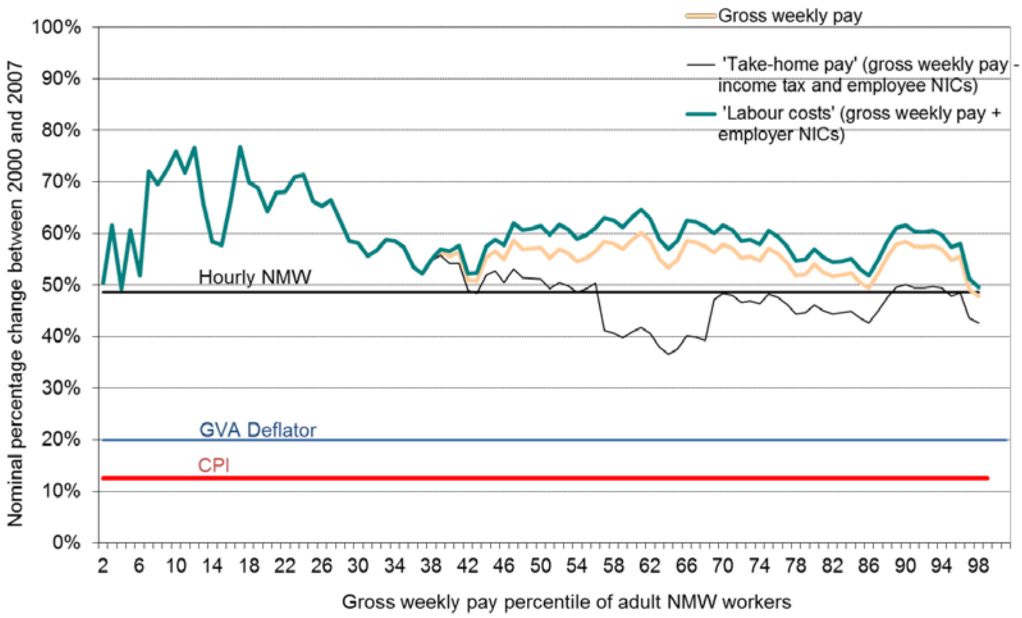
[9] 'Take-home pay' in this context is defined as post tax earnings or gross weekly pay with employee National Insurance Contributions (NICs) and income tax subtracted. This assumes that all eligible adult NMW workers pay the main contribution rate (and if eligible the additional contribution rate) i.e.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

[10] '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.

[11] 2000/01 and 2007/08 tax years used for calculations

[12] 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 2.7: 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

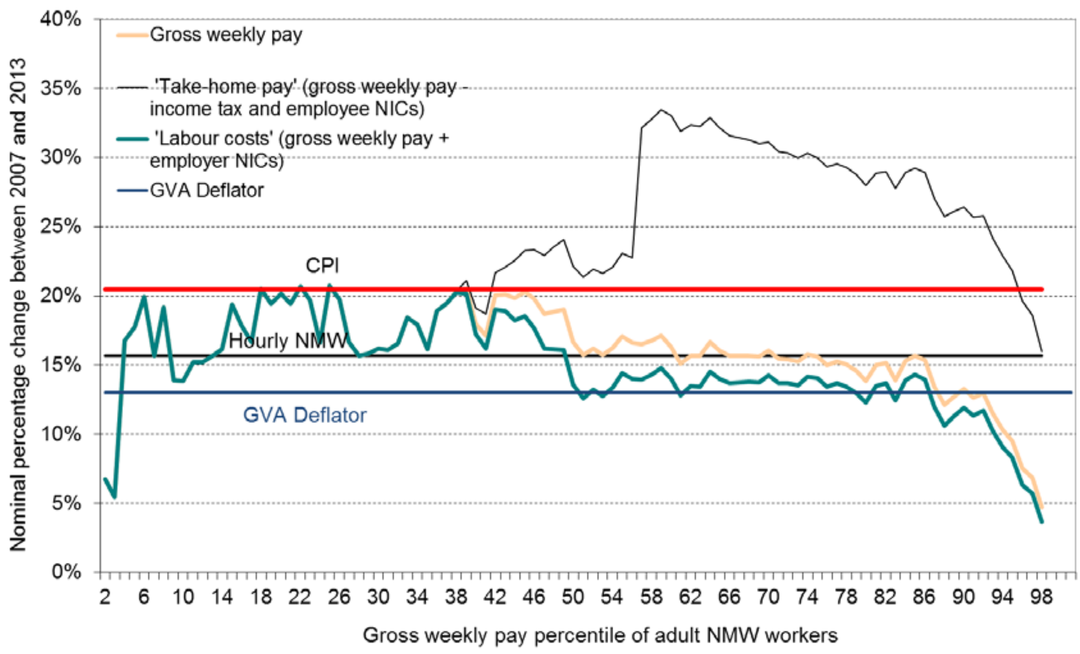
Between April 2000 and April 2007, there was a 1 percentage point increase in the NICs main contributions rate (from 10 per cent to 11 per cent). In addition to this, the primary threshold (the point at which employees start paying NICs) increased from £76 in 2000/01 to £100 in 2007/08; a 32 per cent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

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

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

Chart 2.8 below illustrates movements in the same variables as Chart 2.8 above but over the time period 2007 and 2013.

Chart 2.8: Percentage changes in gross weekly pay, 'take-home pay' and 'labour costs' at each gross weekly pay percentile for NMW workers, 2007 to 2013



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

Between 2007 and 2013, 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 2013 when compared with the change in gross weekly pay. This was mainly due to increases in the threshold at which employers pay NICs, decreasing the burden of NICs on businesses that employ NMW workers.

Gross weekly pay for NMW workers above 50 per cent increased by less than 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 (81 per cent between 2007 and 2013 compared to 19 per cent in 2000 - 2007) which have long since compensated any losers from the abolition of the 10p tax rate, making 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 2013/14

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

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

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

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

Summary

During the recession, real wages (net of bonuses), peaked in 2009 and employment fell substantially, however overall, between 2009 and 2012, employment proved to be resilient and held up better than expected.

Since mid-2012, employment growth has been exceptionally strong, increasing by 962,000 over this period, with employment rates rising from 71 per cent to 73 per cent. In the three months to June 2014, the number of people in employment exceeded 30.6 million, a record high.

The growth in jobs in the low-paying sectors fell disproportionately during the recession. However, since then they have risen faster than the non-low paying sectors.

Employment of young people deteriorated during and since the recession and particularly for those making the transition from education to the labour market.

However, more recently, the youth employment rate and levels have started to show some improvements.

Economic background

Employment and real wages since the recession

ONS's second estimate of GDP in 2014 Q2 shows quarter-on-quarter growth of 0.8 per cent and growth of 1.5 per cent compared with 2013 Q2. GDP growth has now been on a steady rise with positive growth for the last six quarters, growing 3.2 per cent since the same period last year, and has returned to its previous peak before the recession.

In light of this strong and resilient growth trend, the August 2014 average of independent forecasts, compiled by HM Treasury, significantly revised its GDP growth forecast to 3.1 per cent for 2014 (up from 3.0 per cent forecasted in July 2014) and 2.6 per cent for 2015. The OBR also revised its forecast for annual GDP growth in its March 2014 budget report, forecasting a 2.7 per cent GDP growth in 2014 (in line with consensus).[13]

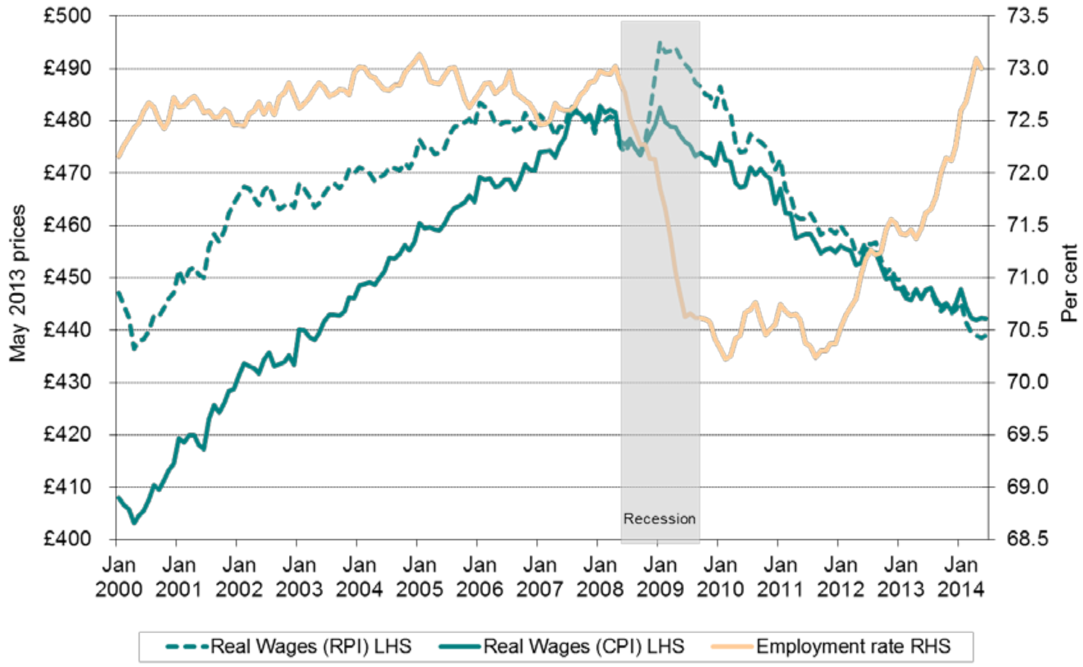
[13] Budget Statement, March 2014

Adjustment in real wages lags behind changes in demand. Real average wages, measured by CPI, have been on a steady decline since they peaked in January 2009, during the post-recession recovery period.

Chart 3.1 shows average weekly earnings deflated by CPI (and RPI[14]) 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.[15]

Employment growth has been strong in the recent past. From the start of the recession there was a quantity adjustment in employment demonstrated by the steep fall in the employment rate between the three months to May 2008 and the three months to April 2010. Since then, the employment rate has shown a strong growth trend, achieving its highest level ever in the three months to May 2014, 0.1 per cent 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.

[14] 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.

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

Resilient UK labour market during the recovery

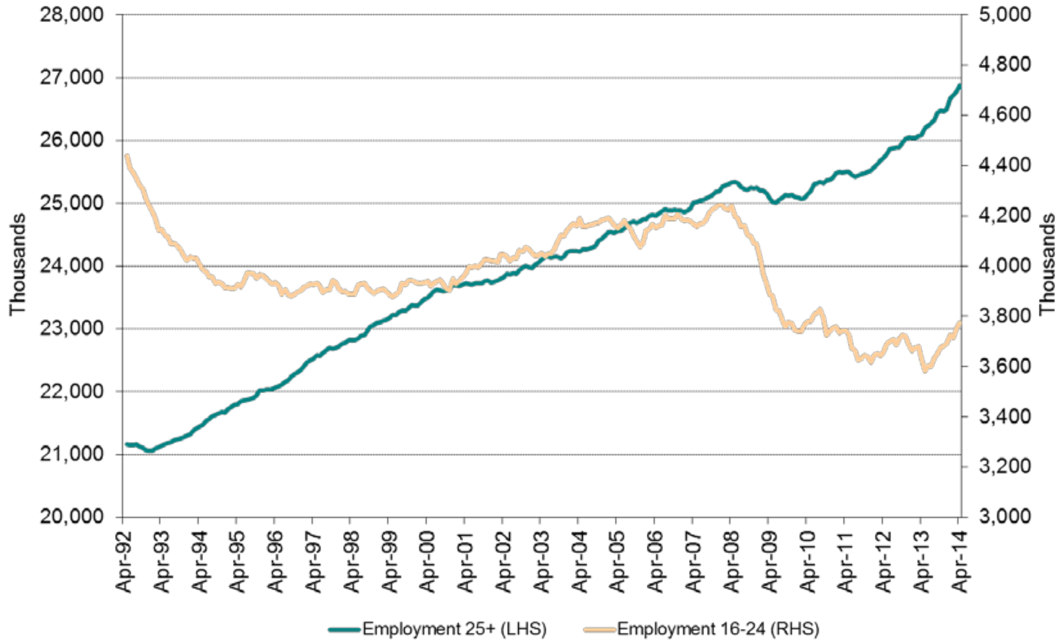
The UK labour market continues to grow strongly in 2014, reaching record levels of employment and proportion of the population in employment. In the three months to June 2014 employment rose 820,000 on the year to 30.6 million people in work, nearly its highest level on record. The employment rate rose 0.3 points this quarter to 73.0 per cent, and a 1.5 percentage points from a year earlier. The unemployment rate was 7.8 per cent in the three months to June 2013 and has improved by 1.4 percentage points since, reaching 6.4 per cent in the three months to June 2014.

Employment growth in the private sector is more than offsetting falls in the public sector as nearly 2.5 million new private sector jobs have been created since early 2010, nearly 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 June 2014 it reached approximately 1,486,000 above the peak in the three months to June 2008.

The pre-recession employment level peak for young people (aged 16-24) was a little earlier, in the three months to January 2008 where it reached 4.24 million. However, 16 to 24 year olds have seen a much greater decline in employment levels over the recession and it has continued to decline since, reaching 425,000 below the 2008 peak in the three months to June 2014. Youth unemployment decreased by 102,000 over the last quarter, and decreased by 206,000 on the year to 766,000.

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



Source: Office for National Statistics, Monthly Labour Market Statistics

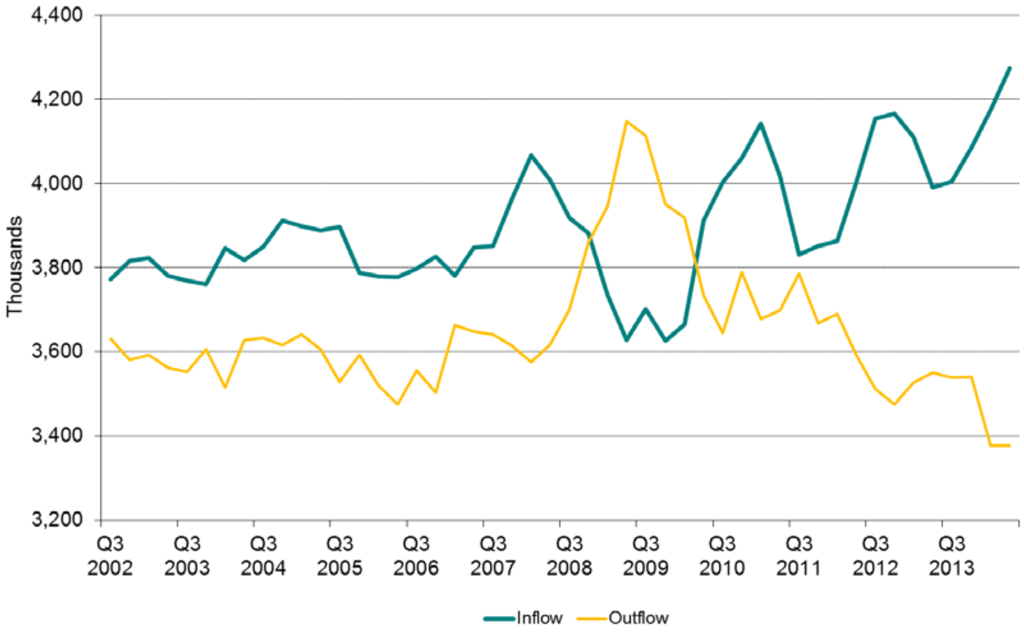
Flows in the labour market between employment and worklessness (unemployed and inactive) are an indicator of dynamic labour market activity and in any given year amount to millions of people moving between these groups and millions more moving between jobs in employment. Every year between 3.5 and 4m people move in and out of employment as shown below (four quarterly average data) in chart 3.3.

Job separations[16] jumped when demand fell during the recession, with an increase in redundancies, which reached a peak comparable to the 1990s recession. Despite inflows to employment dropping below outflows (demonstrating a decrease in employment), gross flows in the labour market remained at a similar level.

Since 2008, and particularly in the last couple of quarters, both the inflows and outflows have generally been at higher levels than pre-recession, showing both higher separations and hiring. Outflows, since the end of 2010, have started to fall back to pre-recession levels and below. While inflows have been high, this indicates that the strong labour market performance is due to hiring rather than labour hoarding. These recent significant divergences can partly be explained by fall in redundancies, increases in job vacancies and with inactivity rates at near historic lows of 21.9%.

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

Chart 3.3: Flows in and out of employment



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

Employment trends in the low paid sectors

The low-paying sectors are defined by the Low Pay Commission as those with a large number or high proportion of minimum wage workers.[17]

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.

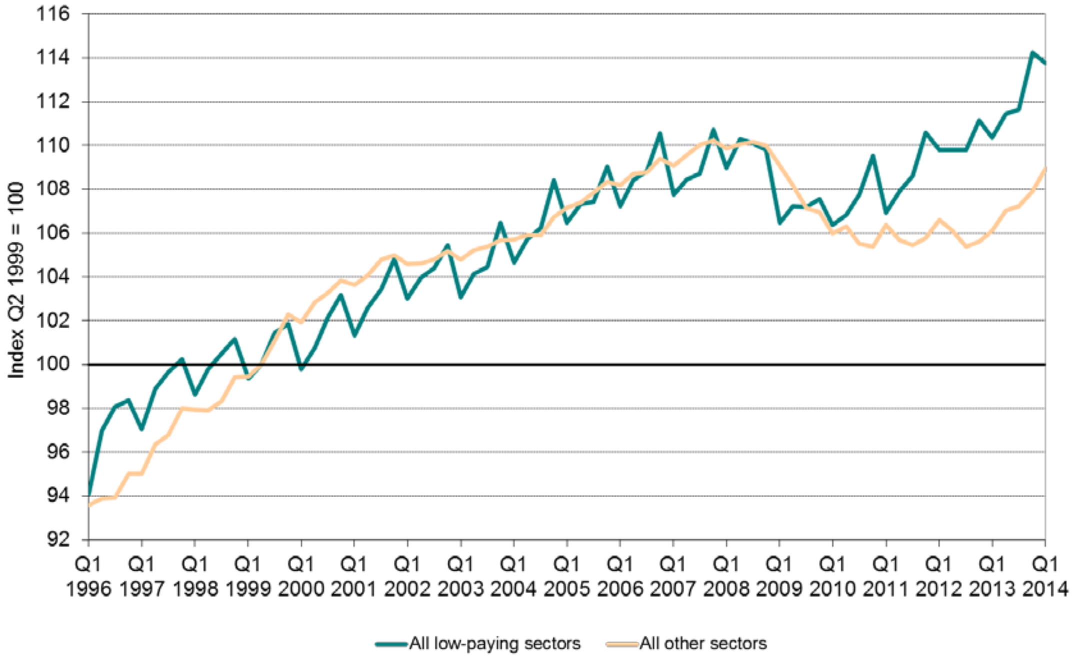
Research suggests that in aggregate, the NMW has not had a significant impact on employment. When the NMW began to rise more rapidly from 2001 to 2005 (with an average annual growth of 7 per cent), job growth in the low-paying sectors tended to at least match the annual growth rate in the rest of the economy.

Chart 3.4 shows that jobs in the low paying sectors returned to its pre-recession peak at the end of 2011 after falling faster in the recession. In the rest of the economy, jobs growth continued to decline until the end of 2010.

From the middle of 2009 (Q3 2009 onwards) the annual job growth for low-paid sectors has outpaced growth in all other sectors. The most recent data for 2014 Q1 shows an annual job growth of 3.1% and 2.7% for low paying and non-low paying sectors respectively.

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

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



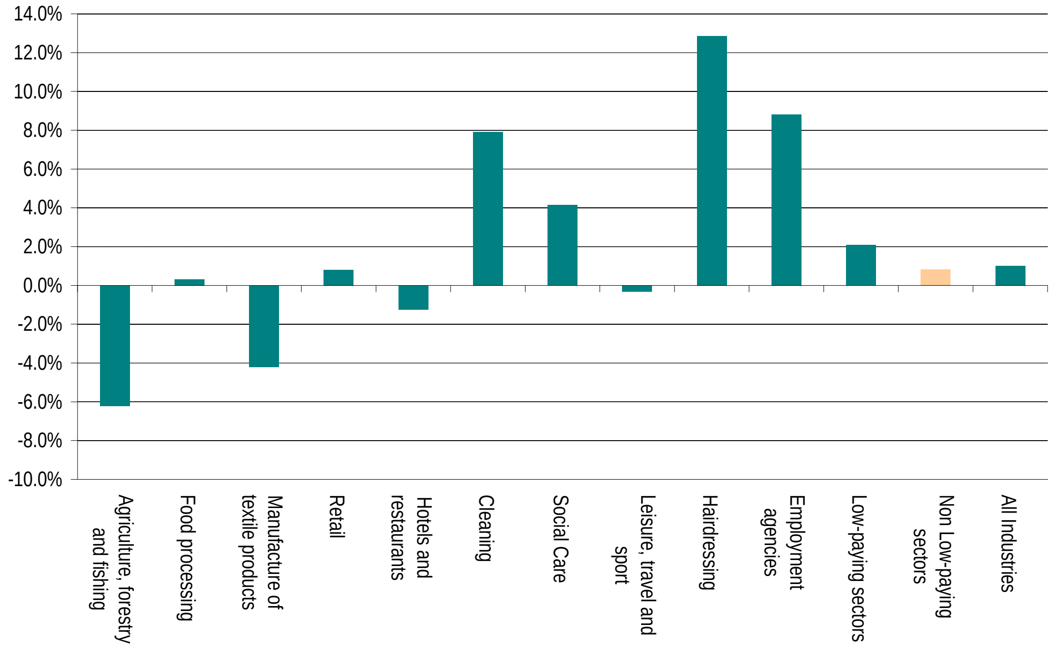
Source: Office for National Statistics, Employee jobs, GB data. 2013 definition of low paying sectors

Hours worked in the low-paying sectors

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

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

Per cent change



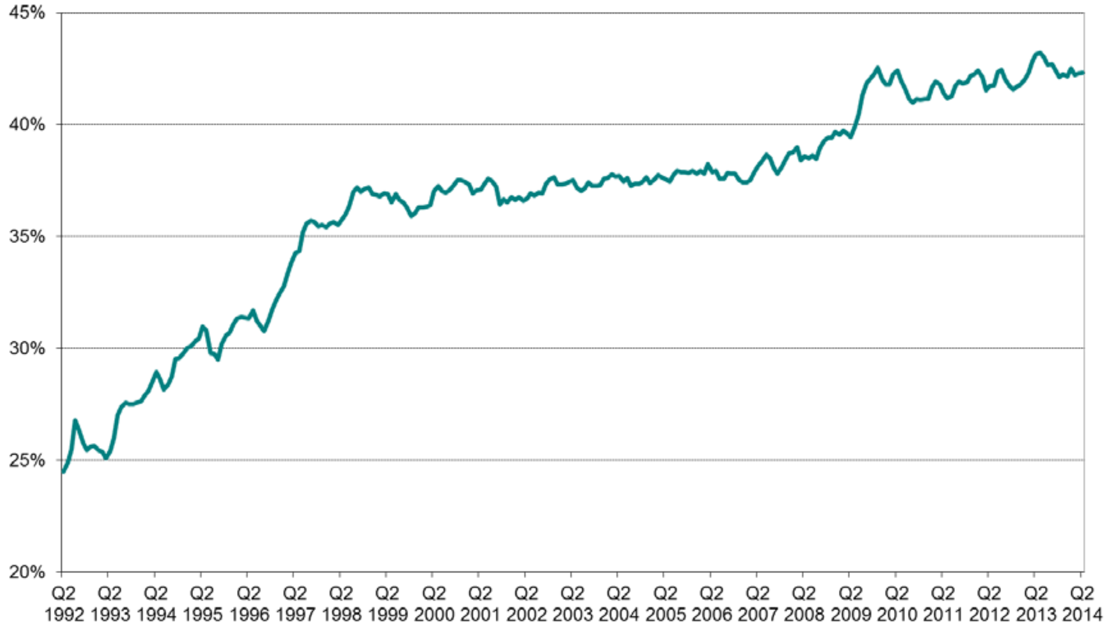
Source: Office for National Statistics, Annual Survey of Hours and Earnings. 2011 and 2012 - ASHE data - new methodology. 2013 definition of low paying sectors

Youth Labour Market - Economic background

This section looks at 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 the population 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. Some young people in full time education are in work.

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



Source: Office for National Statistics Labour Market statistics.

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

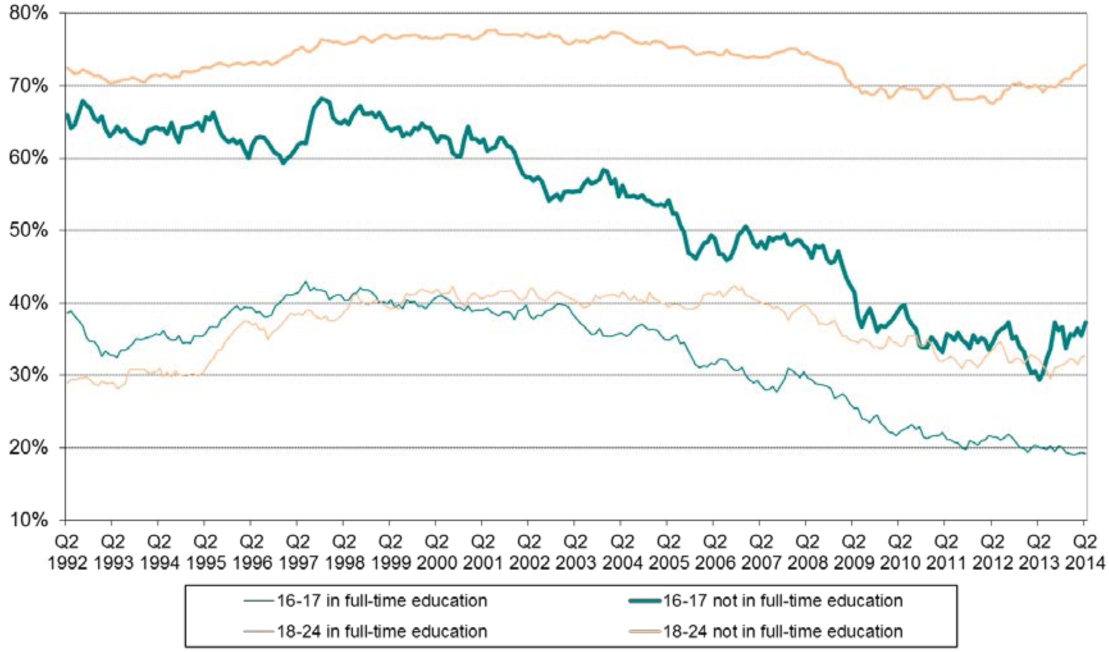
Chart 3.7 shows that the employment rates of 16-17 year olds have been on a long-term downward trend for both those in, and not in, full-time education. For 16-17 year olds in full time education, the employment rate in three months to June 2014 was 23.2 percentage points below its peak in three months 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 30.2 percentage points from its peak in the three months to November 1997. Although the downwards trend for this group precedes the recession by over ten years, the 2008/09 financial crisis still provided a significant shock to the employment rate of these individuals; with the employment rate falling from 48.6 per cent in 2008 Q1 to 39.3 per cent in 2009 Q3.

The employment rates for 18-24 year olds in full time education, 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 close to 8 percentage points since then.

Chart 3.7: Employment rate of 16-17 and 18-24 by participation in full-time education

Per cent of age group



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

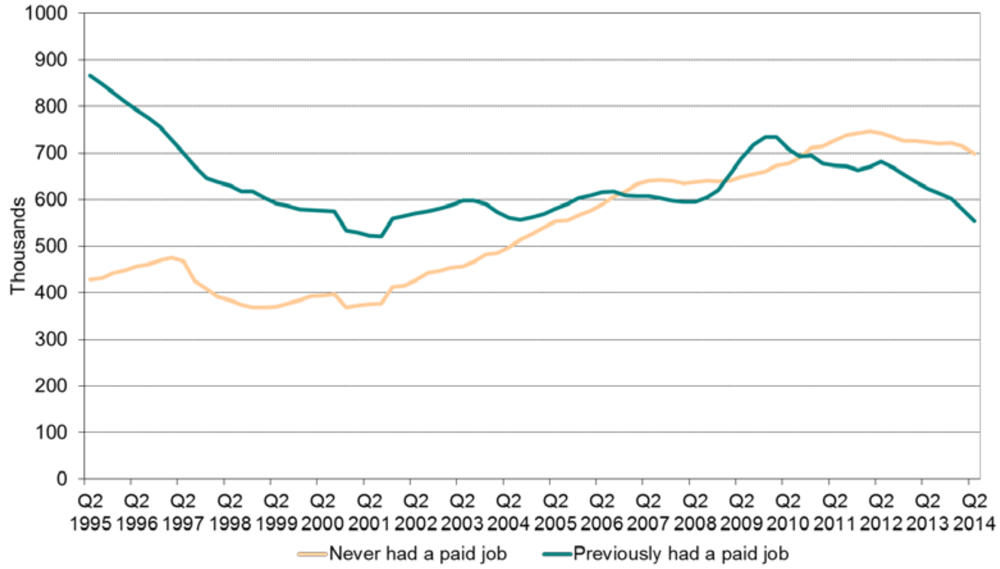
For 18-24 year olds not in full-time education, the employment rate fell over the course of the recession and appears to have stabilised, fluctuating around 69 per cent until it rose beyond 70 per cent in Q1 2014. In the three months to June 2014, at 72.9%, it stands slightly lower than the 16+ employment rate of 73 per cent.

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 rising since the beginning of 2001, reaching a peak in 2012 Q1 of 747,000. This suggests that young people are generally taking longer to move from education to employment.

In 2014 Q2, the level of under 25 year olds who have never held a paid job was 698,000, a fall of 24,000 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: Under 25 year olds (excluding those in full-time education): workless who have never had a job and previously had a job



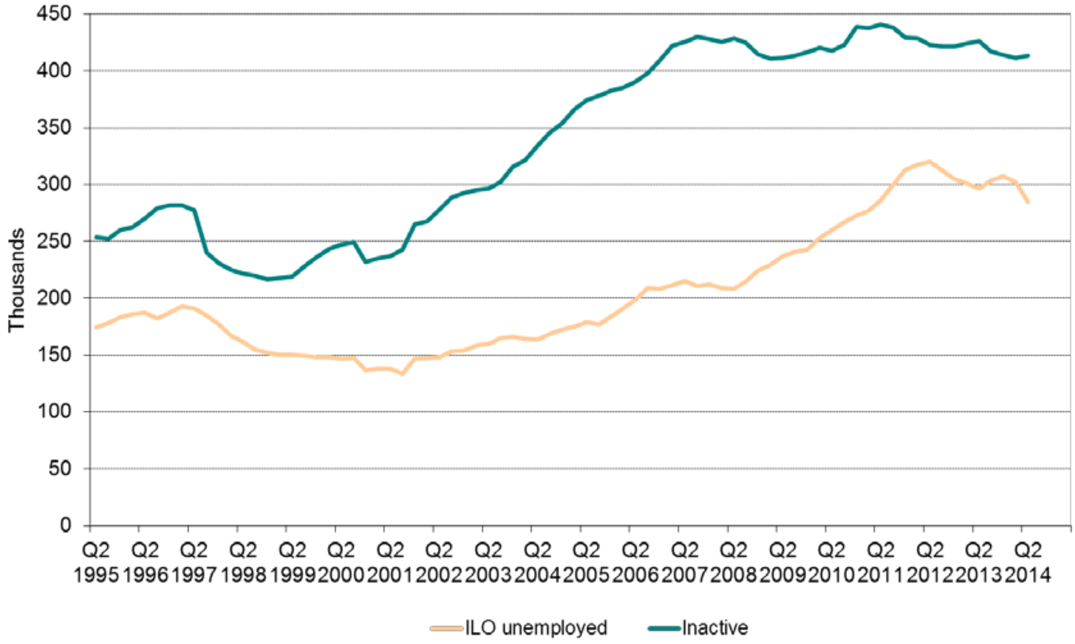
Source: BIS analysis of Labour force survey. 4 quarter moving average

Chart 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 181,000 to reach 553,000 in 2014 Q2. However, the level is still 18,000 above the pre-recession level of 595,000.

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 approximately doubled between 1998 and 2007.

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

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



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

The impact of the NMW on young people

It is important to consider that the labour market performance of younger workers tends to be hit hard during and after economic recessions and labour market outcomes tend to be more sensitive to economic cycles than adults.[18] Also, it should be noted that it will be this age group[19] that will be affected most by the raising of the participation age in England. More details are provided in Annex C.

Evidence suggests that labour market outcomes of younger workers are more at risk from increases in the NMW level (the evidence from the minimum wage in the USA in particular shows this and is summarised in Neumark and Wascher and 2007[20]). This is one of the reasons why there is a lower NMW rate for workers aged below 21.

Other recent evidence commissioned by the LPC suggests some negative effects of the NMW over specific time periods and on specific groups of young workers. For example Dolton and Rosazza-Bondibene (2011) concluded that the impact of the minimum wage was more detrimental for young people in the presence of an economic downturn. Fidrmuc and Tena (2013) found a negative employment effect for men, a year prior to their entitlement to the adult NMW rate[21]. 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

[18] See for example, National Minimum Wage report 2013, Low Pay Commission, p166
[19] Applies to youth in England only.
[20] Neumark D. and Wascher W. (2007) Minimum Wages and Employment, IZA Discussion Paper Series.
[21] Although the feasible implications of these results are slightly unclear

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.[22]

[22] 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

Summary

The apprentice rate was introduced in 2010. Before that apprentices 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.

Statistics on apprentice pay are limited and we are improving them. However, the 2012 pay survey found that apprentice pay levels varied considerably with apprentices in higher paying industries tending to receive higher pay.

The pay survey also found a large degree of non-compliance with the NMW at 29%. There are some doubts about the scale of this and we are developing better estimates. However, our judgment is that non-compliance among apprentices is greater than for the NMW as a whole.

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.

Across the UK, there are plans to raise the quality of Apprenticeships and attract higher numbers of apprentices. England is trialling reforms which gives employers more control over the design of Apprenticeship standards and funding for the Apprenticeship training.

Introduction

The Government has asked the Low Pay Commission 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.

This reflects concerns that the pay structure for apprentices receiving the NMW is more complex than it perhaps needs to be. This in turn might lead employers to make mistakes with the pay for their apprentices which are reflected in relatively high non-compliance figures.

Apprentice pay

Between its introduction in October 2010 and October 2014, the Apprenticeship NMW (ANMW) rate will have increased by 9.2 per cent. This increase is only slightly lower than the 9.6 per cent increase in the adult NMW over the same period.

The value of the apprentice rate relative to the two youth rates have increased while the gap to the adult rate has remained constant.

2010	2010	value of apprentice rate compared to age rate
Apprentice rate £2.50	16-17 NMW rate £3.64	68%
Apprentice rate £2.50	18-20 NMW rate £4.92	50.8%
Apprentice rate £2.50	Adult NMW rate £5.93	42.1%

October 2014	October 2014	Relative value of apprentice rate
Apprentice rate £2.73	16-17 NMW rate £3.79	72%
Apprentice rate £2.73	18-20 NMW rate £5.13	53.2%
Apprentice rate £2.73	Adult NMW rate £6.50	42.4%

There is no new data on apprentice pay since the 2012 Pay Survey. We are conducting an Apprentice Pay Survey this Autumn and will provide the Commission with updated data in the Government's final evidence to the LPC.

For the 2014 survey we will interview 10,000 level two and three apprentices and 850 higher level apprentices across England, Wales and Scotland.

A number of approaches were taken during the questionnaire design stages to ensure that the 2014 survey would produce accurate estimates of hourly pay rates. Ahead of going into the field the questionnaire was given an expert review, rewritten, cognitively tested, and piloted. The revised questionnaire:

- focuses on pay, rather than hours spent training (as was the case in 2012)
- asks respondents to have a recent pay slip to hand when answering questions

- provides a greater range of answering options, according to how apprentices are paid
- includes a greater range of checks to detect irregularities in responses during the interview and correct accordingly
- asks directly about their hourly wage and knowledge of minimum wage rates

The history of the Apprentice National Minimum Wage

Before 2010

Before 2010 apprentices under 19 or in their first year of their Apprenticeship were exempted from the NMW. This means that in extreme cases apprentices could be paid nothing.

When the NMW was created in 1999 the Low Pay Commission found that by the second or third year of an Apprenticeship, wages were often well above the relevant age rate, but for the first year or phase, wages were likely to be low, reflecting the extent to which the apprentice was in training rather than productive work. The Commission did not wish to cut across this means by which young people acquire skills to equip them for well-paid work in the future and recommended that all those on Apprenticeships should be exempt from the minimum wage.

The exemption, which was subsequently introduced by the Government in the National Minimum Wage Regulations, reflected the Commission's findings. It exempted all apprentices under the age of 19 from the minimum wage. As the minimum wage at the time commenced at age 18, this created a year's exemption. In addition, all those aged 19 to 25 were exempt for their first year[23], after which they transferred on to the relevant age rate.

When in 2004 the Commission recommended the introduction of a minimum wage for 16–17 year olds, it considered again the position of apprentices. It recommended that the exemption for those under the age of 19 be retained rather than limiting it to the twelve-month exemption that applied to those aged 19 and over. In particular, it referred to the fact that many 16–17 year old apprentices were still working towards Level 2 (equivalent to GCSEs A*–C) rather than more advanced qualifications (so pay rates tended to be lower) and that a 17 year old starting an Apprenticeship would become eligible for the Youth Development Rate after twelve months.

The Commission was concerned that a number of pay agreements had second year apprentice pay rates significantly below the Youth Development Rate. The Commission also recommended an exemption from the minimum wage for young people on specified pre-Apprenticeship schemes. The twelve month exemption for those aged 19 to 25 was later extended to all those aged 19 and over following the introduction of the Equal Treatment Directive[24].

[23] Pg 151, LPC 2009 report.
[24] Pg 152, LPC 2009 report.

The Introduction of the apprentice rate in 2010

In October 2010 the Government introduced the apprentice rate. This followed a Government strategy in England to encourage a substantial expansion of employed Apprenticeship places.

The introduction of the rate followed a recommendation in 2009 from the Low Pay Commission of giving apprentices special treatment under the minimum wage. However, the Commission cautioned against giving apprentices an entitlement to the full age related NMW as this might act as a significant disincentive for employers to engage with Apprenticeships, particularly those in the low-paying sectors of hairdressing and childcare. This is because apprentices in the first year of their contract are likely to be less productive as they are learning new skills rather than being a fully trained member of the workplace.

The specific LPC 2009 recommendation

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

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

We recommend that the apprentice minimum wage be set at an hourly rate. We recommend the apprentice wage is set at a rate of £2.50 per hour and is introduced from October 2010.

We recommend that in England transitional arrangements are put in place so that current apprentices retain a contractual entitlement to at least £95 per week for the remainder of their Apprenticeship or until they are entitled to the National Minimum Wage."

The Development of the apprentice rate since 2010

What/who the rate covers now

From October 2010, when the rate was introduced, the Apprentice NMW has applied to all apprentices under the age of 19 and to those aged 19 and over <u>and</u> in the first year of their Apprenticeship.

If the apprentice is aged 19 and has completed the first year of their Apprenticeship, the employer must pay the minimum wage appropriate for their age.

Higher apprentices

There has been a recent issue relating to the treatment of higher apprentices for the purposes of the NMW. The Government's policy intention was that higher apprentices should be entitled to the appropriate age rate to reflect the higher productivity of this group of apprentices.

However, the amendments made to the NMW regulations to ensure apprentices on apprenticeship agreements in England and Wales were entitled to the apprentice rate, inadvertently brought in Higher Apprentices as well.

In spring 2014, we clarified our lines on gov.uk so that guidance on gov.uk reflects the legal position: Higher Apprentices are entitled to be paid at least the apprentice NMW rate if they are under 19 or over 19 and in the first year of their apprenticeship. If they are over 19 and have completed the first year of their apprenticeship, they are entitled to the age appropriate rate (like all other apprentices).

We have asked the Low Pay Commission to specifically consider higher level apprentices to ensure that the apprentice NMW rate continues to be applicable to all types of apprentices. When the apprentice rate was introduced in 2010 apprentices were mainly doing apprenticeships at level 2 (GCSE level) or level 3 (A-Level level), but now we have increasing numbers of apprentices doing apprenticeships at level 4 (certificate of HE level), level 5 (foundation degree level) and level 6 (degree level) – and will even have level 7 (master's degree level) apprenticeships soon.

Current structure of Apprenticeships in the UK

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

The Government is reforming Apprenticeships to make the programme the new international benchmark for excellence. The aim is to ensure all Apprenticeships are rigorous, responsive, and meets the changing needs of the UK economy in the decades to come.

Education is a devolved policy area and as such each administration designs its own Apprenticeship programme. Labour market policy is a reserved policy area and the Government sets the Apprentice NMW which applies across the UK.

There are several different levels of Apprenticeships:

- Intermediate Apprenticeship (level 2)
- Advanced Apprenticeship (level 3)
- Higher Apprenticeship (level 4 or above) – equivalent to university level

The core components for Intermediate and Advanced Apprenticeships are:

- A nationally recognised vocational qualification
- Functional skills, (e.g. Literacy, numeracy and ICT)
- A technical certificate such as a BTEC or City & Guilds (relevant to specific Apprenticeship)

- Other professional qualifications or requirements as specified by the particular job

The core components for Higher Apprenticeships are:

- A nationally recognised vocational qualification
- A technical certificate such as BTEC or City & Guilds (relevant to specific Apprenticeship)
- Other professional qualifications or requirements as specified by the particular job.

In **England** workers who have an **Apprenticeship Agreement** with their employer qualify for the apprentice rate. The following programmes operate under such an agreement:

- Programmes known as Intermediate Apprenticeships (level 2),
- Programmes known as Advanced Apprenticeships (level 3), or
- Programmes known as Higher Apprenticeships (level 4-7)

In **Wales** workers who have an **Apprenticeship Agreement** with their employer qualify for the apprentice rate. The following programmes operate under such an agreement:

- Until 30 September 2010 programmes known as Modern Apprenticeships or Foundation Modern Apprenticeships
- Programmes known as-Foundation Apprenticeships, Apprenticeships or Higher Apprenticeships.

In **Northern Ireland** the Government arrangements which can be treated as Apprenticeships for the minimum wage purposes are:

- Until September 2010 programmes known as - Modern Apprenticeships;
- Programmes known as ApprenticeshipsNI or Modern Apprenticeships.

In **Scotland** the Government arrangements which can be treated as Apprenticeships for minimum wage purposes are:

- Programmes known as Modern Apprenticeships, Technical Apprenticeships, or Professional Apprenticeships.

Those not entitled to the apprentice rate

Apprenticeships are work-based training programmes which lead to nationally recognised qualifications. If a worker has joined an employer to learn a trade, it is likely to be under a contract of apprenticeship or treated as one for minimum wage purposes (e.g. an apprenticeship agreement) in which case the apprentice is entitled to the ANMW. However, if the actual working practice differs from the terms of the individual's contract, then the worker might not qualify for the ANMW. This is because if apprentices are not working under one of the approved apprenticeship schemes set out above, or a contract of apprenticeship, they are not entitled to the ANMW. Otherwise the worker is entitled to the appropriate age rate.

Participants on the following Government schemes at pre-apprenticeship level are not entitled to the NMW:

- Employability Fund - in Scotland
- Access - in Northern Ireland
- Programme Led Apprenticeship – in Northern Ireland
- Traineeships and Work Ready Programme - in Wales
- Work experience and traineeships – in England

Apprenticeship funding

Under the Youth Contract 20,000 wage incentive payments are available to employers taking on young people. An incentive payment of up to £2,275 per young person is available to the employer once the employee has completed 26 weeks in continuous employment (qualifying period). Small businesses with fewer than 50 employees may claim a part payment after 8 weeks, with the balance at 26 weeks.

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.

In England, the 2014 Budget made available £170m additional funding over 2014-16 as part of the Apprenticeship Grant for Employers (AGE). This will enable us to meet higher than expected demand for the Grant in FY14-15, and extend starts to December 2015. The budget will fund over 100,000 additional incentive payments for employers to take on young apprentices (16-24), providing a major boost to their job prospects. From Jan 2015, the scheme will focus on companies with fewer than 50 employees as opposed to fewer than 1,000 employees as is currently the case. Employers can receive either the AGE grant or the wage incentive payment but not both for the same employee.

Growth in the number of apprentices since 2010

Since 2010 the number of apprentices has increased and provisional data indicates that we can expect to see further growth in the number of apprentices in 2013/14.The Government is committed to having two million Apprenticeship starts during before May 2015.

Apprentice Starts – all types and ages.

	2010/11	2011/12	2012/13	2013/14
England (data by academic year)	457,200	520,600	510,200	314,600 Aug – April (provisional)
Wales (data by academic year)	18,635	17,910	28,030	13,170 Aug – Dec (provisional)
Scotland (data by financial year)	21,561	26,427	25,691	25,284
Northern Ireland (data by academic year)	8,948	7,880	6,338	3566 Aug - Jan (provisional)

Apprentice Starts – 20 years old or above

	2010/11	2011/12	2012/13	2013/14
England* (data by academic year)	325,500	390,700	395,700	219,400 Aug – April (provisional)
Wales	13,770	12,280	21,705	-
Scotland (data by financial year)	8,734	13,211	12,972	12,177
Northern Ireland	7294	6350	4705	1925 Aug - Jan (provisional)

Apprentice Starts – Higher levels

	2010/11	2011/12	2012/13	2013/14
England (data by academic year)	2,200	3,700	9,800	4,300 Aug – April (provisional)
Wales	-	285	2,275	-
Scotland (data by financial year)	-	-	571	850
Northern Ireland**	-	-	-	-

*Data includes 19 year olds.
**Three higher level Apprenticeships are currently being piloted in Northern Ireland - Professional Services, ICT and Engineering. An additional two pilots will commence in September 2014 – Finance & Accountancy and Applied and Industrial Life Science.

Future changes to structure of Apprenticeships in the UK

Reforms to Apprenticeship arrangements are underway in England, Scotland and Northern Ireland in an attempt to further boost Apprenticeship numbers including for apprentices at higher levels which can be equivalent to university degrees. The Welsh Assembly has recently stated its commitment to work with employers to develop adult vocational qualifications and apprenticeship frameworks.

The Government will ensure that any new Apprenticeship schemes that result from these reforms will be captured to the ANMW.

England

Following the Richard Review of Apprenticeships and a Government consultation in March 2013[25], which set out our medium-long term vision for Apprenticeships legislative

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

changes to enable reforms are being made via the Deregulation Bill[26] which is currently before Parliament. The reforms will replace Apprenticeship frameworks with new standards which will make Apprenticeships more rigorous and more responsive to the needs of employers.

On 28 October 2013, the Government set out how reforms will be implemented and referred to Trailblazer Apprenticeships, acting as pilots to trial the reforms[27]. Eleven Apprenticeship standards have been developed so far as Trailblazer Apprenticeships and these were published on the National Apprenticeship Service website in March 2014[28].

Subject to Parliamentary approval of the Apprenticeship provision in the Deregulation Bill, we expect to only fund starts on the new standards from the 2017/18 academic year

Funding

The Government is routing funding for apprenticeship training and assessment through employers to give them greater control and purchasing power over Apprenticeship training.

In the model being trialled in in the 2014/15 academic year on Apprenticeship starts based on the new employer-designed standards, for every £1 the employer puts in, the Government contributes £2 (up to a cap). Under this model, additional incentive payments are available relating to the employment of 16-18 year old apprentices, for small businesses employing apprentices and for successful completion.

Northern Ireland

In June 2014, the Government of Northern Ireland announced that they are rolling out a new system for Apprenticeships between now and 2016[29]. This new structure will enable its application across the full range of occupations and at higher levels. An Apprenticeship will be recognised through a series of core components:

1. An apprenticeship will be for a new employee, or in the case of an existing employee, a new job role that requires substantial learning and skills development;
2. An apprenticeship will be available in professional and technical occupations commencing from level 3 up to level 8;
3. The completion of an Apprenticeship will take at least two years;
4. Apprenticeships will enable mobility within a sector and across the wider economy by including a breadth of training beyond the specific needs of a job through both on and off-the-job training; and
5. An Apprenticeship will be designed to facilitate the progression of participants to higher professional or technical training or on to a higher academic pathway.

[26] http://www.parliament.uk/business/committees/committees-a-z/joint-select/draft-deregulation-bill/news/have-your-say-on-the-draft-deregulation-bill/
[27] www.gov.uk/government/consultations/future-of-apprenticeships-in-england-richard-review-next-steps
[28] www.apprenticeships.org.uk/standards
[29] http://www.delni.gov.uk/securing-our-success-the-northern-ireland-strategy-on-apprenticeships.pdf

There will be a single award/qualification for occupations at each level. Apprenticeships will be open to everyone irrespective of age, with a primary focus on young people aged 16-24. Measures will be put in place to facilitate progression and to support individuals to make the transition to Apprenticeships at level 3.

Government will establish a central service to support Apprenticeships for both employers and participants, including an online portal for the advertising and application of Apprenticeship opportunities.

This new framework is likely to lead to an increase in number of apprentices in Northern Ireland especially those undertaking Apprenticeships at higher levels.

Scotland

In June 2014, the Commission for Developing Scotland's Young Workforce published the report "Education Working For All!". This report sets out a number of recommendations regarding modern Apprenticeships in Scotland including:

1. Alignment with Economic Growth: Modern Apprenticeships should be aligned with the skills required to support economic growth.
2. Access and Higher Level Opportunities: Development of Modern Apprenticeship access processes and progression pathways should be prioritised.
3. Quality Improvement: An industry-led quality improvement regime should be introduced to oversee the development and promotion of Modern Apprenticeships.
4. Growth: If employers can be encouraged to offer significantly more good quality apprenticeships, the Scottish Government should consider a carefully managed expansion of the annual number of Modern Apprenticeship starts.

The Scottish Government will respond to this report in due course. However, it has recently announced that the target for new Modern Apprenticeship starts would increase year on year from 25,000 to 30,000 by 2020.

Wales

In July 2014 the Welsh Government published a Skills Implementation Plan[30], in which it confirms its commitment to work with employers to develop adult vocational qualifications and apprenticeship frameworks, supporting them to utilise fully the skills of their workforce through developing a culture of high-performance working and investing in skills alongside Government. Activities include:

1. Establishing Sector Qualification Advisory Panels to support the development of vocational qualifications relevant to Wales, supported by the future function of Qualifications Wales.
2. Working with employers to pilot skills utilisation agreements to ensure skills are effectively deployed by employers and to tackle levels of over-qualification.
3. Implementing a policy for co-investment in Wales which balances the responsibilities for skills investment between Government, employers and individuals.

[30] http://wales.gov.uk/topics/educationandskills/skillsandtraining/policy-statement-on-skills/skills-implementation-plan/?lang=en

A consultation programme on the future of apprenticeship frameworks in Wales will commence in October this year.

Compliance

Data from 2012 indicated that compliance with the Apprentice NMW is an area for concern.

HMRC fast tracks complaints from apprentices. Between September 2011 and June 2014 HMRC received 458 complaints, of which 232 have been closed. These 232 closed cases have identified 91 cases with a total of £274,246 of arrears for 309 workers.

The 2012 Pay Survey found evidence that 29% of apprentices in England were paid less than they should be. For those under 19 or in their first year, non-compliance with the £2.65 ANMW rate in force at the time was lower, at around 16%. We believe that this is an overestimate as the fieldwork for the survey was conducted in October, just after the NMW rates increased and before many had been paid for the month. However, there is still strong evidence of non-compliance, especially in Hairdressing and Construction. In response to this, the Government has asked HMRC to prioritise cases involving apprentices and as part of their remit for 2015, in order to improve compliance.

An update on the compliance levels of apprentices will be available in the Apprentice Pay Survey (2014) which is due in November. A number of changes have been made to this survey to increase the accuracy of the findings. These include:

- Rewording the pay questions to measure levels of pay rather than training as was done previously. Pay data is notably difficult to collect, especially with regards to calculating an hourly rate. In particular, respondents are likely to overestimate their hours and underestimate their pay as has been found via comparisons between LFS and ASHE.
- Changing the timing of the survey to ensure that the fieldwork is not to close to the increase in the apprentice NMW rate. This will reduce the chances of respondents reporting outdates figures where employers have increased the rate and not noticed. Employers who are slow to react to the increase in pay but are not intentionally non-compliant are also less likely to be picked up.

Is reform needed?

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:

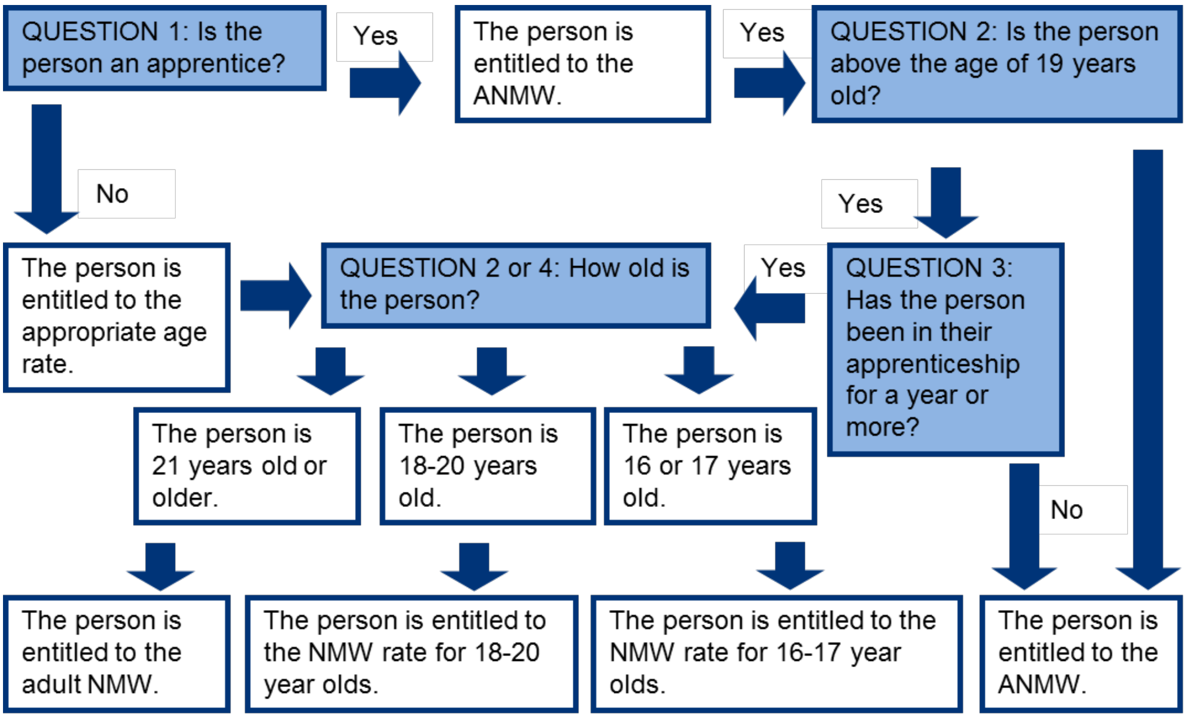
- The apprentice being on a recognised apprentice scheme;
- The age of the apprentice; and
- The precise length of time they have been on their Apprenticeship.

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 (and when they turn 19 if they have already 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).

The different questions an employer taking on an apprentice needs to consider compared to a regular young person is set out below.



In practice this means that for a fictional apprentice there may be three pay changes during a 2 year Apprenticeship. Step four as set out below is additional to the sequence for a young person.

1. Maria starts a 3 year Apprenticeship with Company A in September 2014 when she is 18 years old and she receives the Apprentice NMW.
2. In October 2014, Company A uprates Maria's pay in line with the new Apprentice NMW.
3. In March 2015 Maria turns 19 years old.
4. In September 2015 Maria is entitled to the youth development rate as she is above 19 years of age and into the second year of her apprenticeship.
5. In October 2015, Maria's pay changes again as the youth development rate increases.
6. In August 2016 Maria completes her Apprenticeship.

Proposed new system

It might be possible to simplify the structural requirements of when the Apprentice NMW applies by making changes in any of the following areas:

- The age of the apprentice after which length or service is relevant so that it aligns with the other minimum wage pay groups of 16-17 years old, 18-20 years old or above 21 years old.
- The length of service of the apprentice after which a worker is entitled to the appropriate age rate.
- The level of apprenticeship undertaken to reflect that a growing number of apprentices are undertaking higher Apprenticeships.

The Government is minded to simplify the system and is considering the option of combining the apprentice NMW and the youth 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 youth 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.

After the first year apprentices would be entitled to the appropriate age rate. This would result in a simplification of the structure of the NMW, with the number of rates reducing from four to three. Subject to the views of the LPC on the level of individual rates, it could also result in a significant uplift in the minimum rate apprentices are entitled to in their first year.

This change would also need to be considered alongside any other changes that arise out of the Low Pay Commission's examination of the structure of the apprentice NMW rate.

Annex A: Government Response to LPC's 2014 recommendations

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

The Commission has recommended that the adult hourly rate of the National Minimum Wage should increase from £6.31 to £6.50. The Commission has recommended increasing the development rate which covers workers aged 18-20 years old from £5.03 to £5.13 and increasing the rate for 16-17 year olds from £3.72 to £3.79. It recommends that the apprentice rate should increase from at £2.68 to £2.73. It is recommended that these changes take place in October 2014.

The Commission has also recommended that the accommodation offset increases from the current £4.91 to £5.08 in October 2014.

The Government accepts all of the rate recommendations.

Government's response to individual recommendations in the Low Pay Commission's 2014 report

National Minimum Wage Rate Recommendations

We recommend that the adult rate of the National Minimum Wage be increased by 3 per cent, or 19 pence, to £6.50 an hour, from 1 October 2014.

We recommend an increase of 2 per cent in the Youth Development Rate to £5.13 an hour, in the 16-17 Year Old Rate to £3.79 an hour and in the Apprenticeship rate to £2.73 from 1 October 2014.

ACCEPT

Accommodation Offset

We recommend that the accommodation offset be increased by 3.5 per cent, to £5.08 a day, from 1 October 2014.

ACCEPT

Other Recommendations

Migrant Domestic Workers

We recommend that the Government should review the law, and take the next available opportunity to legislate and clarify the entitlement of migrant domestic workers to the National Minimum Wage.

NOTE

The Government fully agrees that non-compliance in this area needs to be reduced. As suggested by the LPC, we will look at this area of National Minimum Wage legislation and consider the full range of options to reduce non-compliance.

Annex B: 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.

However, 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 have increased HMRC's enforcement budget by over £1million to £9.2 million.

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.

Introduction

The relative simplicity of the NMW makes it easier to understand for employers and workers; encourages compliance; makes enforcement easier and minimises the regulatory costs of compliance for business. The Government supports compliance through the provision of guidance and support to employers and workers. Where employers are found to flout the NMW law, the Government have tough deterrents in place which are robustly enforced (regardless of whether they intended to or not). Specific action is also targeted at sectors where we know compliance is an issue – either because the rules are more complicated (as in the case of the care sector, for example, where employers often fall foul of the rules on travel and sleeping time) or because there are a higher proportion of workers on the minimum wage.

Enforcement of the NMW is undertaken by HMRC. Performance is managed through a Service Level Agreement, which we have recently updated to reflect Ministerial priorities. HMRC follow up every complaint to the Pay and Work Rights Helpline and steps are being taken to speed up the time it takes to deal with individual cases. Complaints from certain workers are prioritised – this year, the focus is on apprentices, interns and seafarers. HMRC also undertake intelligence-led, proactive enforcement, targeting the highest-risk sectors. We have recently increased HMRC's budget for this work, from £8m to £9.2m in 2014/15, with the specific intention to strengthen the proactive element of their work.

Although overall compliance levels are high (less than 0.8% of adult workers don't receive the NMW), we are not complacent. Individuals who are entitled to the NMW should receive it and we are committed to taking the steps necessary to improve compliance; ensuring employers understand their responsibilities and workers know their rights. The work we have undertaken over the past 12 months is set out in this chapter, alongside a more detailed account of the evidence available and the enforcement action undertaken by HMRC.

Extent of non-compliance with the NMW

Evidence of non-compliance

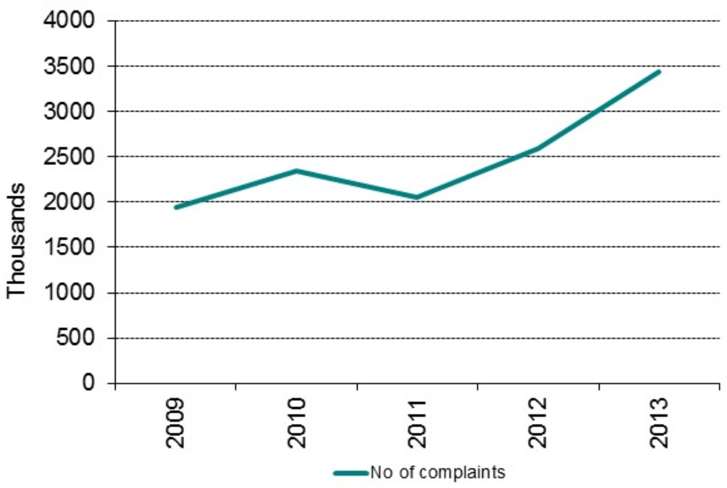
To date, much of the evidence about non-compliance has been qualitative; It mostly explores the reasons for non-compliance and the varying levels of awareness of the NMW and NMW enforcement regime, according to different sectors and worker type.

Therefore, due to the lack of a specific quantitative measure of non-compliance, this section will aim to use multiple data sources to obtain a general overview of the level of non-compliance with the NMW.

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 2011 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 complaints on the PWRH



Source: Data from the PWRH

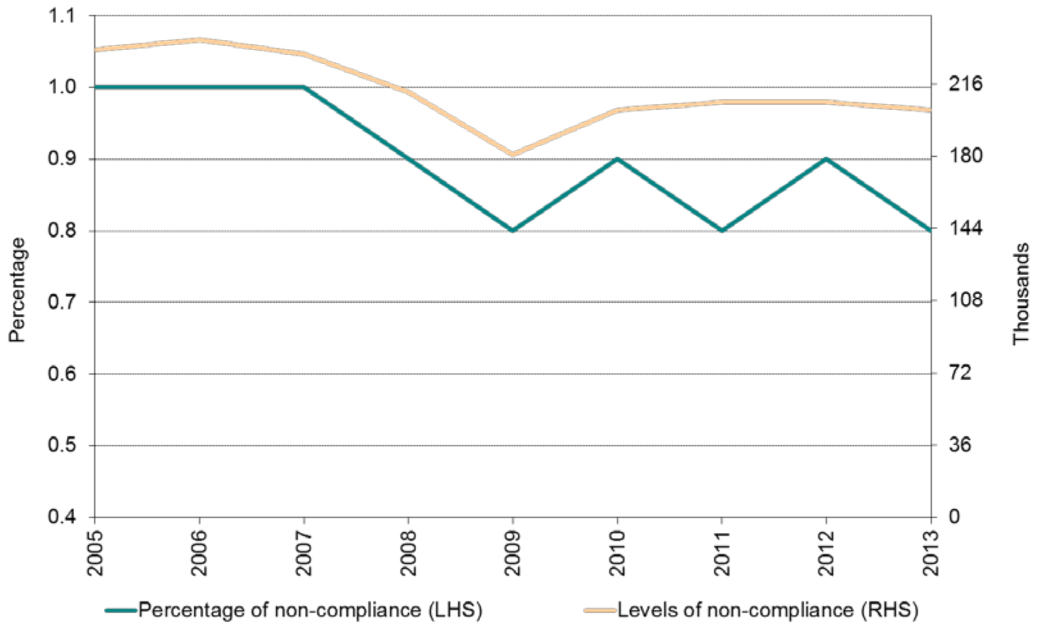
Non-compliance can also be estimated through the Annual Survey of Hours and Earnings (ASHE). ASHE is a survey of employees completed by employers which we can use to look at workers earning at or below the NMW rate. This is not a complete measure of non-compliance however as there are legitimate reasons to be paid below the NMW, for example apprentices (who have their own rate) and 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.

In contrast to the number of complaints, the data shows that workers earning below the NMW has remained largely stable over time and is relatively low. Figures B2 – B4 shows the number of workers paid below the NMW by age group.

There are proportionally more 16-17 year olds earning below the NMW (at 7.3% in 2013), than 18-20 year olds (5.5% in 2013). Adults had the lowest proportion earning below the NMW which dipped slightly in 2013 to 0.8%.

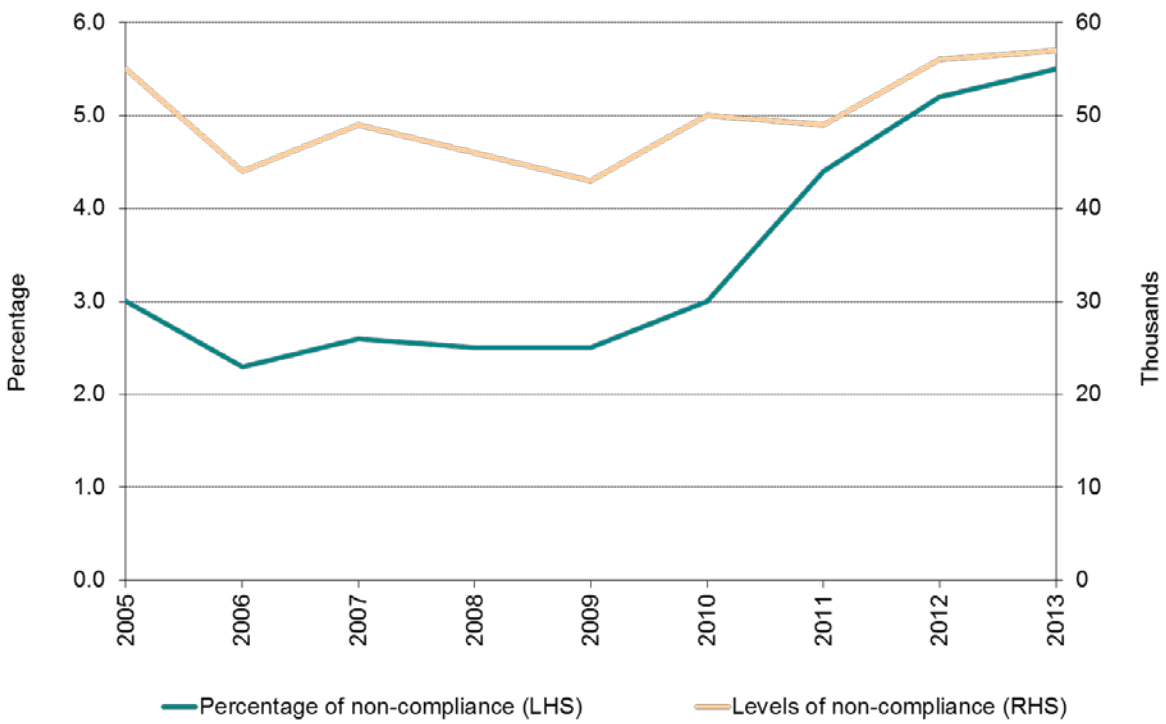
Therefore it can be concluded that although the number of complaints are increasing, the actual level of workers paid below the NMW is small.

Chart B2: Non-compliance for 16-17 year olds



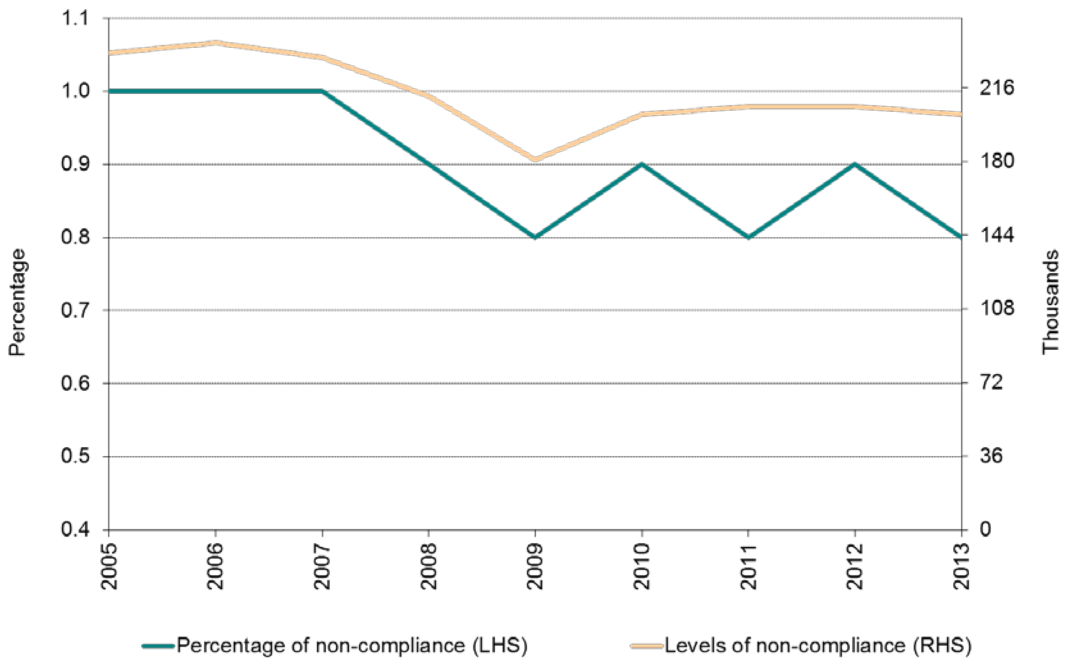
Source: Data from the Annual Survey of Household Earnings

Chart B3: Non-compliance for 18-20 year olds



Source: Data from the Annual Survey of Household Earnings

Chart B4: : Non-compliance for over 21 year olds



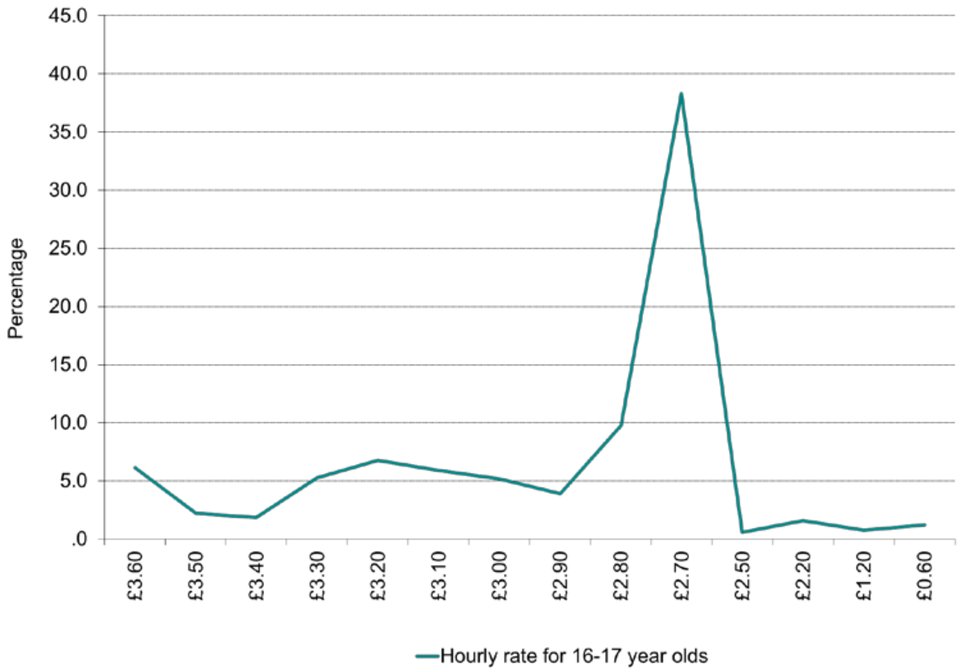
Source: Data from the Annual Survey of Household Earnings

Reasons for non-compliance

Looking at the level of underpayment of the NMW, the ASHE data shows that the amount paid below the NMW hourly rate was very small for all age-groups. Figures B5 and B6 show that 38% of 16-17 year olds and 27% of 18-20 year olds, who are paid less than the relevant NMW, are paid around the Apprentice NMW rate and are very likely to be apprentices. From December the ONS are introducing a new variable into ASHE which will allow us to clearly identify Apprentices and remove them from our estimates of non-compliance.

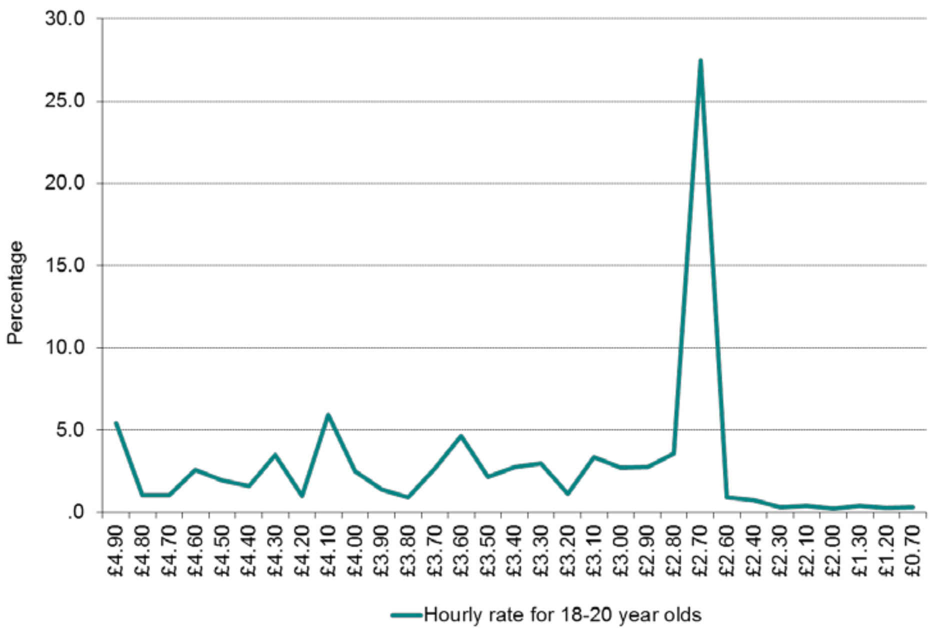
As the percentage of workers being underpaid by large amounts below the NMW are small, it may be concluded that non-compliance is mostly due to error rather than deliberate non-compliance (see charts B5-B7). For example, of the 16-17 year olds, only 4% were paid £2.50 and below per hour (£1.18 below the NMW rate) and, under 4% of the 18-20 year olds were paid £2.60 and below per hour (£2.38 below the NMW rate). Of the adults, 2.5% were paid below £2.50 per hour (£3.69 below the NMW rate).

Chart B5: Underpayment of the Youth NMW rate (£3.68) for 16-17 year olds



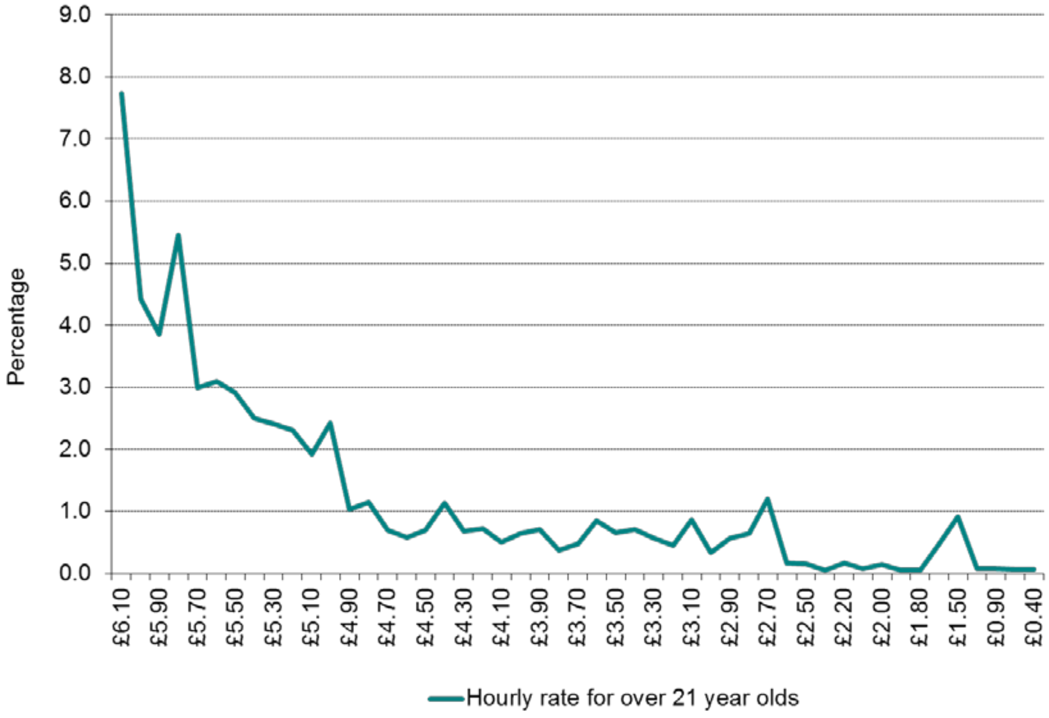
Source: Data from the Annual Survey of Household Earnings

Chart B6: Underpayment of the Development NMW rate (£4.98) for 18-20 year olds



Source: Data from the Annual Survey of Household Earnings

Chart B7: Underpayment of the Adult NMW (6.19) for 21+ year olds



Source: Data from the Annual Survey of Household Earnings

BIS research into non-compliance with the NMW indicates that employers (SME's in the low paid sector) are non-compliant with NMW laws as a result of mistakes not malice and in most cases mistakes were made because employers did not take the time to understand a specific detail of the legislation[31].

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.)[32]

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 to it.

[31] Research into employers' attitudes and behaviour towards compliance with NMW legislation.(2011) https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/32180/11-1335-research-employers-attitude-national-minimum-wage.pdf

[32] 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

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
- 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 13/14 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.

Compliance and enforcement action

Raising Awareness of the National Minimum Wage

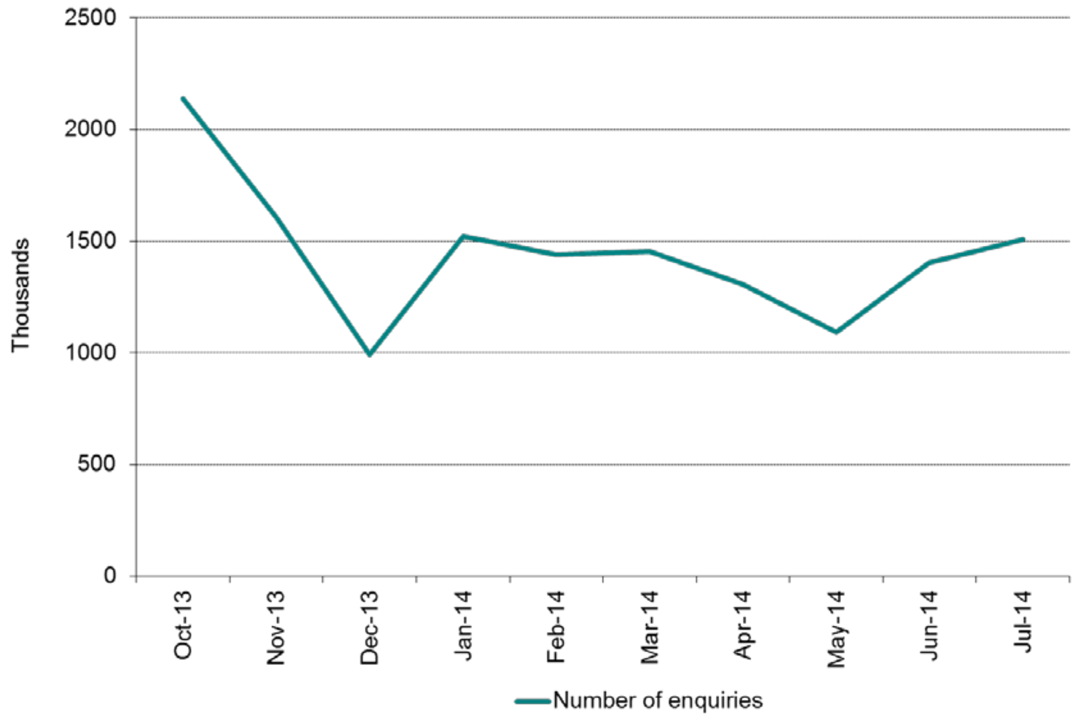
Since the publication of the last interim evidence report, we have published new guidance on calculating the NMW. We have also made the following updates to Gov.uk:

- 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

Following a communication campaign using a series of Facebook advertisements aimed at (potential) interns in creative industries, the number of likes on the NMW Facebook page jumped from 100 to around 4,000 likes. The popularity of the page has steadily increased since then with more interactions from workers following the promotion of Government publications and consultations, as well as relevant news stories. A recent post promoting LPCs upcoming student consultation event has reached over 2,200 people).

The use of guidance offered by the PWRH has increased from May this year however remains stable over time, peaking around October 2013 when the NMW rates changed (see figure B8).

Chart B8: **NMW enquiries to the PWRH**



Source: Data from the PWRH

To ensure employers and workers understand their rights and obligations we have launched a communication campaign which will run from 8th September 2014 until the end of December, with the following objectives:

- Raising awareness that the NMW rate will change – launch 8th September
- Promoting the new NMW rate – launch 1st October
- Raising awareness of wider changes, including the changes to the penalties and naming and shaming the following from October – December

The campaign will include separate messages for employers and workers.

Message for employers

- Awareness of the new rates

- Highlight common errors that result in non-compliance (e.g. missing the worker's birthdays, wrongful deductions etc.);
- The importance of complying with the law and the benefit of keeping good records to demonstrate that they are paying the NMW
- Details of the penalty regime and naming and shaming scheme
- Drive traffic to the NMW information on GOV.UK and PWRH (and emphasis onus on employers to use available guidance to check they are compliant).

Message for workers:

- Awareness of the change in rates
- The enforcement process (in particular the fair arrears element) and reassurance about confidentiality and anonymity after making a compliant
- Testimonials from other workers who have successfully claimed NMW after making a complaint
- Drive traffic to the gov.uk website and PWRH helpline

Strengthening deterrents

NMW Penalty Increase

On 27 November 2013 the Prime Minister committed to increasing the maximum penalty for employers who pay less than the minimum wage

The Government has already increased the financial penalty percentage that employers pay for breaking minimum wage law from 50 per cent to 100 per cent of the unpaid wages owed to workers and the maximum penalty from £5,000 to £20,000 by secondary legislation. The increase came into effect on 7 March 2014. Based on the number of cases and NMW arrears in 2013/14, costs to non-compliant businesses will increase from £1.1million to £3 million.

The Government will now introduce primary legislation so that the penalty can be applied on a per worker basis, which will substantially increase the penalty that employers pay. We will be providing further confirmation of when this will be implemented as the Small Business, Enterprise and Employment Bill progresses through Parliament; we are expecting this to be in force by summer 2015.

Ahead of this change to primary legislation, in order to meet the Prime Minister's commitment, from 7 March 2014, the Government introduced a temporary measure to apply the penalty per worker. It was announced in a 15 January 2014 press release that employers who are found to have underpayments of more than £20,000 to one worker or a group of workers (for any pay reference periods falling on or after 7 March 2014) will face a penalty of £20,000 for that worker or group. This has been achieved by issuing one Notice of Underpayment (NoU per worker or group of workers who have been underpaid by £20,000 or more.

Naming Scheme

Employers will not only face a higher NMW penalty, but will also be 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 30 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.

By naming and shaming employers it is hoped that bad publicity will be an additional deterrent to employers who would otherwise be tempted to pay below the NMW. Employers should have robust procedures in place to ensure they are paying the correct minimum wage amount to their workers.

HMRC operations

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

Since HMRC began enforcing the minimum wage in April 1999, they have identified £54m in arrears for over 229,000 workers during more than 65,000 employer interventions.

In 2013/14 HMRC identified £4.6m in arrears of wages for over 22,610 workers and

- conducted 1,455 investigations
- issued 652 financial penalties, worth £815,269
- found arrears in 47 per cent of cases – the highest strike rate since National Minimum Wage (NMW) was introduced
- recovered average arrears of around £205 per worker

BIS have directed HMRC to prioritise the investigation of complaints from the following types of workers:

- Apprentices
- Interns
- Seafarers

To do this they have fast-tracked these types of cases so that they are worked in priority over other complaints. In 13/14 there was a 46% increase in the volume of demand –led work:

- In 13/14 HMRC received 3294 complaints (including 934 web complaints)
- In 12/13 HMRC received 2243 complaints (including 711 web complaints)[33]

In order to deal more efficiently with the increase in demand and to meet HMRC's stringent conditions for dealing with Human Intelligence sources (HumInt), they have set up a Focal Point Team. The team's role is to risk assess all complaints and intelligence received to determine if there is, in fact, a NMW issue that needs investigating and to

[33] Figures provided by the Pay & Work Rights Helpline.

manage all HumInt (an individual who expresses a desire for confidentiality) information to ensure that HumInt procedures and HMRC's duty of care are fully adhered to.

The increased volume of demand-led work has impacted on HMRC's capacity to carry out a more extensive programme of risk-based targeted enforcement[34].

Developing a Suite of interventions

The increasing number of worker allegations against employers being received via the Pay and Work Rights Helpline has prompted the need to look at how the demand led work is triaged into segments. The objective is to assess at the outset the most appropriate method of investigation; for example by phone in cases where the employer is small or is relatively new or by using a more experienced compliance officer to deal with more complex cases. In this way, HMRC will be able to ensure that they meet the needs of the customer and address the risks of non-compliance in the most cost-effective way.

Education, advice & leverage

HMRC aim to work with trusted third party intermediaries who can help them to provide upfront education and advice so that employers are compliant.

In 13/14 HMRC have worked closely with the Department of Health (DH), other Government departments, a software developer, the Social Care Worker Research Unit, Kings College London, Unison and employers and worker representative bodies to better understand what drives employer behaviour in the care sector. They delivered a presentation and Q&A session at UKHome Care Association Limited annual conferences highlighting issues related to care worker pay and non-compliance with NMW. A Social Care report was published in November 2013 and aims to educate employers in this sector about how they can ensure that they are compliant with the National Minimum Wage Act.

Correspondence

Letters can be a cost-effective method of generating compliance and can be used to 'nudge' employers into compliant behaviours.

In December 2013, "nudge" awareness letters were sent out to the top ten UK Universities, enclosing a guidance note to be disseminated to around 300,000 students attending those Universities. The objective of this campaign was to raise the profile of NMW to students who might be taking up part time or seasonal work over the Christmas period. A similar campaign took place in the summer of 2014 related to potential summer jobs for students, and HMRC wrote to the top 25 Universities about NMW awareness. The summer campaign aimed to reach around 600,000 students.

Furthermore, in February 2014, around 35 nudge letters were sent to employers that were, based on HMRCS research, associated with the music industry awards event – The Brits – and were likely to have been involved in recruiting or offering internships.

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[34] HMRC conducts risk-based enforcement activity in sectors or areas where there is a higher risk of workers not getting paid the legal minimum wage. Each year HMRC agrees the scale and content of a targeted enforcement programme with BIS.

The purpose of the letter was to inform employers of the NMW legislation that applies to the employment and payment of NMW to interns and directing the employers to where they could obtain further details about their obligations. HMRC will follow up the impact of these letters based on feedback from the employers and will carry out risking analysis and a sample check of employers to ensure compliance with NMW.

Following media interest in this intervention, HMRC were contacted by a music industry-backed group whose members include record labels, songwriters, musicians, managers and promoters. It also engages in high level political lobbying to ensure any new legislation benefits its members. HMRC have offered advice on designing guidance and a 'vox pop' to raise awareness of NMW compliance and its application when employers in the music industry employ or offer placements to interns and apprentices

Face to face

Most of the intervention work still involves a face to face meeting with the employer and with workers. Larger cases may involve a number of such meetings and occasionally HMRC will need to speak to the Head office of the employer or the Chief Executive of the Company.

Street Sweeps

These are two or three day operations which involve 'saturating' an area where one sector dominates. For 2014/15 HMRC have a targeted enforcement plan which focuses on the employment agency sector working in a number of geographical locations.

A recruitment sector street sweep took place in the Derby area in April 2014. A total of 22 premises were visited and 19 businesses were identified as trading from those premises. In nine cases further investigation was necessary to review and assess payroll records. One case has potential arrears of over £50,000 for approximately 50 workers relating to deductions for travel.

A further street sweep took place in the Peterborough and Boston areas in July 2014. Working on intelligence from the Gangmasters Licensing Authority (GLA) and HMRC's Labour Provider Unit (LPU) a total of 32 visits were made to employment agencies. We will be following up around 7 cases (working with officers from the LPU) to investigate NMW failures in relation to deductions from a worker's pay for Personal Protective Equipment (PPE), for travel and for accommodation provided by the agency to the worker.

Taskforces

These are larger operations where compliance officers from the NMW team join with colleagues from the wider HMRC, for example Hidden Economy, as well as external Government enforcement agencies e.g. Trading Standards, Police, Home Office Immigration and Enforcement officers and Department for Work and Pensions (DWP). These taskforces generate publicity for the enforcement work undertaken.

An operation in Hackney involved Hackney Council, Trading Standards, Environmental Health officers, the Police and Home Office Immigration and Enforcement.

During the operation a total 46 businesses were inspected and around a quarter of these were found not to be paying the National Minimum Wage, amounting to £13,800 owed to 14 employees. There were 3 targeted joint operations visiting 21 food takeaway businesses; 19 mobile phone shops and six “24 hour” supermarkets licensed to sell alcohol.

Responding to the LPC’s recommendations (also see apprentice chapter)

Unpaid work: Interns, work experience and Volunteering

HMRC continue to fast track any intern complaints, to date[35], HMRC have received 238 complaints about interns of which 195 were closed. This has identified £471,807 of arrears for 1,624 workers in 33 cases. Forty-three complaints are ongoing and there were 162 cases where there were no arrears identified (some of the reasons why there were no arrears are; there was no evidence available from the worker/employer to substantiate non-payment of NMW, the employer was paying the worker the correct amount, the employer has ceased trading etc).

In 13/14 there were 75 intern cases initiated from which 10 closed with arrears of £54,697. As mentioned above, in February 2014, 35 nudge letters were sent to targeted employers that were, based on HMRC’s research associated to the music industry awards event – The Brits – and were likely to have been involved in recruiting or offering internships.

The guidance is also being updated on Gov.uk to ensure the advice on unpaid work is clear and consistent.

Social care

In October 2013 a report was published the Gov.uk website on NMW compliance in the social care sector. The report set out the results, over a two year period, of NMW investigation of employers in the care sector and contained examples of care workers’ pay and non-compliance with NMW law.

Employment Tribunal Cases & County Court Judgements

HMRC publicise, where possible, occasions where they have been required to pursue debts on behalf of workers to County Court and have obtained a County Court Judgement, and also where they have been successful at an Employment Tribunal. HMRC have had some local and sectoral success with such press briefings but have not been able to brief on every occasion because of the time lag between the award/judgment being given and the Ministry of Justice notifying HMRC.

Prosecutions

HMRC will refer suitable cases to prosecutors. The decision on whether to prosecute or not is made by the Crown Prosecution Service (CPS) who will consider the evidence provided in support of prosecution and whether it is in the public interest to prosecute.

Criminal investigations by HMRC and prosecutions by the CPS will not necessarily result in arrears of wages being paid to workers as this is not the objective of such proceedings. Further enforcement action may, therefore, still be required to ensure that workers are repaid their arrears.

The vast majority of employers pay the minimum wage and of those who don't the vast majority pay back arrears of wages on being required to do so by HMRC. In a small minority of cases HMRC will take further enforcement action and will pursue the debt to workers through the civil courts.

Since March 2013, eight cases have been referred by our officers for consideration of prosecution, with two cases currently being pursued by HMRC's Criminal Investigation staff. Prosecutions continue to be resource intensive, in terms of time and money.

The number of prosecutions remain low due to the strict criteria that need to be satisfied. Consequently, we will be reviewing our prosecution policy to consider whether we need to make any changes. This will be considered alongside the recent changes we have made to our civil sanctions and our revised naming policy.

Project based targeted enforcement

Social Care

HMRC have developed sophisticated risking techniques which allow them to conduct, where they have the resources available to do so, project-based targeted enforcement in high risk sectors, such as those where the rules around NMW are more complicated. For example, residential and domiciliary care sectors. The national project began with extensive research including consultation with key stakeholders in this sector including the Care Quality Commission, academics and the DH. Between April 2011 and 7 July 2014 the following targeted enforcement was carried out (as set out in the table below).

Sub-Sector	Total Cases	With Arrears	% Strike Rate	Total Arrears	Total Workers	Average Per Worker
Residential	141	75	56%	£333,450	2351	£141.83
Domiciliary	83	29	40%	£872,658	4016	£217.29
All	224*	104	50%	£1,206,108	6367	£189.43

The emerging findings from interventions that were started in the review period indicate that although deductions from pay are still a factor in causing underpayments of NMW, there are other more significant issues affecting NMW pay including unpaid training, a failure to pay NMW for all working time when travel time between clients is factored in, travel expenses incurred by workers in the performance of their work that reduce pay below NMW, and a lack of awareness regarding the payment of premium rates and their effect on NMW pay calculations.

This kind of intervention is resource intensive but allows a systematic approach to a high risk sector to really understand the reasons for non-compliance so that employers can be educated, enabling them to comply more easily. We issued the report in November 2013.

Alongside this enforcement activity, the DH has developed statutory guidance, 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 National Minimum Wage regulations.

This guidance will be part of the statutory guidance on market shaping and commissioning which follows the same timetable as other guidance for the Care Act, public consultation[36] running from May 2014 until 15 August 2014 leading to final publication in the autumn.

Retail Sector

A key risk trade sector for NMW is the retail sector. Traditionally workers employed in this sector, particularly those working for large multi-outlet fashion retailers, are paid at or close to the national minimum wage.

The current Retail project is focused on 26 of the largest fashion retailers in the UK.

None of those cases have yet been concluded, but one company has self-calculated the arrears that they owe. They have identified that they owe £100,600.55 for 6,142 workers. Infringements identified include uniform deduction and not paying for all time worked (e.g. staff meeting commencing 10 minutes before their shift and this time was not counted for pay purposes). HMRC will be checking these aspects specifically when investigating the other 25 cases.

Contract Cleaning

The aim of the project was to look at businesses that supplied workers to the hospitality sector (specifically hotel cleaning).

Ten cases were investigated, of these; six are now closed with arrears of £17, 472 for 216 workers. There were an array of infringements ranging from deductions due to attachment of earnings, uniform deductions, unpaid travel time and hotel cleaning room rates paid that were below NMW when calculated against hours worked.

High profile multi-agency operations

These are large operations, involving a wide variety of external agencies.

In one operation around 150 officers from several agencies were involved in visits to 9 car washes across Hampshire. The operation brought together police, the National Crime Agency, Home Office Immigration & Enforcement, the Environment Agency, HM Revenue & Customs, National Minimum Wage and local authorities.

[36] http://careandsupportregs.dh.gov.uk

NMW failures were identified during the operation. All workers were working around 10 hours per day and the rates of pay were under the minimum wage. Some workers also paid for accommodation and deductions were made from their wages bringing them further below the NMW. One employer deducted payments for travel into the country and took £200 for a deposit in case any worker damaged a customer's car, creating a further NMW risk. HMRC have subsequently taken forward 'due diligence' work, leveraging their contacts in HMRC's Large Business Service, with the larger retail outlets who host such car washes on their premises.

Raising the Profile of the work undertaken

HMRC continues to successfully raise the profile of its NMW enforcement activity through the media. As well as publicising successes at Employment Tribunals and applications for County Court Judgments, in 13/14 several high profile press releases have been issued.

- In November 2013 a paper was issued highlighting the abuse of NMW in the Care Sector.
- In February 2014 a press release was issued promoting the work undertaken in the music industry with the headline "Brit awards record labels face the music on unpaid interns.
- HMRC issued a press release in April 2014 revealing the 10 worst excuses for not paying the minimum wage
- This was followed by a press release in June 2014 highlighting that HMRC secures record 4.6m minimum wage arrears for underpaid workers. Details were also given of the number of complaints investigated, penalties charged and workers helped; case studies were also provided.

Sector specific compliance and enforcement

There are a number of sectors for which we have prioritised enforcement either because the rules are more complicated or because there are a higher proportion of workers on the NMW. These include social care (see above), apprentices (see apprentice chapter), interns and sea farers.

Compliance and enforcement

Seafarers

The Government committed to looking at recruitment and pay practices in the maritime industry following concerns raised by members of the RMT Parliamentary Group and other trade union representatives about the application of the NMW in the sector.

We have focused enquiries on Irish Sea routes given immediate concerns raised about potential moves to low pay models in this area. By its international nature jurisdictions and applications of minimum wage legislation in the maritime industry, are complex. For example, in the UK, NMW entitlement is generally based on where a seafarer ordinarily works. Under Irish law, minimum wage entitlement is based on employment laws in place where the ship is flagged – often outside the EU.

Officials from BIS and the Department for Transport have met with a number of ferry companies operating on Irish Sea routes as well as employer bodies to establish how they are taking UK NMW legislation into account when considering their pay and recruitment policy. We will now consider the findings of that work and whether any changes to Government guidance or policy are necessary in this area.

Review of the policy changes to the NMW by the Employment Act 2008.

We recently undertook a review of the changes made to the NMW regime by the Employment Act 2008[37]. The aim of the changes was to strengthen NMW enforcement in the following ways:

1. **Fair arrears**: Changing the way arrears are calculated so that workers do not lose out from subsequent increases in the NMW as a result of underpayment[38].
2. Introducing a **new civil penalty for non-compliance** to create a clearer deterrent than presently exists[39].
3. Issuing Compliance Officers the **power to remove records[40]**
4. Provide HMRC with **search and seize powers** when investigating criminal offences under the NMW Act 1998[41].

The review assessed both the outcome and output from each policy change as well as monitoring the changes to the operational processes to identify any unforeseen consequences, understand any obstacles and recognize good practice. Any other wider issues that could affect compliance with the NMW or the enforcement regime were also explored.

Evidence indicated that the fair arrears regime, the civil penalty introduced in 2009 and the introduction of the powers to remove records were generally effective at meeting their policy objective.

However an issue was identified regarding poor employer records and the impact on the fair arrears regime. A concern in relation to issuing a NoU was the difficulty in calculating arrears when the employer did not keep sufficient records or where employers purposefully provided inadequate records, thus making evidence gathering

[37] https://www.gov.uk/government/publications/national-minimum-wage-employment-act-2008-evaluation-of-the-policy-changes

[38] From 6 April 2009, workers who have been underpaid the NMW are entitled to have arrears repaid based on *current rates* where these are higher than the rate or rates that applied at the time of the underpayment[38]. This increase takes account of the length of time workers have had to wait for their arrears. Previously, arrears were calculated as the difference between the amount paid and the amount that should have been paid under the NMW rate at that time.

[39] If HMRC find that there has been an underpayment of the NMW they will issue a notice of underpayment in line with Government policy. This requires an employer to repay arrears to the workers and to pay a financial penalty to the Secretary of State. Employers can appeal against the notice of underpayment to an Employment Tribunal.

[40] Compliance officers are now able to remove NMW records from an employer’s premises for photocopying but must return them within a reasonable period (7 days).

[41] This will enable them to investigate the most serious allegations and submit sufficient/admissible evidence for the Crown Prosecution Service to consider whether a prosecution is appropriate.

difficult and delaying the issue of a NoU. Furthermore, there is no tangible penalty for employers who keep poor records as opposed to an employer who keeps good quality records.

This is currently being addressed in the BIS communication strategy to businesses. Furthermore, the strategy will also address the lack of deterrent effect of the penalty regime by raising awareness of the enforcement process as well as the new NMW rate from October 2014.

Finally, there were very low instances where the power to search and seize was exercised. There is a strict criteria that needs to be satisfied for an employer to be prosecuted as HMRC’s main objective is to recover arrears for workers who are not paid the NMW. As evidence points to non-compliance as a result of technical error rather than deliberate non-compliance, the number of instances where the power is used is likely to be small.

Annex C: Update on non-remit issues

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

Responding to the LPC's recommendation on migrant domestic workers

In the 2014 report to the Government the Low Pay Commission recommended that: *"the Government should review the law, and take the next available opportunity to legislate and clarify the entitlement of migrant domestic workers to the National Minimum Wage".* This recommendation followed a concern that: "*The courts have sometimes judged that they are not entitled to the minimum wage, under the family worker exemption. We are concerned that the exemption has been applied where it is not intended to operate*"

Home Office and Department for Business, Innovation and Skills are working together to ensure that migrant domestic workers receive sufficient support to understand and receive their rights under UK employment law.

The Government believes that it is up to the courts to interpret whether the family member exemption applies in individual circumstances. Overseas Domestic Workers have the protection of UK employment law, including the right to be paid at least the NMW (unless they are treated as if they are a member of the family), the right to a written contract, advice from ACAS and a range of other bodies including the Pay and Work Rights Helpline, and access to Employment Tribunals.

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 Low Pay Commission in the autumn of 2013.

Agricultural Wages Board

The Agricultural Wages Board for England and Wales was abolished by the Enterprise and Regulatory Reform Act 2013, bringing agricultural workers in England and Wales within the scope of the National Minimum Wage Act 1998. The Welsh Government opposed the abolition and argued that the AWB's functions are devolved as agriculture is a devolved subject under the Government of Wales Act 2006.

The Welsh Government passed the Agricultural Sector (Wales) Bill under the Welsh Assembly's emergency procedures in July 2013, effectively reversing the effect of the provisions in the Enterprise and Regulatory Reform Act in Wales.

The issue was referred to the Supreme Court which ruled in June 2014 and clarified how parameters of the Assembly's competence, set out in section 108 of the Government of Wales Act 2006, should be interpreted.

The Court ruled in favour of the Welsh Assembly. The ruling favoured a broad interpretation that legislation relating to devolved areas falls within the competence of the Welsh Assembly, rather than being a reserved matter as employment law. The Government is now considering the implications of this for the devolution settlement.

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 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, 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.

This guidance will be part of the statutory guidance on market shaping and commissioning which follows the same timetable as other guidance for the Care Act, public consultation[42] running from May 2014 until 15 August 2014 leading to final publication in the autumn.

Travel time

The Government is aware that non-payment of travel time is a particular issue for domiciliary care workers and we have updated our guidance to make it clear when travelling time and rest breaks must be paid[43].

Sleeping time

On 8th May 2013, the EAT heard the case of Miss L Slavikovska against Middle West Residential Care Home. The ruling stated that Miss Slavikovska was entitled to the NMW for sleep-in night time shifts at the care home, as this was time work. However, the ruling was not released until 8th May 2014.

On 19th July 2013, the EAT ruled on the similar case of Whittlestone vs BJP that a "sleep in" care worker was entitled to the NMW. This was because her contract specifically required the carer to be present at the care home rather than being at home (nearby) and on call from there.

The Government believes that workers should be paid the minimum wage if what they are doing amounts to work under the contract they have with their employer. If the worker is working (which is a question of fact for a tribunal to determine), then the minimum wage is payable and that is the end of the matter. The provisions about whether or not a worker is asleep only come into play in circumstances where the worker is available to work but not actually working. In cases where the workers must be present at their place of work, and are in effect working even if their employer allows them to sleep rather than carry out other activities, the workers should get paid the NMW.

Sleeping time particularly affects the social care sector where there is a legal requirement to have staff on the premises at all times when a facility houses vulnerable people. As such sleep-in shifts are common in many care homes. It is not possible to quantify the impact of these rulings as it depends on the contractual agreements and working arrangements of individual workers.

Consolidation of National Minimum Wage Regulations and associated guidance

The Government consulted on how best to consolidate existing NMW regulations into a single set of regulations between 22 July and 15 September.

[42] http://careandsupportregs.dh.gov.uk

[43] For care workers, time spent travelling directly between assignments generally counts as time worked for minimum wage purposes. Whether a time worker is entitled to the minimum wage for other periods - such as the time spent travelling between home and their first assignment and between their last assignment and home - depends on the terms of their contract and whether they are working during that time. Where the travelling time is time for which the minimum wage should be paid, any associated expenditure incurred by a worker in respect of that travel must be reimbursed.

The Regulations contain detailed rules that underpin the NMW regime. They have been amended many times and the Government has therefore concluded that the time was right to consolidate the Regulations. The intention is to make it easier for employers and workers to understand the regulations by ensuring that the rules are set out as clearly and accessibly as possible.

Section C2: 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 youth development rate (18-19 years old) 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 six years with the largest employers already automatically enrolling their staff. All employers will be included by February 2018.

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

Since then, there are the following updates:

- 10 million people will be eligible for automatic enrolment;
- We estimate 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;
- 4.4 million workers have been automatically enrolled since October 2012;
- 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 from 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.

TPR 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[44].

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 a range of programmes – the key programmes which are described in greater detail below are:

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

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

Name of Programme	Age	Key components	Link to NMW
raising the participation age	16-18	From June 2015 young people must stay in education or training until the age of 18. Students who finished year 11 in summer 2014 are first cohort impacted. Can be an apprenticeship.	Apprenticeships must be paid NMW
study programmes	16-19	Full time Programmes for all 16-19 students to help them move into their next step whether it be apprenticeship, higher or further education, or paid employment.	
work experience	16-19	Non-qualification activity within the study programme.	exempt from NMW
tech level qualification	16	Level 3 vocational l qualification supporting entry to a technical job role or higher education	
traineeships	16-24	An educational programme of up to six months including employability preparation, English and maths and work experience	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.

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[45].

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 [46].

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.

16-19 Study programmes

From August 2013, all 16 to 19-year-olds in education institutions have been on a study programme aimed at giving them the best opportunity to move into higher education, further training, an Apprenticeship, or secure skilled employment. Study programmes can be academic or vocational or a mix of the two, and will ensure that young people focus on those areas that employers value most – English and maths for those that have not yet achieved a GCSE grade C by age 16, substantial qualifications and work experience.

Work experience

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

In August 2013 we reformed the post-16 curriculum and funding system to incentivise education and training providers to offer high quality work experience to young people as part of 16-19 study programmes**.**

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

The time spent by schools and colleges in organising work experience is funded at the same level as time spent on taking qualifications. This has been achieved by shifting the funding system to pay per student rather than per qualification delivered.

Taking part in work experience helps young people to be better prepared for employment and to develop the employability skills which employers say are important. Work experience can also be planned to support young people to achieve specific vocational qualifications.

Work experience should be based on a student's prior attainment, career and learning goals. It can be linked to future aspirations for students taking academic or vocational programmes and in the latter case may contribute to the achievement of Tech Level qualifications (described below). Extended work experience within a traineeship or supported internship can provide more general preparation for entry into employment or an Apprenticeship.

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

- producing simpler and clearer health and safety guidance[47] for all those involved in work experience;
- securing commitment from the insurance industry to treat work experience students as employees so that they will be covered by existing employers' liability compulsory insurance policies;
- changing legislation[48] so that employers no longer need to carry out CRB checks on staff supervising young people aged 16 to 17 on work experience and;
- tackling the compensation culture by amending the Health and Safety at Work Act, which will come into effect in autumn 2013.

Tech Level qualifications

The Government has introduced new Tech Levels which will require all students to undertake meaningful activity involving employers during their study, such as work experience. Tech Levels are Level 3 vocational qualifications for 16-year-old students who have a clear idea about the occupation they wish to pursue. The qualifications are backed by industry and equip students with the specialist knowledge they need for a specific recognised occupation, such as engineering, computing, accounting or hospitality.

Technical Guidance published in June 2014[49] sets out the full requirements that all Tech Levels will need to meet to be included in 16-19 school and college performance tables from 2018.

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.

[47] https://www.gov.uk/government/news/ministers-to-end-work-experience-health-and-safety-confusion
[48] Rehabilitation of Offenders Act 1974 (Exceptions) (Amendment) (England and Wales) Order 2012
[49] https://www.gov.uk/government/publications/vocational-qualifications-for-14-to-19-year-olds

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 qualified below Level 3 or 19-24 and have not yet achieved a full Level 2; 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 here[50]

The Youth Engagement Fund

The Youth Engagement Fund targets 14-17 years olds who are either at risk of or have already become NEETS. Through this fund money is available to organisations working with young people to improve educational achievement and employability. Some young people who have been helped as part of this fund may later take up an Apprenticeship or regular employment. However, under this fund no money is available to employers to support the cost of taking on an apprentice or young worker.

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

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.

Benefits - Universal Credit

Universal Credit (UC) provides a new single system of means-tested support for working-age people who are in or out of work. It aims to reduce the number of workless households by reducing the financial and administrative barriers to work that exist in the current system of benefits and tax credits.

As these reforms roll out across the country the Government will monitor the data to see whether this leads to more people taking up employment including jobs paying the NMW.

UC delivery started with the successful launch of the Pathfinder in April 2013 and has continued to expand. We are introducing it in a managed way, progressively rolling it out nationally. The transition from the current system of benefits and tax credits to Universal Credit will be gradual and it is expected to be completed by the end of 2017.

In July the North West expansion of UC began and it is now available to single and couple claimants in 44 Jobcentres[51], providing people with stronger incentives and support to get into work and earn more money.

From June 2014 Jobcentres right across the North-West of England started to gradually take claims for Universal Credit. By the end of this year there will be 97 jobcentres, or more than one in eight jobcentres in Britain, offering Universal Credit. From Autumn 2014 DWP will start to extend Universal Credit to families.

The roll out of Digital Jobcentres will also be completed by Autumn, replacing outdated Job Points and phones with wi-fi and an extra 6,000 computers in all jobcentres, helping claimants to apply for jobs and improve their digital skills.

Jobseekers in other areas are already benefiting from some of its positive impacts through help from a work coach, more digital facilities in jobcentres, and a written agreement setting out what they will do to find work.

UC has a number of strands which have already been rolled out across the country including the Claimant Commitment (a new document which clearly records a claimant's key responsibilities in return for benefit payments and the consequences of failing to meet them), which is now being used by all 714 Jobcentres. In addition we have made a significant investment in staff training and adviser time - over 26,000 Jobcentre staff has been trained in providing advice, mentoring and coaching.

We expect that as more people are moved onto Universal Credit, some will seek and gain employment – including minimum wage jobs. Some people in low paying jobs will also be entitled to Universal Credit to top up their income.

[51] https://www.gov.uk/jobcentres-where-you-can-claim-universal-credit

Annex D: 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	1455
Total number of complaints from workers	3294
Notices of Underpayment	680
Uplift to current rates	£188647
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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