Submission to the Low Pay Commission consultation on the National Minimum Wage

About the Forum of Private Business

The Forum of Private Business is a proactive, not-for-profit membership organisation, providing comprehensive support, protection and reassurance to small businesses. We add value to businesses through the collective voice for members in local, central and European government, and the provision of tailored solutions that promote business success.

Unless stated, figures are taken from a Forum of Private Business survey of its members Referendum 209: The costs of doing business.

• What are your views on the outlook for the UK economy, including employment and unemployment levels, from now through to September 2016?

All indicators suggest that the economy continues to improve. Employment continues to rise and consecutive quarters of GDP growth are helping to encourage business' own confidence. Around half of FPB members expected to grow in 2014, although that growth was limited to upselling to existing customers in the UK, or seeking new customers in the UK. There remains a worryingly small appetite among small businesses to seek growth through exporting.

Businesses should be praised for the creation of jobs during the difficult years of recession and it is clear that at some level it has impacted on a slower wage growth across the economy.

• What has been your experience of wage growth in the UK during the last year and what do you forecast for the next twelve to eighteen months?

The Forum of Private Business does not survey members on wages. However, we expect to see a cautious approach to wage increases over the next 12 – 18 months for two reasons.

Firstly, many small businesses will be forced to contribute to pensions for their staff for the first time. For businesses still not making profit, or with limited cash flow, there will undoubtedly be a decision to make as to whether both a wage rise and pension is affordable.

Secondly, there is anticipation of interest rate increases in the first half of 2014. Begbies Traynor estimate that up to 400,000 businesses could be placed in severe distress by even a 0.5% increase due to their issues in servicing debts.

The Forum of Private Business' own research shows a continued rise in the cost of doing business over the last year with 65% of businesses reporting a rise in the cost of staff. Overall, staff costs were the main cost pressure identified by members with 38% reporting that wages and the cost of employment (auto enrolment, payroll etc) had hit their bottom line. Energy costs were the second largest cost pressure, mentioned by 24%.

51% have had cash flow issues as a result of rising costs and it has had a detrimental effect on 45% of business when looking at investment. 44% reported that it has been detrimental to employment levels and 50% feel that it has inhibited growth ambitions. In all cases this is a significant drop from the impact that business inflation was having in 2013.

Prices have risen far faster for micro, small and medium-sized employers than for the rest of UK society at 4.7%. The table below shows various inflationary indicators, with wage inflation around that of underlying inflation as reducing staff costs (after reducing their own take-home pay) has been the only way for some businesses to continue trading.

Which of the following costs have increased over the last few years?

	2014	**2013**	**2012**	**2011**	
Wage inflation	2.5%	2.5%	3.0%	2.5%	Income Data Services Pay report*(1)
Consumer Price Inflation (CPI)	1.6%	2.7%	2.6%	4.5%	ONS(2)
Annual inflation	2.6%	3.1%	3.2%	5.2%	ONS/Moneyfacts
Underlying inflation	2.7%	3.2%	3.2%	5.3%	ONS/Moneyfacts
Services producer price index	1.2%	1.2%	1.3%	1.1%	ONS(3)
Small business inflation	**4.7%**	**6.0%**	**6.7%**	**8.5%**	**Forum of Private Business**

*IDS report used due to the timing of the Annual Survey of Hours and Earnings

Businesses continue to absorb rising prices. Fewer have been able to pass on the costs to their customers this year, with 38% of businesses not feeling able to pass on any costs to their customers. Just 3% were able to pass costs on in full.

Looking ahead, 14% of businesses expect costs to increase significantly over the next year and 82% believe that prices will continue to increase. 8% expected prices to decrease or remain the same, five times what it was last year.

Balance of businesses annual change in cost (proportion of those showing a cost increase minus those showing a decrease) over the last 6 years

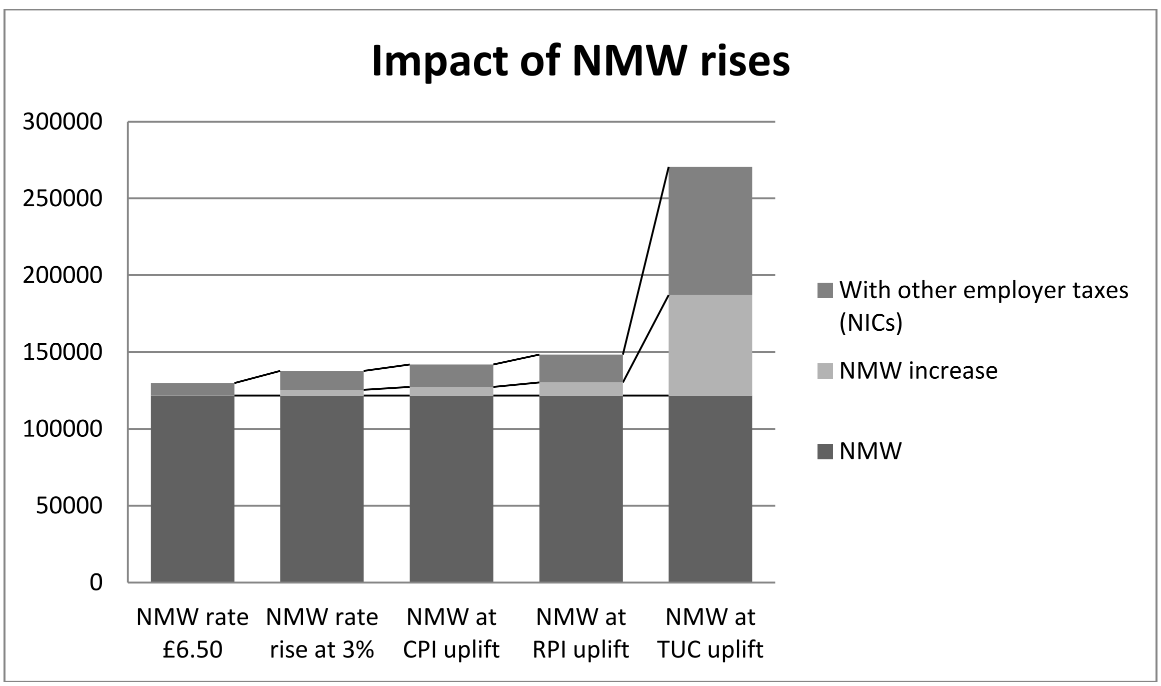
	National Business Survey(5)		Forum figures			
	June 2008	**June 2009**	**Sept 2011**	**Sept 2012**	**Sept 2013**	**Sept 2014**
Energy costs	88%	82%	93%	82%	85%	**67%**
Raw materials	60%	53%	81%	72%	68%	**64%**
Transport costs	75%	60%	92%	87%	81%	**63%**
Property costs	37%	30%	45%	41%	47%	**40%**
Staff costs	61%	38%	64%	61%	67%	**61%**
Cost of finance	34%	27%	37%	34%	31%	**26%**

• What has been the impact of the National Minimum Wage (NMW), (for example, on employment, hours and profits), in particular over the last twelve months? Has this impact varied (for example, by sector, type and size of business or groups of workers (including women, ethnic minorities, migrant workers, disabled people, older workers, and those who are unqualified)), and if so how?

The Forum of Private Business believes the wage rate increases over the past few years have been fair, supporting businesses to maintain levels of employment they might otherwise have been unable to. We do not have the breakdown to add further to the question posed.

• In our 2014 Report, we made an additional assessment of the future path of the NMW. This looked at what economic and business conditions needed to be in place to allow a faster increase in the minimum wage rates taking into account the implications on employment. Do you have any comments on that assessment? What economic and business conditions do you think need to be in place for faster increases in the NMW?

The graph below looks at the impact on wages if the NMW was raised to catch up in real terms. It is based on nine members of staff working full time (40 hours) on National Minimum Wage and uses figures from the LPC's 2014 report on uprating the NMW according to various measures and the TUCs suggestion of a £10 rate. The employer taxes take into account employer NICs and a 1% pension contribution. It does not reflect employment allowance, NI holiday or other subsidies.



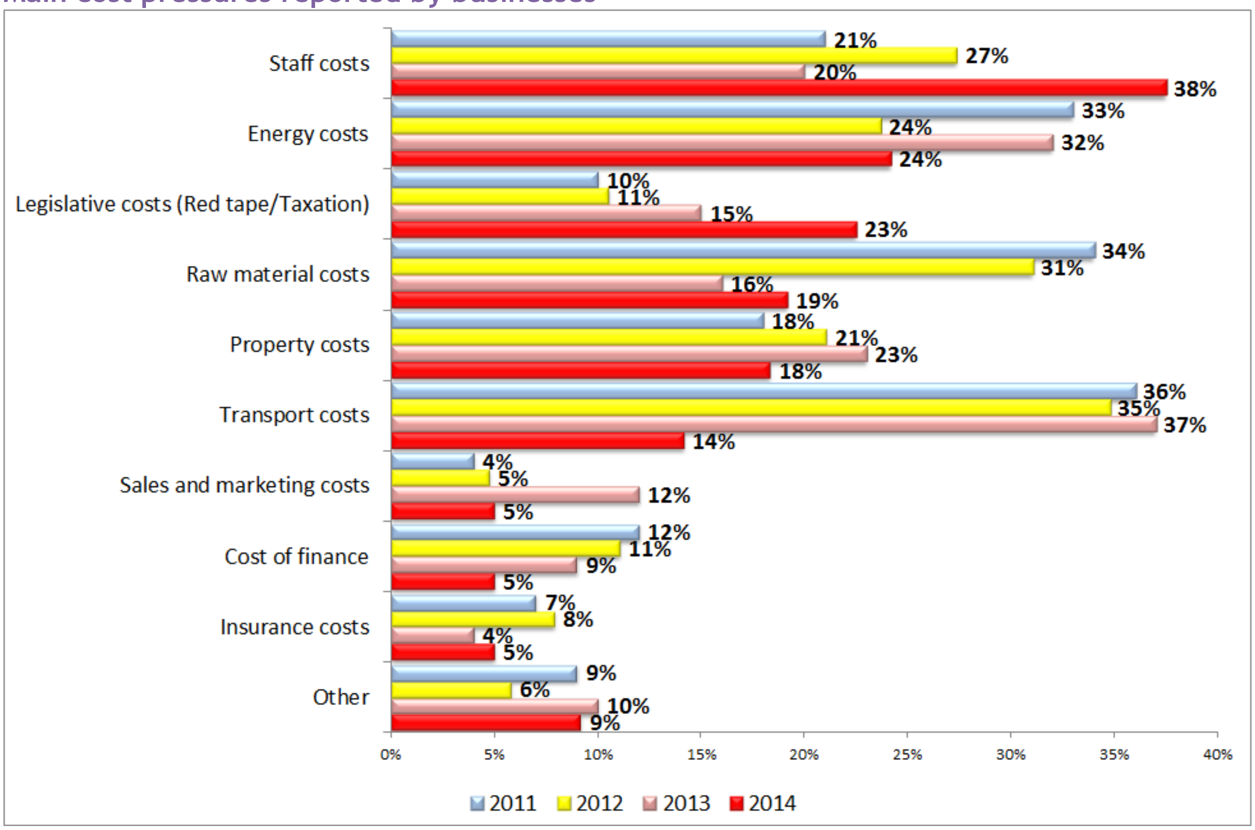
The graph demonstrates the sizeable increases a business will face if the NMW is uprated to take account of real terms loss. In approximate numerical values this represents an increase in wage bills to micro businesses of:

An uprated NMW at CPI level = £14574.42
An uprated NMW at RPI level = £18012.9
An uprated NMW at TUC level = £83344.83

At a time when business profits, where this is profit, remain low, we would suggest a proportionate increase of wages around 2-3% may be affordable but will cause some small businesses significant problems when combined with an interest rate rise. The Forum of Private Business does not feel that many businesses are yet ready for an above inflation increase in the National Minimum Wage. We also have concerns that setting a rate to reach over a longer term, whilst providing some degree of certainty for businesses, is potentially dangerous, skewing sensible decision making and not taking account of potential economic down turns during the period. We do not believe the Low Pay Commission should take any longer look than two years.

As the graph below shows, staff costs remain a pressing – and growing – issue for businesses despite an appetite to employ more people.

Main cost pressures reported by businesses



Staff costs were the main cost pressure reported by 38% of businesses, of which around half mentioned wages/salaries specifically and 15% reported that the cost of employment (payroll costs/auto enrolment) as the main problem (the remaining third were inclusive). Only a small minority reported that staff costs were due to increases in National Minimum Wage, with auto enrolment, real time information and salary costs more influential.

• What has been the impact of the minimum wage on young people and what effect do you think it has on their employment prospects?

Taking on young people can be extremely beneficial to a business but nevertheless brings a greater number of additional burdens on an employer. Having a lower level of minimum wage for young people reflects the additional time and energy employers put in.

Youth unemployment has remained stubbornly high over the last 5 years. As employment levels start to increase steadily it is important young people are not priced out of employment.

• What has been the impact of the Apprentice Rate on pay, provision, take up and completion?

Since 2010 over 1.5 million people have signed up for an apprenticeship place. Slight drop in the number of apprenticeship starts in 2012/13 at 495,100, (520,600 in 2011/12).

- For employers the lower rate reflects the amount of time and resource that goes into managing and training an apprentice. (Lack of time/resource is the 3rd most commonly cited barrier for not taking on a young person[6]).
- There remain awareness issues (LPC report 2012 noted over 27 per cent of apprentices were paid less than their applicable NMW rate, particularly prevalent for 16-18s). Following the LPCs recommendation last year and based on our own communications to members the Forum would hope to see a decline next year in the lack of compliance.
- Should also be noted that many industries pay apprentices over the rate.

Information sources

(1) Income Data Services, Pay report August 2014, www.incomesdata.co.uk
(2) ONS Consumer Price Indices, August available from www.ons.gov.uk
(3) ONS Services Producer Price Indices, Quarter 2 available from www.ons.gov.uk
(4) AA/Experian, Fuel Price report, available from the AA website www.theaa.com
(5) Ipsos Mori, National Business Survey Wave 2 June 2009 http://www.ipsos-mori.com/researchpublications/publications/publication.aspx?oItemId=1340
(6) UKCES, Scaling the Youth Employment Challenge, 2013

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