



Robin Webb
Secretary to the Low Pay Commission
6th Floor, Victoria House
Southampton Row
London
WC1B 4AD

Dear Mr Webb

Re: FSB response to Low Pay Commission's Consultation on the National Minimum Wage

The Federation of Small Businesses (FSB) welcomes the opportunity to respond to the above named consultation.

The FSB is the UK's leading business organisation. It exists to protect and promote the interests of the self-employed and all those who run their own business. The FSB is non-party political, and with approximately 200,000 members, it is also the largest organisation representing small and medium sized businesses in the UK.

Small businesses make up 99.3 per cent of all businesses in the UK, and make a huge contribution to the UK economy. They contribute 50 per cent of GDP and employ 59 per cent of the private sector workforce.

The FSB welcomed the National Minimum Wage when it was introduced and provided that the rate does not exceed the rate of inflation and harm business competitiveness, we will continue to support the measure. Nevertheless, it is important to note that despite recent signs that the recovery is gaining momentum and business confidence is rising, certain sectors and regions are still lagging behind. In sectors such as retail and hospitality, firms are often run on very tight margins and the impact of rising costs – particularly utilities, rents and business rates - continues to be felt.

We would therefore suggest caution when setting the rates for 2014/2015 and specifically we would argue that any increase in the NMW which the Commissioners deem necessary should be no higher than inflation as measured by the Consumer Price Index. A small, gradual increase, preferably below but not exceeding CPI, would ensure the right balance is struck between helping to boost consumer spending (which has been weakened by several years of weak wage growth) on the one hand, and protecting businesses and jobs in low-paid sectors on the other. For the apprenticeship rate, we believe that there is a case for enhancing this further, potentially to a level in line with the the youth rate.

We trust that you will find our comments useful and that they will be taken into account. We also ask you to take into account comments made by the FSB during a recent meeting with officials from the Low Pay Commission.

Yours sincerely,

Michael Mealing
Chairman, Employment Committee
Federation of Small Businesses



Federation of Small Businesses
The UK's Leading Business Organisation



**FSB response to
Low Pay
Commission
consultation on
the National
Minimum Wage**

April 2013



1. Introduction

The FSB welcomed the National Minimum Wage when it was introduced and provided that the rate does not exceed the rate of inflation and harm business competitiveness, we will continue to support the measure.

In recent months, our members are showing increasing confidence about the state of the economy and their business prospects. In the third quarter of 2013, the headline rate of confidence of small business rose by a 33.5 points as measured by our Small Business Index (see box). Hiring intentions are also on the up. Maintaining this confidence and optimism will be crucial to ensuring the economy fully turns the corner into a sustained period of growth.

Despite these important signs, it is important to note that in some sectors and regions of the UK, the recovery is yet to fully take hold. The cost of doing business continues to be a pressure burden, especially in sectors where firms are typically run on tight margins, such as hospitality, retail and wholesale. Here the impact of rising costs related to utilities, rents and business rates continues to be felt. It is therefore crucial that Commissioners pay detailed consideration to these sectors and regions when advising on national and economy-wide minimum wage rates.

FSB Small Business Index

The headline Small Business Index rose to +33.5 in Q3 2013. This is up from +15.9 the previous quarter and -4.5 in Q3 2012, taking small business confidence levels to their strongest since the series began in 2010.

Small businesses are raising their aims, with 54.2% aspiring to grow over the coming 12 months, up from 50.6% in Q3 2012, while fewer are expecting to downsize.

Small business optimism continued to rise around the country. However, a north-south confidence divide is re-emerging, as London, the south east and the south west all have the highest levels of optimism this quarter, while the north east, north west and Yorkshire and Humber are at the other end of the scale.

Financial and business services, as well as technology firms, report the highest levels of confidence. However, small businesses in the leisure and entertainment industries are less optimistic, as household spending power remains squeezed.

Source: Centre for Economics and Business Research and FSB, September 2013

2. Evidence from the FSB 'Voice of Small Business' Panel survey

NMW earners in Small businesses

In June 2013, the FSB ran its annual 'Voice of Small Business' panel survey of its members on employment issues. 6,510 businesses were invited to take part in an online survey designed and hosted by the independent polling company, Research by Design. Fieldwork took place between Wednesday 19th June and Wednesday 3rd July 2013. Two reminder emails were sent to non-respondents. 2,288 responses were received; a 34% response rate.



Respondents were asked a series of questions about wage structures in their businesses and recent trends in pay. The survey found that:

- **Just under a quarter (23 per cent) of small businesses employ one or more members of staff on the National Minimum wage.** Compared to survey findings from the previous year (June 2012), this amounts to a fall of 4 per cent in the number of small firms with staff on the NMW (27 per cent of small businesses).
- 35 per cent of small businesses pay one or more members of staff a rate between the NMW and the Living Wage, compared to 33 per cent in 2012.
- **97 per cent of small businesses have one or more members of staff who are paid the Living Wage or higher.** This compares to 95 per cent of small businesses in 2013.
- **Small firms in the hospitality industry¹ (43 per cent), retail (36 per cent) and leisure and entertainment (31 per cent) industries are more likely to have staff on the minimum wage.** Firms in financial services (13 per cent), computer and related services (13 per cent), construction and building (14 per cent) and health and social work (14 per cent) are less likely to employ minimum wage earners.
- **Small businesses in the devolved regions (except Scotland) are more likely to have staff on the NMW than those in England** (Wales; 34 per cent of business; Northern Ireland 33 per cent; and Scotland 27 per cent). In England, businesses in the West Midlands (30 per cent), North West (26 per cent) and East Midlands (22 per cent) are most likely to have staff on the NMW. London-based businesses are less likely 12 per cent to have staff on the NMW. The mean percentage of businesses in England with one or more staff member on NMW is 22 per cent.

The survey also found that in a typical small business that employs², 9 per cent of staff are paid the National Minimum Wage compared to 13 per cent in June 2012. In contrast, 71 per cent of staff are now paid a wage equivalent to or higher than the Living Wage, up from 70 per cent in June 2012³. Furthermore, the survey found that 49 per cent of small businesses pay all of their employees the Living Wage. Only 5 per cent pay all of their employees the national minimum wage.

There also appears to be some evidence that small businesses are starting to raise wages of those staff on the minimum wage. Our survey found that 49 per cent of businesses with staff on the NMW have either increased wages over the past 12 months or are considering doing so. In contrast, 51 per cent of businesses have stated that they have or will be maintaining pay at the NMW. These statistics suggest a gradually improving picture on pay compared to recent years, which is line with wider positive indicators around business confidence. However Government needs to bear in mind the variable impact the Minimum Wage has on businesses according to sector and region.

Attitudes towards the October 2013 NMW increase

Respondents were also asked what impact the 12p increase in the adult rate (to £6.31 per hour), due to come into effect on 1st October 2013, will have on their business. The following results⁴ were found:

¹ hotels, restaurants, bars and catering

² With an average workforce of 10.6 employees

³ With an average workforce of 8.9 employees

⁴ The question was asked of all those employing staff, not all of whom chose to provide an opinion



- **58 per cent of small businesses felt that increase in the adult rate would have no impact on their business.**
- **A further 16 per cent said that the rise was not applicable** as they did not employ staff on the minimum wage.
- **4 per cent said it would have a significantly negative impact and 19 per cent said the increase would have a moderately negative impact** (23 per cent citing negative in total, down from 28 per cent in May 2011).
- Of those that cited a moderately or significantly negative impact, 75 per cent said that it would reduce their firms' profitability, 35 per cent would be reluctant to take on new staff, 34 per cent said they would have to increase prices, while 9 per cent suggested that they would have to reduce staff numbers.
- 3 per cent of small businesses cited a positive effect from the increase in the adult rate. 33 per cent of these respondents said it would improve staff morale and 25 per cent said it could potentially increase their competitors' costs.
- **Businesses in the hospitality industry (52 per cent), personal services (46 per cent) and retail (37 per cent) were more likely to cite a negative impact** ('moderately' and 'significantly') of the increase in the adult rate. Businesses in financial services (7 per cent), creative services (10 per cent) and computing/IT and related services (12 per cent) were the least likely to cite a negative impact.
- Businesses in Northern Ireland (50 per cent of business), Scotland (27 per cent) and the West Midlands (27 per cent) were most likely to cite a negative impact (moderate and significant) from the increase in the adult rate. Businesses in London (16 per cent), the South East (19 per cent) and East Midlands (19 per cent) were less likely to cite a negative impact.

It is important to bear in mind that when we analyse *only those small businesses that employ NMW earners* (as opposed to all small business employers), the number of businesses that felt the rise in the adult rate **would have no impact fell to 40 per cent and the number of businesses citing a negative impact rose to 53 per cent as expected** (42 per cent stating a moderately negative impact and 11 per cent a significantly negative impact). 3 per cent of firms employing staff on the NMW said the rise would have a positive impact.

3. NMW rates for 2014

In light of these findings, the FSB believes that the Low Pay Commission must remain prudent when setting the NMW. We suggest that Commissioners are particularly mindful of the effect of their proposals on businesses and employment in traditionally low-paid sectors.

We understand that Government is concerned about the impact of falling real wages – caused in part by several years of wage restraint - on consumer spending and the public finances. It is also true to say that in many parts of the country, the impact of falling real wages and higher living costs has also been felt on the high street and by businesses in a range of other non-retail sectors. However, it is crucial that Government balances this concern with the need to ensure the UK's small businesses remain competitive. This in turn will enable more firms to increase staff pay over time and is vital to a sustained recovery.

With regard to setting the NMW for October 2014 therefore, we believe that any increase to adult, development and youth (under 18) rates should not exceed the rate of inflation as measured by the Consumer Price Index. A small, gradual increase preferably below but no higher than inflation would ensure the right balance is struck between helping to boost consumer spending on the one hand and protecting businesses on the other, particularly those in low-paid sectors.



Any strategy to boost pay should not only rely on legislative means. It is paramount that Government sets out a long-term strategy to grow enterprise and ensure that businesses are supported when it comes to finance, procurement and fair taxation. We are also calling on Government to place renewed impetus into driving down business overheads, such as business rates, energy and fuel costs, and freeing up cash-flow by ending the scourge of late payment by big companies to their suppliers. Doing so will enable more and more businesses to reward their staff by increasing pay.

In order to address the issue of regional pay disparities (and by extension, the variable impact of NMW increases on employers according to their geographic location), the FSB believes the priority for the UK Government and devolved administrations should be to promote and foster regional growth through infrastructure investment, opening up the public procurement process to small companies, and (in England) improving the governance of Local Enterprise Partnerships. This in turn will allow small firms to grow, adding significant value to their local economies, and over time should help to reduce pay differentials that exist between the UK regions.

4. Effect of the NMW on the employment prospects of young people

Nearly three quarters of a million young people aged between 16 and 24 have been out of work for more than a year. This is a worrying figure and the trend is increasing. However, there are multiple reasons for why small businesses can be reluctant to hire young people.

It is our understanding from our members that the NMW is rarely a major barrier to employing a young person. Instead, small businesses can be reluctant to hire young people because they often find that many lack the right skills to do the job. This includes functional skills, such as numeracy and literacy, but also employability skills – such as the ability to communicate effectively and having the right attitude to work – that are so crucial to employers.

Since employability skills are essential to getting and keeping a job, the FSB has argued that employability skills should be embedded within the curriculum. Furthermore, young people need good careers advice and careers education, covering a wide range of potential career options and routes into careers. This guidance should also promote vocational training as a valuable and equal alternative to university. Schools also need to be incentivised to engage more with local businesses, turning to them for careers guidance, work experience and mentoring.

Small and micro businesses have a key role in tackling unemployment and creating jobs for disadvantaged groups on the fringes of the labour market, including young people. The FSB commissioned research from Westminster Business School⁵ last year which found that 9 out of 10 unemployed or inactive people that find a job in the private sector do so either in a small firm or by becoming self-employed. BIS research has also found that small firms create more net new jobs than larger companies, with small firms now accounting for 59 per cent of all private sector employment in the UK today.

It is therefore crucial that Government harnesses the job creation potential of small firms, by ensuring policy meets their needs. More also needs to be done improve awareness of schemes like the Youth Contract,

⁵ Urwin P and Buscha F (2012) 'Back to Work: The role of Small businesses in employment and enterprise', Westminster Business School



which offer financial incentives to employers that take on young people but are currently used by few employers.

5. The Apprenticeship rate

The FSB believes there is a case for gradually increasing the Apprenticeship Minimum Wage rate again in 2014. We welcomed the Government's decision to raise the apprenticeship rate by 3p (to £2.68 per hour) this year and believe the Low Pay Commission should look at the feasibility of extending it further next year. In a previous survey, 82 per cent of FSB members supported an increase in the minimum wage for apprentices from £95⁶ to £123 per week, which would have taken it roughly in line with the youth (under 18) rate.

The FSB believes that bringing the apprenticeship rate more closely in line with the under 18 rate will help to boost the apprenticeship brand among young people (and their parents) and help small businesses attract the best young recruits. **However, we would only support this if the Government retains the existing model of apprenticeship funding and does not pass on extra costs to employers.**

There has been so much change to the apprenticeship system in England over the last 30 years that many small firms are not aware of the process of taking on an apprentice and the value of doing so for the business. This is a missed opportunity. The status of apprenticeships needs to be vastly improved in the eyes of young people, schools, parents and employers. Apprenticeships need to be seen as of equal value to academic routes into a career.

6. Compliance

The FSB supports the Government's decision to publicly name and shame employers that break the law and repeatedly fail to pay their staff the National Minimum Wage. Such behaviour is thankfully confined to a minority of employers, however it is highly damaging to the reputation of the wider business community. Furthermore, businesses that breach NMW legislation are often doing so to undercut their rival companies who in turn can struggle significantly and sometimes go out of business as a result.

However, there is scope for the Government to improve its guidance on the NMW to employers. Anecdotal evidence suggests that there is some confusion around the issue of pay deductions, namely what items can and cannot be deducted from wages (e.g. equipment, clothing, accommodation). The FSB believes that more can be done by Government to raise awareness among employers, including around the accommodation offset. While relatively few businesses make use of the accommodation offset, it is common in sectors where seasonal work is the norm, such as agriculture. Employers in these sectors require clear and up-to-date guidance on this particular issue.

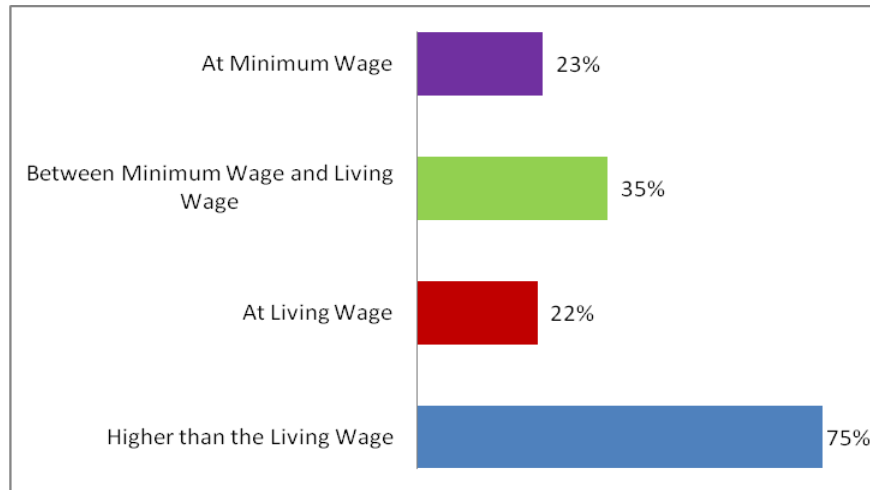
⁶ Based on the 2010-11 rate of £2.50 p/hour



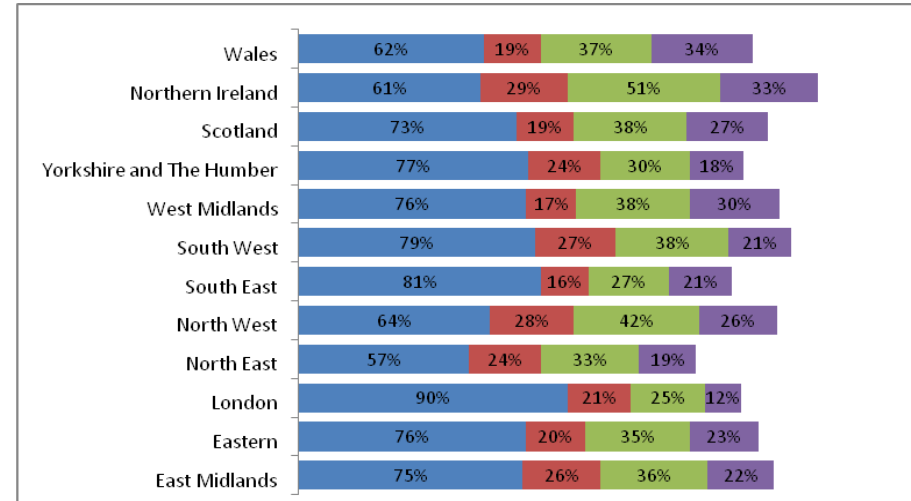
Annex: Results for the FSB 'Voice of Small Business' Panel survey, June 2013

1. At which of the following wage levels do you currently employ staff?

All those employing staff (Base: 1,749)

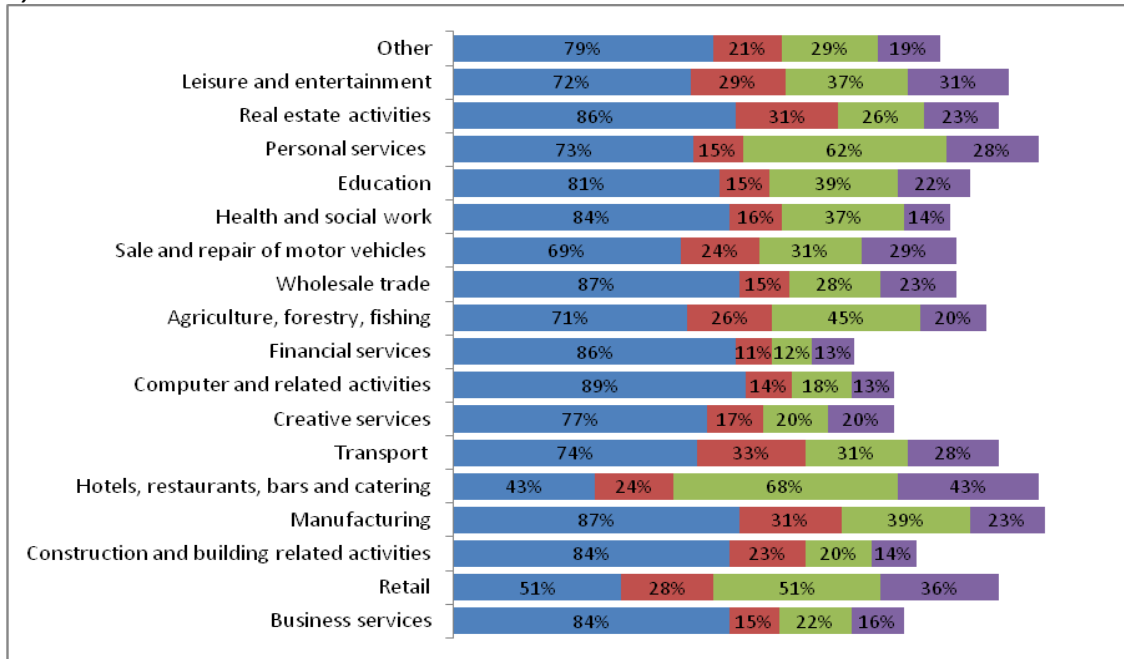


By region





By sector





2. From 1st October 2013, the adult Minimum Wage will increase by 12p to £6.31 an hour. What impact will this increase have on your business?

Base: 1,512 All those employing staff and providing an opinion

