# EEF response to the Low Pay Commission consultation – 2015 report

## Summary

1. EEF, the manufacturers' organisation, is the voice of manufacturing in the UK, representing all aspects of the manufacturing sector including engineering, aviation, defence, oil and gas, food and chemicals. With 6,000 members employing almost one million workers, EEF members operate in the UK, Europe and throughout the world in a dynamic and highly competitive environment.

2. The UK economy and manufacturing have both now returned to growth, and this seems likely to continue. We forecast that the economy will grow by 3.1% in 2014 and the manufacturing sector will grow by 3.3%. The economy as a whole has now surpassed pre-recession levels of output; however, manufacturing still has some way to go, with output in 2014 Q2 7.4% below its pre-recession high.

3. The NMW is an important tool to boost the living standards of the lowest paid people, but it is not the only tool, nor should it be. Policymakers should take steps to create a more productive and more flexible workforce; ensuring that individuals have the skills that enable them to secure well-paid jobs in companies that are working in highly competitive global markets. Increasing the NMW too much or too quickly could potentially have a negative impact on the lowest-paid workers as it would risk reducing employment.

4. While the economy may have returned to growth, this does not mean business conditions are entirely benign. An issue that has arisen over the last year in EEF surveys is that as manufacturers return to growth they are facing constraints on a range of resources particularly working capital. This is limiting their ability to spend in all the areas they might like to (for example innovation and capital equipment). If wages were increased too fast this may impose further constraints on companies and risks acting as a brake on growth.

5. The 3% rise in the adult National Minimum Wage reflected a delicate balance the LPC has struck over the years in recommending a wage floor which protects the lowest paid but which does not negatively impact on employment or growth. Similarly, the 2% increase for the Youth Development Rate again has had little impact upon our sector, and was not a great cause for concern for our members. Manufacturers continue to recruit young people, however, these tend to be Apprentices, who therefore fall into the Apprentice Rate, and graduates, who are likely to be 21+ and therefore entitled to the Adult Rate.

6. The Apprentice Rate has no impact on the wages paid to apprentices by EEF members. EEF's own Pay Benchmark shows a steady increase in Apprentice Pay over recent years, far above the Apprentice Rate and indeed over many of the NMW rate brackets that EEF members set Apprentice pay based on the market rate – often referring to EEF's Pay Benchmark. Many members ensure they are, at the very least, paying the Apprentice the age-specific minimum wage rate. The current pay structure for the Apprentice Rate is complex and confusing. Therefore, we recommend that the Apprentice Rate is abolished and instead learners are paid their age-specific rate.

## Recommendations

(i) The LPC should set out more clearly what it sees as the ultimate level or bite of the NMW that it would wish to reach.

(ii) The LPC needs to deliver a clear message about the parameters within which the NMW will be set to cut through the noise of the debate.

(iii) Whilst the LPC has rightly identified that stable or rising employment and an expectation of sustained economic growth are key conditions to increase the NMW rate faster, it must also consider additional policy costs such as auto-enrolment, and possibly changes to holiday pay calculations.

(iv) The Apprentice Rate should be abolished. Instead learners should be paid their age-specific wage rate.

(v) Pay for younger people should not be taken in isolation but must be part of a wider approach by government to tackle youth unemployment.

## OUTLOOK FOR THE UK ECONOMY – October 2015-September 2016

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

**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 economy has returned to growth***

7. The UK economy and manufacturing have both now returned to growth, and this seems likely to continue. We forecast that the economy will grow by 3.1% in 2014 and the manufacturing sector will grow by 3.3%. The economy as a whole has now surpassed

pre-recession levels of output; however, manufacturing still has some way to go, with output in 2014 Q2 7.4% below its pre-recession high.

### *Employment is continuing to improve*

8. Employment levels across the whole economy have continued to improve and the UK's employment rate is now at its highest level since records began in the 1970s. We expect the health of the labour market will continue to improve and are forecasting that the ILO unemployment rate will fall to an average of 6.3% over the course of 2014, and then to 6.0% in 2015. However, unemployment will remain above its 2000-2006 average of 5.2% throughout our five-year forecast period.

### *Pay trends are improving, but still subdued*

9. As we reported in our submission to the LPC last year, living standards have fallen since the recession began, as average earnings have risen by less than inflation. Average earnings growth has remained subdued, though in the manufacturing sector at least there are signs of improvements.

10. Our own Pay Settlements survey shows that pay settlements in manufacturing have averaged about 2.4% over the last two years. The most recent data has pointed to a slight uptick, with the average pay settlement in the six months from February to July coming in at 2.6%. Importantly, this includes April, one of the year's major pay rounds, which is a good indicator for pay this year.

## IMPACT OF THE NATIONAL MINIMUM WAGE (NMW)

### What has been the impact of the NMW (for example, on employment, hours and profits), in particular over the last 12 months?

### What do you estimate will be the impact of the three per cent increase in the adult rate of the NMW and a two per cent increase in the youth and apprentice rates in October 2014?

11. We believe the 3% rise in the adult National Minimum Wage reflected a delicate balance the LPC has struck over the years in recommending a wage floor which protects the lowest paid but which does not negatively impact on employment or growth. Whilst economic data continues to improve, the recommended and implemented 3% rise for the adult rate demonstrated that the LPC has again weighed up future risks and, importantly the ability of all employers in all sectors and all regions to pay the wage, in arriving at a recommendation which is above inflation but may not be regarded as excessive. We supported this recommendation and the government's decision to implement it.

eef The manufacturers' organisation

12. We do not think that this increase has had any significant impact on employment, hours or profits within our sector. As discussed above, the economic picture, particularly for manufacturing is positive, and this trend is set to continue. We are not aware of EEF members who expressed opposition to the rise – but instead thought the 3% rise struck a healthy balance between the desire to restore the bite of the NMW and the negative economic impact should employers be unable to pay going forward. The LPC must continue to weigh up the ability of employers to pay in considering the NMW rates for 2015.

13. The 2% increase for the Youth Development Rate again has had little impact upon our sector, and was not a great cause for concern for our members. Manufacturers continue to recruit young people, however, these tend to be Apprentices, who therefore fall into the Apprentice Rate, and graduates, who are likely to be 21+ and therefore entitled to the Adult Rate. For all these types of employee, the skill level required and demand for them within our sector results in wages typically being significantly above NMW levels. For our sector, starting salary for graduates are higher than average, particularly those graduates with an engineering discipline. Indeed the average engineering or technology graduate starting salary is £26,019 – this is around a fifth higher than the average starting salary for all graduates.[1]

14. Whilst they are in a minority, there will be some young people, however, that do not have graduate-level skills and occupy lower-skill level jobs. This is where the Youth Development Rate will have most impact. These jobs are fairly limited in manufacturing, but certain sectors may feel an impact from any significant rise, notably in food processing. However, as we discuss below, pay is not the only barrier to recruiting young people – employers are more concerned about the quality of young people entering into the labour market – ensuring they have the right technical skills, relevant qualifications and experience.

## ECONOMIC CONDITIONS FOR INCREASING THE NMW ABOVE AND BEYOND BASIC PAY

**In the 2014 report, the LPC made an additional assessment of the future path of the NMW. This looked at what economy and business conditions needed to be in place to allow a faster increase in the minimum wage rates taking onto account the implications on employment. Do you have any comments on the assessment?**

[1] http://www.engineeringuk.com/Research/At_a_glance_2014/

15. After a sustained period of falling real incomes, low pay has risen up the political agenda, and a number of groups are advocating for strong increases in the NMW to help address low pay.

16. The NMW is an important tool to boost the living standards of the lowest paid people, but it is not the only tool, nor should it be. As we stated in last year's submission, there should be a broad-based approach to improving living standards. Policymakers should take steps to create a more productive and more flexible workforce; ensuring that individuals have the skills that enable them to secure well-paid jobs in companies that are working in highly competitive global markets.

17. Increasing the NMW too much or too quickly could potentially have a negative impact on the lowest-paid workers as it would risk reducing employment.

18. Nonetheless, appropriate rises in the NMW do stand to deliver improvements in living standards for the low paid. In order to ensure that increases in the NMW are done in such a way that employment is not affected, it is necessary that the path the LPC sets for the NMW is both affordable and predictable.

19. The LPC's 2014 report notes that a balance needs to be struck, recognising that an abrupt increase in the NMW at this stage in the recovery could put employment at risk. Nonetheless the report recommends "progressive real increases in the NMW, restoring and then surpassing its previous highest level".

20. In order to reduce the potential negative impact on employment of such increases, the LPC laid out some key conditions that would suggest the economy was resilient enough to afford it:

    a. An expectation that real wages generally will rise and continue to do so in a sustainable way
    b. Stable or rising employment and
    c. An expectation of sustained economic growth

21. We broadly agree with the LPC's assessment of the conditions that would need to be in place for faster increases to occur. Indeed, it is similar to our own assessment as we set out in our submission the LPC last year. However, more steps should be taken to ensure that any increases in the NMW are affordable and predictable.

### *Delivering Predictability:*

22. Although the LPC report laid out the conditions under which it would consider faster increases in the NMW, the report did not give a clear indication as to what the eventual destination of policy would be, instead only stating the aim to "recommend progressive real increases in the NMW, restoring and then surpassing its previous highest level".

23. Increasing calls for strong increases in the minimum wage are cause for concern among manufacturers; although most pay above the minimum wage they may be

indirectly affected through outsourced services and the need to maintain pay differentials. As a result uncertainty about the potential level the NMW could reach may in some cases be a brake on employment.

24. The LPC is currently navigating a challenging path between the needs of various stakeholders. For employers a clear message about the eventual destination of policy would help reduce uncertainty, and mitigate concerns about the impact the NMW might have on their businesses. The LPC needs to deliver a clear message about the parameters within which the NMW will be set to cut through the noise of the debate.

25. In order to achieve more certainty about the level of the NMW, EEF has advocated a formula-based approach using basic pay rates as a guide for the pace at which the NMW should be increased. Not only would this create certainty, it also gives a good indication of both firms' ability to pay and the general trend for living standards across the economy.

26. However, the LPC has rejected a formulaic approach, arguing that it is better to weigh the evidence each time it makes a decision. An annual reassessment does meet the criteria of taking into account firms' ability to pay and changes to living standards but it also creates a degree of uncertainty for employers.

27. That said, the LPC should not move away from an annual analysis – any longer than this risks divorcing the decision from economic conditions – instead they should also provide greater clarity of the intended policy destination. The LPC should set out more clearly what it sees as the ultimate level or bite of the NMW that they would wish to reach. The question then would be less about the destination of minimum wage policy, but the pace at which the destination ought to be reached.

### *Ensuring affordability:*

28. When it comes to affordability, the factors the LPC set out to determine the timing of faster increases in the NMW were broadly the right ones. However, as with the approach the MPC has taken towards interest rates, more could be done to communicate the pace and eventual destination of increases.

29. As it stands, the economy has improved but the conditions the LPC set out previously for faster increases have not quite been met. In addition there are other factors the LPC should take account – including policy costs and continued economic uncertainty – which should mitigate the pace of any increases in the NMW.

### The economy has improved but the conditions the LPC set out for faster increases have not quite been met

30. Employment and growth expectations have improved since last year. The rate of growth in the economy projected for 2014 is consistent with average growth rates in the 2000-2006 period when the NMW was last rising faster than inflation and earnings, which would point to an increase in the affordability of an increase in the NMW.

eef The manufacturers' organisation

31. However, it is not clear all of the conditions that would make faster increases in the NMW affordable are in place. Compared with the 2000-06 time period (when the NMW was, on average, rising faster than average earnings), wage and productivity growth remains weak.

**Table 1: What's happening with key economic indicators?**

| | Forecast for 2014 | Average: 2000-06 | Implications for affordability of NMW increase |
|---|---|---|---|
| **Growth** (GDP) | 3.1% | 2.9% | Positive |
| **Employment growth** (ILO) | 2.5% | 0.9% | Positive |
| **Wages** (average weekly earnings, total pay) | 1.3% | 4.4% | Negative |
| **Productivity** (output per employee) | 0.4% | 2.0% | Negative |
| *Source: Oxford Economics, 2014* | | | |

32. Weak productivity growth is a particular issue. For businesses, sustainable pay rises are those based upon productivity improvements in their workforce. Therefore rising productivity across the economy is likely to be associated with an increased ability to pay higher basic wages.

33. But even if the right economic conditions were in place for increases in the NMW, this would not mean the LPC should raise the NMW quickly. It must take into account a range of factors to determine the pace of increases, to ensure affordability.

**Policy can impact the affordability of wage rises**

34. As we noted in last year's submission, government policies such as auto-enrolment into workplace pension schemes add to the cost to employers of employing individuals. This then impacts on an employer's ability to afford an increase in pay and should be seen as a reason to mitigate the pace of increases in the NMW.

35. This year, other increases in the costs of employment are likely. In particular if employers are expected to pay holiday pay on items such as overtime, commissions and bonuses rather than just on basic pay, as is currently the case for most companies. Manufacturers predict this could significant additional costs to an employer's payroll. When the NMW increases it also increases the amount employers have to pay in "on costs" – raising the amount that must be paid in NICs and pension contributions, for

example. This must also be taken into account when considering the affordability of an increase in the NMW.

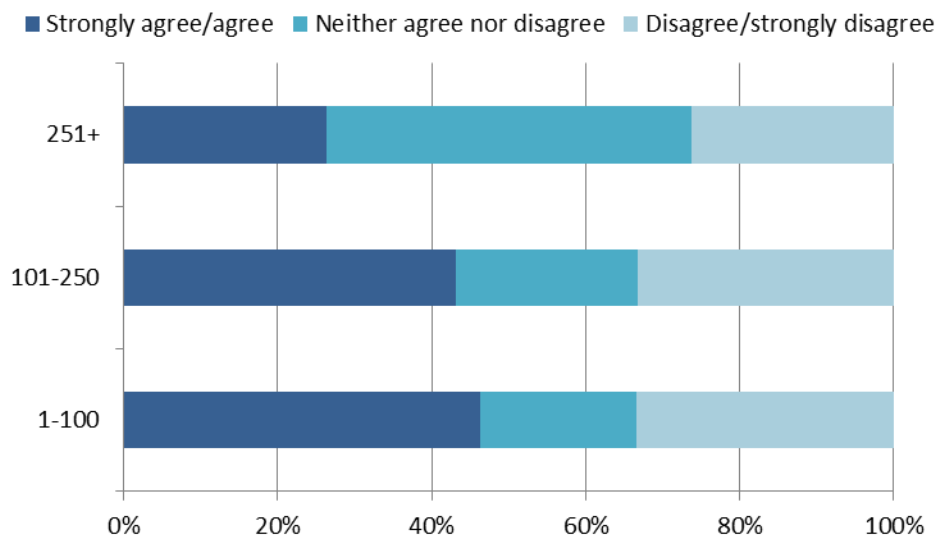
**Other business constraints**

36. While the economy may have returned to growth, this does not mean business conditions are entirely benign. An issue that has arisen over the last year in EEF surveys is that as manufacturers return to growth they are facing constraints on a range of resources particularly working capital. This is limiting their ability to spend in all the areas they might like to (for example innovation and capital equipment). If wages were increased too fast this may impose further constraints on companies and risks acting as a brake on growth.

37. Much has been made of the 'cash piles' that UK businesses have accumulated with some arguing that these could make pay rises more affordable on the part of business. While our Investment Monitor 2014 survey shows that a balance of companies have increased their corporate cash holdings compared with pre-recession levels, this is markedly more likely to be the case with smaller companies.

**Chart 1: Small companies more likely to have increased cash holdings**

% companies agreeing/disagreeing with statement: "we are holding more cash on our balance sheet compared with pre-recession levels" by number of employees




*Source: EEF Investment Monitor 2014*

38. As we reported in our Investment Monitor survey there could be a number of reasons for increasing cash reserves, such as strengthening balance sheets to aid debt refinancing, fund acquisitions, preparing the ground for dividend pay-outs or simply as a precautionary motive in response to uncertain economic conditions. Indeed, EEF's Executive Survey 2014 showed that a majority of manufacturers felt that economic uncertainty was the "new normal"

39. Whatever businesses are seeking to use their cash holdings for, they are not an indication that large pay rises are affordable for business. In fact, quite the opposite. If businesses face more demands on their cash, it will reduce their ability to invest or innovate, the very activity that is necessary to drive productivity growth. Ultimately, productivity growth is the vital pre-requisite for a sustainable environment in which real wages can be increased.

40. The LPC is clear that it wants to increase the value of the NMW. But when and how quickly it does this remain important. The moment the economy achieves the conditions that the LPC has laid out as necessary for above-inflation increases in NMW to begin may well be approaching and some cautiously higher than inflation rises may be possible. However, there are a range of factors which should temper the pace at which these rises occur. The pace of increases should take into account other pertinent and emerging factors affecting employers, including pensions auto-enrolment, holiday pay, and continued economic uncertainty.

## YOUNG PEOPLE

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

**The 16-17 Year Old Rate**

41. The hourly rate for 16 -17 year olds as of 1 October 2014 will be £3.79. We do not expect that many manufacturers will recruit 16-17 year olds outside of an Apprenticeship. The participation age was raised to 17 in 2013 and will rise to 18 in 2015. Therefore we expect that 16 and 17 year olds will either remain in academic study or pursue a vocational pathway such as an Apprenticeship (our thoughts on the Apprentice Rate are outlined below). There is scope for 16 and 17 year olds to work for a limited number of hours a week if combined with study; however, we expect this will be limited in manufacturing.

**The Youth Development Rate**

42. From 1 October 2014, the Youth Development Rate will be £5.13 and applies to those aged 18 to 20 years old. In its last report the LPC recommended that the Youth Development Rate be increased by 2% - lower than the Adult Rate of 3%. We believe this was the right decision and welcomed the government's decision to implement a 2% rise.

43. Youth unemployment levels remain high and until they begin to significantly reduce, government needs to be mindful of the impact increases to the Youth Development Rate would have on young people's employability. However, we would again advise both the LPC and the government that pay alone is not the only factor employers

consider when deciding whether to recruit a young person aged 18 to 20 years old. Employers continue to tell us that they are struggling to recruit younger workers because candidates are lacking the right technical skills, relevant qualifications and experience needed to enter the world of work. These are factors that need to be addressed first and foremost before the current levels of youth unemployment will fall and remain low. We therefore believe that pay for younger workers should be not assessed in isolation but must be part of a wider approach by government to tackle the problems in the labour market we have highlighted above.

44. We have begun to see some positive steps taken around this agenda such as the removal of publicly funded vocational qualifications that are not relevant to industry, and many which have had extremely low take-up. We have also seen government commit to allow employers to design industry-led standards for apprenticeships. This should be expanded and accelerated to give employers a greater say in vocational qualifications outside apprenticeships. Government's attempts to give young people practical industry experience have been mixed. We were disappointed to see the decision to remove compulsory work experience at Key Stage 4 without any consultation with industry. However, since then we have seen government introduce work-based learning at Key Stage 5 through initiatives such as Study Programmes and the Technical Baccalaureate, which has been welcomed. There does, now, appear to be a growing consensus that a focus on academic achievement only creates a very steep learning curve when students leave their formal education which must be addressed by reforming the education system.

## THE APPRENTICE RATE

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

**Do you think the structure of the Apprentice Rate should change? Could it be made simpler to improve compliance? Do you think the Apprentice Rate should allow to all levels of apprenticeships?**

**What do you think might help employers to comply with paying the right pay rate for apprentices?**

45. The Apprentice Rate aims to strike a balance between a minimum wage level that prevents the exploitation of Apprentices and wage costs being so high that they reduce the opportunity for employers to offer young people's training and employment. Fundamentally, an apprenticeship offers learning and training within a workplace, and the benefit to the apprentice is not only in the form of the wage they earn but in the investment in their development. We are clear that apprenticeships must represent a

significant investment in education and training by the employer and the apprentice must derive a substantial and long-term benefit from their apprenticeship.

46. The Apprentice Rate is applicable for **under-19s** as well as those 19 and above and in the first year of their Apprenticeship. Beyond this the learner is entitled to the NMW in accordance to their age. Therefore, the NMW rate entitlement changes depending on the age of the apprentice and the duration of the Apprenticeships. In other sectors, Apprenticeships may last just the 12 month minimum and therefore those employers will only have to pay the Apprentice Rate. However, in manufacturing and engineering, high-quality apprenticeships are associated with longer duration periods. Indeed, the majority of EEF members say their apprenticeships last an average of four years.[2] Therefore the pay for apprentices, depending on their starting age, would be as follows:

**Table 2: Apprentice Rate for a four year Apprenticeship by age**

| Age at start of Apprenticeship | Year 1 | Year 2 | Year 3 | Year 4 |
|---|---|---|---|---|
| 16 | £2.68 | £2.68 | £2.68 | £2.68 |
| 17 | £2.68 | £2.68 | £2.68 | £5.03 |
| 18 | £2.68 | £2.68 | £5.03 | £6.31 |
| 19 | £2.68 | £5.03 | £6.31 | £6.31 |
| 20 | £2.68 | £6.31 | £6.31 | £6.31 |
| 21 | £2.68 | £6.31 | £6.31 | £6.31 |

47. Such a structure is confusing and complex and as such, EEF members do not use the Apprentice Rate as a basis to set their Apprentice pay but instead use alternative ways to determine wages which we discuss later in this section.

**Apprentice Rate has limited or no impact on apprentice pay**

48. Qualitative research conducted on behalf of the LPC in 2012 found that no national programme officer or training provider recalls any employer reporting that there were going to offer fewer Apprenticeships following the introduction of the Apprentice Rate.[3] The Apprentice Rate has increased since its introduction, yet does not remain a barrier for manufacturers in offering apprenticeships. Indeed less than 1% of manufacturers say they would offer more apprenticeships if the Apprentice NMW was reduced.

[2] EEF Skills Survey 2012
[3] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/227559/LPC-IpsosMORICambridgePolicyConsultantsIntroduction_of_the_Apprentice_RateFINAL.pdf

[4]Moreover, since asking this question to EEF members we have tracked trends of apprenticeship opportunities and have found plans to recruit manufacturing and engineering apprenticeships have continued with some 66% of employers planning to recruit a manufacturing and engineering apprentice and some 38% of EEF members plan to recruit a non-manufacturing and engineering apprentice in the next 12 months.[5]

49. The LPC-commissioned research also found that where training providers did voice concerns was it was that they felt employers should pay the rate for the job or the age-specific minimum rate. In many cases Apprentices were earning well above minimum wage rates and the Apprentice Rate had no impact.[6]

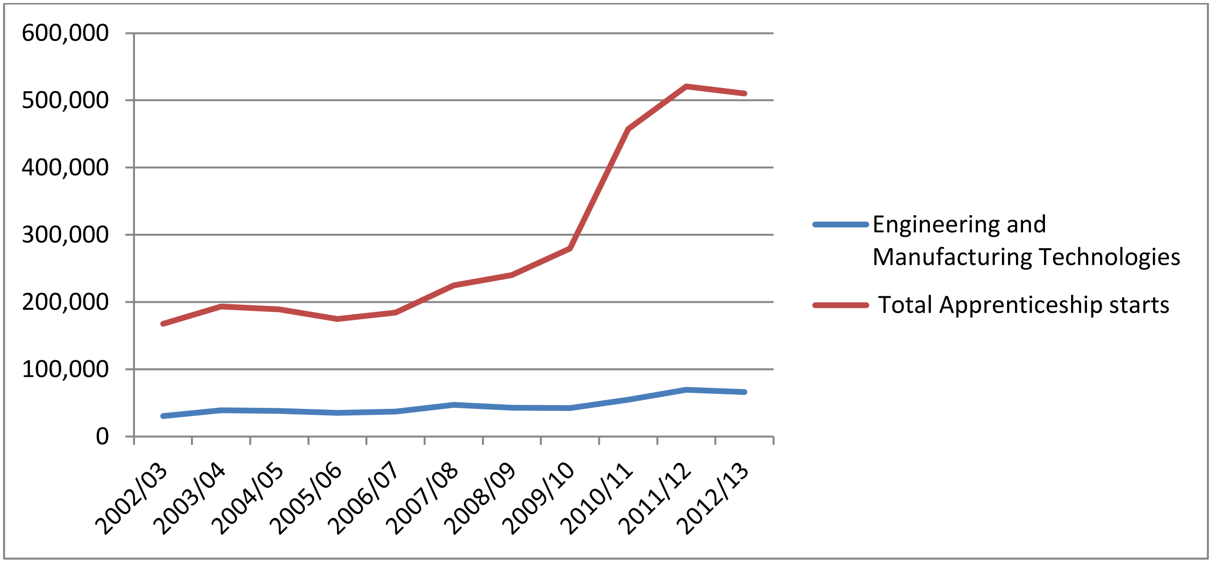
50. We agree with this analysis. The Apprentice Rate has no impact on the wages paid to apprentices by EEF members. EEF's own Pay Benchmark shows a steady increase in Apprentice Pay over recent years, far above the Apprentice Rate and indeed over many of the NMW rate brackets. Anecdotal evidence from our membership suggests that EEF members set Apprentice pay based on the market rate – often referring to EEF's Pay Benchmark. Many members ensure they are, at the very least, paying the Apprentice the age-specific minimum wage rate.[7]

**Apprenticeship numbers continue to increase**

51. Apprenticeship numbers have increased significantly in recent years. This is true when looking at manufacturing and engineering apprenticeships also – although the increases have not been so significant. (See Chart 2 below).

[4] EEF Skills Survey 012
[5] EEF Higher Education Survey 2013-14
[6] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/227559/LPC-IpsosMORICambridgePolicyConsultantsIntroduction_of_the_Apprentice_RateFINAL.pdf
[7] EEF Workforce Pay Benchmark available at: [http://www.eef.org.uk/publications/surveys/Workforce-Pay-Benchmark.htm](http://www.eef.org.uk/publications/surveys/Workforce-Pay-Benchmark.htm) (£)

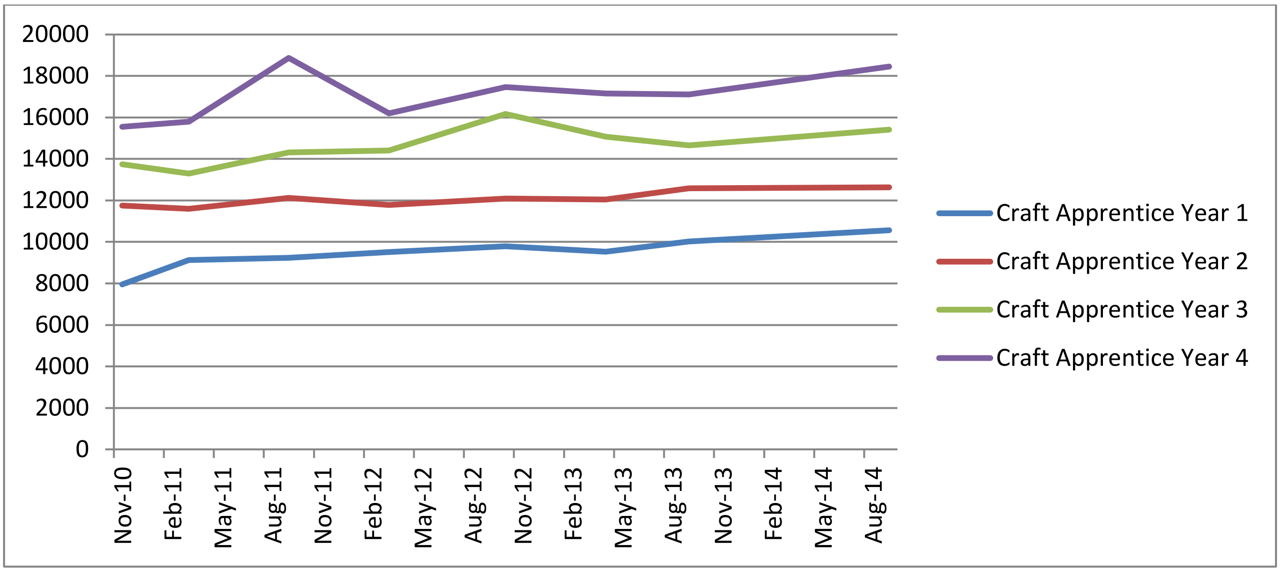
**Chart 2: Apprenticeship starts have increased in recent years- number of engineering and manufacturing apprenticeship starts, and total number of apprenticeship starts**




**Source: The Data Service - 2013**

52. We have also seen a shift towards higher-level apprenticeships. Whilst a couple of years ago intermediate level apprenticeships dominated the figures, in manufacturing and engineering we are seeing a move towards advanced and higher apprenticeships. Manufacturers are increasingly demanding higher-level skills and advanced and higher apprenticeships give employers access to these higher-level skill-sets. Therefore, they are willing to pay more for such skills. We have seen this in our own Workforce Pay Benchmark (See Chart 3). This is particularly the case for first year and final year apprentices, as manufacturing and engineering employers continue to offer competitive pay to attract apprentices into their companies, and retain them upon completion of their training.

**Chart 3: Average salary for Craft Apprentice**




**Source: Various EEF Workforce Pay Benchmarks 2010 -2014**

53. BIS' Apprentice Pay Survey 2012 found that the average pay for an Apprentice is now £6.21, this increases to £7.03 for engineering apprenticeships – a figure above the adult national minimum wage rate. This again reaffirms the extremely limited impact that the Apprentice Rate has on actual wages for Apprentices.

54. Given this, and the complicated pay structure currently for apprentices, **we recommend that the Apprentice Rate is abolished** and instead learners are paid their age-specific national minimum wage rate. This will simplify what is a complicated structure currently, and is likely to result in better compliance from employers across all sectors. A generally higher wage rate would also raise the status of vocational learning, drive up the quality of apprenticeships as employers would be required to make a larger investment, and may increase learner demand for Apprentices overall. Our earlier table would therefore change as follows:

eef The manufacturers' organisation

**Table 2: Apprentice way if Apprentice Rate was abolished and learners paid age-specific rate**

| Age at start of Apprenticeship | Year 1 | Year 2 | Year 3 | Year 4 |
|---|---|---|---|---|
| 16 | £3.72 | £3.72 | £3.72 | £5.03 |
| 17 | £3.72 | £3.72 | £5.03 | £5.03 |
| 18 | £5.03 | £5.03 | £5.03 | £6.31 |
| 19 | £5.03 | £5.03 | £6.31 | £6.31 |
| 20 | £5.03 | £6.31 | £6.31 | £6.31 |
| 21 | £6.31 | £6.31 | £6.31 | £6.31 |

55. These rates would be those used by employer if recruiting a young person under 21 for a role outside of an Apprenticeship.

## COMPLIANCE

**What issues are there for compliance with the NMW? Do particular groups experience problems with NMW compliances (e.g. apprentices, interns, others taking work experience)?**

**Does this non-compliance have implications for the level of NMW rates, the quality and accessibility of official guidance on the NMW, or the enforcement work of HMRC?**

**Complicated Apprentice Rate pay structure is likely to result in non-compliance**

56. As we have outlined above, the Apprentice Rate pay structure is extremely confusing. EEF members do not use the Apprentice Rate pay structure and instead ensure that pay is at least the age-specific rate and they are paying the market rate. The BIS Apprentice Pay Survey continues to find a handful of employs that are paying below the NMW rate for Apprentices. We believe some of this non-compliance is due to confusion and could be tackled if the Apprentice Pay structure was simplified and streamlined by abolishing the Apprentice Rate.

**Employers need clarity over pay for young people under government initiatives**

57. We would also refer to our comments made in our previous submission to the Low Pay Commission on the overwhelming number of government initiatives that leave employers confused about when national minimum wage rates apply.

58. This is particularly the case for interns. Those that undertake an internship which is compulsory to their university degree for example are not legally eligible for national minimum wage. However, a learner that chooses to undertake an internship outside of their degree, for example within the summer holidays, then is eligible for national minimum wage. There is then the added complexity of what the definition of an 'intern' is and how this differs from a young person undertaking work experience, or work shadowing. Under the latter the employer does not legally have to pay national minimum way as long as the employer does not set out work hours, responsibilities, job tasks and so on. This remains a relatively grey area, and as such is most likely open to non-compliance, simply due to the complex and confusing nature.

59. In addition, the government's various schemes to get young people into employment blurs the lines further. An employer offering work experience placements for up to 8 weeks under the Youth Contract for example can do so without paying the NMW. However, if they are recruiting a young person under the Youth Contract for 26 weeks or more, they must pay that young employee, but then can claim back a subsidy which will absorb the age costs.

---

**FOR FURTHER INFORMATION CONTACT:**

Felicity Burch
Senior Economist
020 7654 1542
fburch@eef.org.uk

Verity O'Keefe
Employment and Skills Policy Advisor
020 7654 1572
vokeefe@eef.org.uk

**Follow us online:**

**Blogs: EEF Economics Blog: www.eef.org.uk/blog/**
**Twitter: @EEF_economists**
**LinkedIn: http://www.linkedin.com/company/eef**

---