Understanding employers’ use of the National Minimum Wage youth rates

Report to the Low Pay Commission

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Contents

Executive Summary

Background

Right from their inception the minimum wage rates have included age-related bands intended to give young people protection in the labour market. Initially there were only two age bands, 18-21 and 22+. With the introduction of the National Living Wage in 2016 there are now four age bands and an Apprentice Rate. While increases in youth rates had previously been more modest in the context of economic recession, evidence of an improving youth labour market has resulted in more ambitious upratings over recent years. Concerns however remain that rapid and sizeable increases in youth minimum wage rates could inflict damage on the current and future employment prospects of young people. In order to answer the question of whether this is likely, employer practices in relation to the minimum wage rates need to be better understood. As it currently stands, however, there is very little evidence on how employers set pay for young people. The research for this report was aimed at helping to fill that gap.

Aims and objectives

The aim of the research was to provide evidence of employer behaviour in youth wage setting in order to inform the future work of the Low Pay Commission, as well as policy proposals of relevance to the minimum wage of young people in the UK. The research was carried out in two stages, concurrently.

The first stage involved a review of the policy framework relating to the transition of young people into employment. The review outlines a series of key educational and labour market policies from 1999 to the present. It includes the history and implementation of the rates themselves, the raising of the education participation age in England, allowances for participation in education post 16, changes to vocational education and training, apprenticeships, higher education tuition fees, the tax and welfare benefit system and support into work.

The second stage of the research consists of new empirical evidence on how employers set pay for young people, involving qualitative interviews with 19 employers across four sectors: hospitality, retail, cleaning and childcare. The research also included interviews with 8 representatives of employer bodies.

The overall purpose of the empirical research was to identify and explore the factors that determine levels of pay for young people, including in relation to those aged 25 and older. Interviews explored in detail the reasons for paying young people differently, whether through the youth rates or other variation, and reasons for making no such distinction. By selecting four low paying sectors we aimed to identify contextual differences relating to the employment and remuneration of young people, as well as any variation by factors such as skill, types of labour market or company size. While our research was limited to 19 case studies, we did find differences in the contextual factors affecting pay rates for young people, and across age groups.

Key findings of policy framework review

Our review of the policy framework drew a number of conclusions about the changing educational and labour market landscape for young people:

The policy landscape relevant to the UK youth labour market has undergone significant change

The educational and labour market policy landscape relevant to the UK youth labour market has undergone significant reform since the introduction of the National Minimum Wage in 1999. The fundamental nature of this reform has included concerted attempts to improve young people's educational participation and attainment, particularly for those from disadvantaged backgrounds

In line with this, the proportion of young people in education and training has increased substantially since the National Minimum Wage was introduced. In England, this trend was formalised through the raising of the participation age to 18, which aimed to reduce youth unemployment through delayed entry into the labour market, and raise overall educational achievement through increased participation in both further and higher education.

There are long-standing and on-going concerns regarding the quality and returns to apprenticeships, and vocational and technical education more widely

Despite increases in young people's participation in education and training, there are long-standing concerns over the quality and returns of apprenticeships, and vocational and technical forms of education. There are also concerns regarding the opportunities afforded to students from disadvantaged backgrounds as a result of reforms, including the replacement of Education Maintenance Allowance with the 16-19 Bursary, and through increases in tuition fees.

There are persistent concerns over the limited involvement of employers in helping young people into work

Despite widening participation in education and training, there remains limited involvement among employers in the design and delivery of pathways for young people into the labour market. Employers are persistently uncertain about the value of any such involvement. Employers also express doubt about the contribution young recruits can make in addressing their skills and labour shortages.

Employers are not aware of the extent of policy changes relating to people's labour market participation

The many and wide-ranging reforms to the educational and training landscape for young people were not seen by employers to have caused noticeable changes to the employment of young workers. This is possibly because they have taken place over an extended period of time and current senior managers have limited knowledge of past practices. A further factor is changes to the labour market through an increase in EU migration, which has affected the hiring practices of many low pay sectors.

Key findings of new empirical research

Our new empirical research with 19 employers and 8 employer bodies drew a number of conclusions on the current use of the rates and implications for future policy:

Young people are valued by employers in lower skilled sectors

In hospitality, the recruitment of young people was described as meeting its considerable immediate labour requirements, particularly for shift work and seasonal jobs. They were also seen as important in ensuring the future supply of managers and supervisory staff. Similarly in the retail sector, young people were a source of flexible, as well as permanent labour, with students employed in a range of part-time roles and graduates taken on in full-time and training posts. Across sectors, young people were valued for their ability to cope with the physical demands of some jobs, for example kitchen work and childcare. A further factor was image, and the preference of some employers to employ young people who fit the brand of businesses such as pubs and bars.

In terms of productivity and behaviour, employers in hospitality and retail did not report any significant differences by age. Some employers noted that when they explored differentials in productivity and behaviour, they had not looked at age as a factor. A few employers in our sample expressed concerns about work-readiness among young people and the quality of their work. Some employers in the retail sector were mindful of restrictions on the employment of young people aged under 18, for example selling alcohol and tobacco, but these issues typically affected shift allocations rather than hiring decisions.

Pay setting is informed more by competitors' rates and affordability than age

When setting their pay rates, employers in low skilled sectors give close attention to their competitors' behaviours and offers. Factors such as recruitment, retention, affordability and impacts on pay differentials are also key considerations. We found that the NLW has become a benchmark for many employers, so that standard rates are pitched often at that level or just above. It was common for employers we interviewed to report that paying the NLW had been a stretch and they have needed to make changes to afford it. For some employers, this included paying youth rates to at least some of their workers.

The youth rates are used in varying ways, often partially rather than in full

We found a wide variety of use of the youth rates, and also of the NLW/NMW more generally. Most examples of the use of the 16-17 rate were found in seasonal and casual work by this age group, and were justified with reference to the unskilled nature of the work and its temporary status. The 16-17 rates were also sometimes used during an initial period of training or induction, which was justified on development grounds. This practice, however, did not seem to be common across our sample of employers.

We found little use of the youth rates in full within our research. Of the examples of using the youth rates we found, there were often variations, including merging of bands or paying young workers at slightly higher rates. We found no use at all in the cleaning sector because of the model of sub-contracting which seems to use the NLW as the standard rate. Conversely, in the childcare sector the youth rates were used because of downward pressures on pay resulting from the Government's childcare funding offer. These two examples from cleaning and childcare suggest that sector specific pressures may apply elsewhere.

While we were not able to find examples of systematic use of the youth rates, we are mindful that there may have been selection bias in our sample with employers who use the rates reluctant to participate. Furthermore, we know that smaller employers are much more likely to make use of the youth rates, but we were only able to find small and medium sized employers willing to participate in the study in one sector, childcare. Certainly, our interviews suggest that employers do not regard paying the youth rates as good practice, even if they use them.

Employers are reluctant to use the rates for reasons of fairness

Employers were keen to emphasise that age is not a consideration within their pay policies and practices. While some employers felt that the use of the youth rates could be justified in the case of very young and inexperienced workers, they were seen as less applicable to young people aged over 18, and especially so for those aged 21 and older. Employers stated, quite strongly, that pay should relate to the job, not to the person. Low skilled jobs especially were seen to demand the same level of skills, qualification and experience regardless of age. Many employers expressed the view that it is morally wrong to pay young people less and some went further to suggest it constitutes age discrimination. Employers felt that younger workers might feel aggrieved at being paid less for the same work as a slightly older colleague.

Reluctance to pay the youth rates was also a business issue. It was not only seen as unfair to offer younger workers lower pay but difficult to recruit on that basis. Employers across sectors said they have to offer rates above the age-related levels to recruit and retain staff. It is also easier to recruit through offering a single rate rather than a range linked to age. Age related pay was also sometimes reported to add more complexity to HR systems and introduce more likelihood of error, with serious consequences.

The main motivation to use the youth rates is to reduce costs

Where employers used the youth rates, the main reason given was to reduce the size of the wage bill. Some employers who used the youth rates said they were useful in giving flexibility to reduce wage costs but had only done so where other measures had not been sufficient. Many employers described the current climate for staff recruitment and retention as challenging, particularly in the light of Brexit and fall in net EU migration. Employers were looking to improve their offer but felt constrained in their ability to increase pay. Looking ahead, employers gave a range of reasons why they might use the youth rates in the future. In one case, this depended on whether students could match periods of peak demand, and in another whether the company expanded its training programme. In a third, it depended on whether the company continued its de-skilling process. Therefore, just as the rates have been used in a variety of ways, retaining them or increasing their use is also likely to depend on a number of considerations. Primarily, however, their future use is likely to be driven by the need to cut costs, and constrained by the view that the rates are unfair in principle.

Background and Introduction

Since its inception in April 1999, age-related minimum hourly rates of pay have been a consistent feature of the UK National Minimum Wage framework. As of April 2018, the National Minimum Wage framework consisted of four different aged-related rates: £7.83 per hour for those aged 25 and over (the National Living Wage); £7.38 for those aged 21-24; £5.90 for those aged 18-20; and £4.20 for those aged 16-17. The rationale for age-related varying rates of pay has typically been that younger workers occupy a more vulnerable position in the labour market, and are therefore thought to be at risk of being priced out if they were eligible for the full minimum wage (Brown and McGuinness, 2018). Lower youth rates have therefore been thought of as protecting youth jobs, securing the position of young people in the labour market.

A further important distinction between the youth rates and the NLW relates to the different remits for the rates. The NLW has a target, to reach 60 per cent of median hourly earnings by 2020, and, linked to this, some tolerance for job loss (albeit there is an expectation that broader job growth will minimise the impact of any job losses arising from the NLW). The youth and apprentice rates, by comparison, have no target, and no tolerance for job loss, the remit being to raise pay as high as possible without harming job prospects.

Given that the primary guiding principle for the LPC when recommending changes to the youth rates is to ensure the employment prospects for young people are not damaged, it is of key importance to the LPC and policy makers to understand and take into consideration employer responses to the National Minimum Wage framework in setting pay for young people.

While the introduction and on-going uprating of the National Living Wage has meant a sharp real and relative increase in the level of the minimum wage for those aged 25 and over, increases in youth rates have historically been more modest. This has led to a widening in the relativities between the youth rates and the adult rate of the NMW, and more recently, the NLW (LPC, 2017). Evidence has long suggested that rapid increases in youth minimum wage rates could be damaging for the sectors that employ young people (LPC, 1998). Concern about potential job losses arising from increases in the youth rates is increased by research suggesting that spells of youth unemployment have long-term scarring effects on earnings and employment (Gregg and Tominey 2004; Cribb et al., 2017). These concerns are exacerbated by a potential softening of the economy, and the risk that younger workers will be the first and most severely hit (LPC, 2017).

As it currently stands there is very little evidence on how employers set pay for young people. Of the limited amount of research available, evidence suggests it is a complex process, influenced by a wide variety of economic and political considerations. Recent research by NIESR shows the NLW to have had considerable influence. Ebell et al. (2018) provide evidence of employers implementing blanket pay rates in response to the introduction of the NLW. This is due to a preference for more streamlined systems, as well as concerns of perceived fairness. Correspondingly, several studies have identified the NLW as generating positive spill-over effects on the wages of younger cohorts in a variety of sectors, whereby the earnings of employees working at/ below the NLW wage have increased (Ebell et al. 2018; Giupponi, et al. 2016).

In line with this, evidence identified by Unison (2017) suggests 54% of employers pay the National Living Wage to all employees regardless of age. Evidence from Incomes Data Research (2017) identifies only 27% of employers operating age-related pay. This research also suggests it is sectors with a higher density of young people, such as within retail and hospitality, where this practice is most commonly identified. That being said, the evidence suggests approaches and views on age-related pay rates vary widely between employers, with significant differences between and within sectors (Incomes Data Research, 2017).

Other factors have also been identified as important in determining whether, and by how much, employers may exceed the NMW/NLW. These include the profitability of the business, inflation rates, concerns around skills and productivity, perceptions of competitor behaviour, as well as affordability of salary sacrifice for childcare, staff discounts, paid holiday and other non-pay benefits (Ebell et al., 2018). In addition to this, there are also a number of recent policy developments that have been identified to put pressure of employers' wage setting. These include the affordability of the apprenticeship levy, pension auto-enrolment, business rates and the uncertainties surrounding the UK's departure from the EU (Ebell et al., 2018).

Within the context of a mixed and sparse evidence base which suggests great difficulty in predicting the behaviour of employers, it is the purpose of this research to provide evidence on employer behaviour in youth wage setting, in order to inform the future work of the Low Pay Commission, as well as policy proposals that could complement the minimum wage of young people in the UK.

Methods

The research for this report consisted of two stages.

The first was a policy review. Framed within a brief overview of the rationale and history of the National Minimum Wage (NMW) youth rates, the review outlines current key educational and labour market policies relevant to the UK youth labour market, comparing them to those in place in 1999, during the introduction of the NMW, as well as in 2004, during the introduction of the 16-17 youth rate.

The second stage of research involved the collection of new evidence via semi-structured telephone interviews with employer bodies and employers from four low-paying sectors - **hospitality, retail, cleaning and childcare.** The overall purpose of these interviews was to identify and explore the factors that determine pay levels for young workers, in absolute terms and in relation to other types of workers. More specifically, the research examined the extent to which age-related rates were used, reasons why they were, or were not, used, and differences between sectors, types of labour market or company size.

Our findings are presented in two sections, with Section 1 of the report presenting the policy framework and Section 2 presenting the new empirical findings. Our conclusions draw together the findings from both stages of the research.

Review of the Policy Framework Affecting Pay Setting for Young People

The purpose of this review is to outline the policy framework relevant to employer pay-setting for young people in the UK. Framed within a brief overview of the rationale and history of the National Minimum Wage (NMW) youth rates, this review outlines current key educational and labour market policies relevant to UK youth labour market, comparing them to those in place in 1999, during the introduction of the NMW, as well as in 2004, during the introduction of the 16-17 youth rate. This review therefore provides an overview of the changing education and youth labour market policy landscape, in order to inform the Low Pay Commission's review of the Youth Rates.

The evidence review draws on a range of published and unpublished sources including academic journal articles, online publications, relevant websites and information from government departments. It focuses on eight key areas, drawing evidence on both the experiences of younger workers and employers. These include:

- The Raising of the Participation Age
- Education Maintenance Allowance and the 16-19 Bursary Fund
- Changes to Vocational Education and Training
- Apprenticeships
- Tuition Fees
- The Tax and Welfare Benefit System
- Support into Work

The Rationale Behind the National Minimum Wage Youth Rates

Since their inception in April 1999 age-related minimum hourly rates of pay have been a consistent feature of the UK NMW framework (Table One). The rationale behind the 'Youth Rates' is that younger workers typically occupy a more vulnerable position in the labour market, and are at greater risk than older workers to changes in the minimum wage (Brown and McGuiness, 2018). Lower rates of pay and varied adjustment to the minimum wage for younger workers has therefore been thought of as protecting youth jobs, by avoiding risks such as substitution and exploitation, and promoting the labour market position of young people through education and training.

In line with this, policies around education, training and support into work have been an integral part of LPC's considerations around rates of pay for young people. NMW reform has therefore been consistently underpinned with a desire that the youth rates should work in conjunction with education and labour market policies, in order to support young people to enter the labour market, and enable them to develop their skills and obtain higher earnings and job security.

Table One: UK National Minimum Wage Hourly Rates, 1999-2018

		22+	18-21	16-17	Apprentice
1999		£3.60	£3.00		
2000		£3.60	£3.20		
2000		£3.70	£3.20		
2001		£4.10	£3.50		
2002		£4.20	£3.60		
2003		£4.50	£3.80		
2004		£4.85	£4.10	£3.00	
2005		£5.05	£4.25	£3.00	
2006		£5.35	£4.45	£3.30	
2007		£5.52	£4.60	£3.40	
2008		£5.73	£4.77	£3.53	
2009		£5.80	£4.83	£3.57	
		21+	**18-20**	**16-17**	**Apprentice**
2010		£5.93	£4.92	£3.64	£2.50
2011		£6.08	£4.98	£3.68	£2.60
2012		£6.19	£4.98	£3.68	£2.60
2013		£6.31	£5.03	£3.72	£2.68
2014		£6.50	£5.13	£3.79	£2.73
2015		£6.70	£5.30	£3.87	£3.30
	25+	**21-24**	**18-20**	**16-17**	**Apprentice**
2016	£7.20	£6.95	£5.55	£4.00	£3.40
2017	£7.50	£7.05	£5.60	£4.05	£3.50
2018	£7.83	£7.38	£5.90	£4.20	£3.70
2019	£8.21	£7.70	£6.15	£4.35	£3.90

Source: Low Pay Commission Reports

The History of National Minimum Wage Youth Rates

When the National Minimum Wage was first introduced in 1999 there were two rates of pay: an ‘adult rate’ of £3.60 an hour for workers aged 22 and over; and a ‘**Youth Development Rate’** of £3.00 an hour for workers aged 18-21[1]. At the time several reasons were suggested for this sub-minimum age-related rate of pay. This included uncertainty as to how the youth labour market would respond to the introduction of the National Minimum Wage, and concerns that applying a full minimum wage could potentially threaten young workers’ jobs (LPC, 1998). In particular, concerns were raised for sectors where younger workers were most concentrated, such as in retail and hospitality, and the extent to which employers may begin to recruit older workers, who are typically more experienced and skilled, at no additional wage cost (LPC, 1998). As a means to offset these risks a key rationale for the Youth Development Rate, as its name implies, was the expectation that younger workers would receive training in lieu of pay in order to acquire more skills and experience and better secure their position in the labour market.

[1] LPC recommended the Youth Development Rate should be available to those aged 18-20.

When the minimum wage was first introduced, workers aged 16 and 17, and apprentices, were not covered by the NMW. This was in recognition that they are in preparatory stage of their labour market development, and therefore should be in full-time education or training to develop broad, basic and transferable skills (LPC, 1998). In the years following, evidence emerged that some 16 and 17 year olds were in very low paid, full-time jobs with minimal training. As a result, in 2004 the **16-17 Year Old Rate was introduced, set at** £3.00 per hour. The intention behind this lower rate of pay was to put a stop to exploitation, whilst ensuring young people were not encouraged to prematurely leave education, and potentially harm the supply of training opportunities (LPC, 2004).

The next key change to the NMW structure occurred in 2010, when the government accepted the LPC's long-standing recommendation that the adult rate of the NMW **should include workers aged 21**. This came as a result of consistent evidence from the LPC that extending the adult rate to 21 year olds would not have a detrimental impact on employers or on 21 year olds' employment prospects (LPC, 2009). Subsequently, the Youth Development Rate now covered workers aged 18-20, reinforcing the view of the LPC that by the age of 21 the risk of unemployment should be addressed by labour market interventions and support, rather than the minimum wage (LPC, 1998). In the same year, an Apprentice Rate of the minimum wage was introduced to protect apprentices from exploitation.

In the following years, the LPC took steps to minimise the impact of the 2008 recession on young people's employment, by awarding smaller increases in the youth and apprentice rates, relative to the adult rate of the minimum wage. This resulted, as intended, in a widening of the differentials between the youth and adult rates. The LPC stated their intention to reduce the differential when economic conditions improved.

In July 2015, the Government announced its intention to introduce **the National Living Wage** (NLW) for workers aged 25 and over from April 2016. This created a sub-minima rate for **21-24 year olds**, who had previously received the 'adult rate' of the minimum wage. The Government's stated rationale for excluding 21-24 year olds from the NLW was their weaker pay and labour market attachment, and their potential vulnerability to large increases in the minimum wage (LPC, 2016). Alongside the NLW, the Government announced a target that the NLW should reach 60% of median earnings by 2020. As a result, workers over the age of 25 would experience sharp real and relative increases in the level of their minimum wage. This implied a further widening in the relativities between the youth rates and the NLW (LPC, 2017). In recent years, however, the LPC has identified sufficiently strong evidence to justify being more ambitious in relation to the rates for younger workers than in the past. This included strong employment rates and wage growth. This resulted in relatively large increases in the minimum wage for young workers aged 18-24, reducing or at least maintaining, the differential with the NLW. In addition, changes to the uprating cycle for the youth rates, meant that young people received two upratings in quick succession: first, in October 2016, as part of the annual uprating of the old NMW cycle; and then again, in April 2017 when the youth rates and Apprentice Rate were aligned with the NLW cycle. On the new uprating cycle, the youth rates were increased in April 2018 and will increase again in April 2019. While recent minimum wage increases for 18-20 and 21-24 year olds have often kept pace with, and sometimes exceeded, increases in the adult rate or NLW, wage increases for 16-17 year olds have been more modest due to evidence of 16-17 year olds making less progress in both earnings and employment.

Having provided a brief overview of the rationale and history of the NMW youth rates, this review will now outline key educational and labour market policies relevant to today's UK youth labour market. As already shown, the LPC's recommendations in relation to age-related rates of pay are focused on young people's opportunities for education, training and recruitment. Therefore we now outline the strategies available from government and other organisations in order to provide context to ways in which employers recruit and set pay for young people.

Raising the Participation Age in England

In 1999 when the National Minimum Wage was first introduced it was compulsory for young people to remain in education until the age of 16. In 2013 the age of participation in education or training was increased to 17, and again to 18 in 2015[2]. Young people under the age of 18 today must therefore participate in one of the following three options:

- Study full-time at school, college or with a training provider[3].
- Enter full-time employment or volunteering combined with part-time study or training[4].
- Enrol in an apprenticeship, traineeship or supported internship.

The rationale for raising the age of participation (RPA) centred on the argument that a prolonged period in education or training would improve young people's attainment and skills, as well as their future earnings potential (Simmons, 2008). Furthermore, as Woodin and colleagues outline, the raising of the participation age was widely considered as an opportunity to re-think UK post-16 education, and diversify learning opportunities to address deficits in vocational training, education and employment (Woodin et al., 2013). As the same research states, the idea of 'participation' in this respect was broadly conceived to include schooling, training, apprenticeships and part-time certified work-based learning.

In between the introduction of the NMW in 1999 and RPA in 2013 and 2015, young people's participation in education and training had already changed considerably, with the proportion of 16-18 year olds in full-time education significantly increasing (see Chart One). There were a number of policy initiatives in place prior to RPA that contributed to this. This included: the introduction of Education Maintenance Allowance (EMA) in 2004; the introduction of the Connexions Service in 2003, with a focus on offering guidance and support for hard-to-reach young people; and the implementation of the September Guarantee in 2007, which ensured that every 16-17 year old received an offer to stay in education or training (Maguire, 2013).

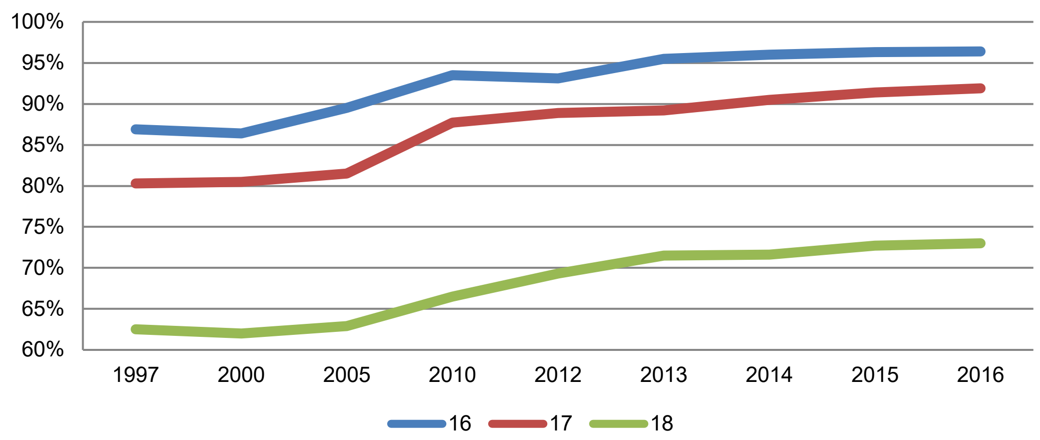
[2] The RPA legislation applies in England only. The school leaving age remains at 16 in Scotland and Wales
[3] The definition of full-time participation is at least 540 hours a year; this is around 18 hours per week
[4] To count as full-time work, the job must be for 8 or more weeks consecutively and for 20 or more hours per week. Part-time education or training alongside full-time work must be at least 280 hours per year.

Despite increases in young people's participation in education and training prior to RPA, the significant and disproportionate impact of the 2008/09 recession on young people created greater demand for effective policy responses to address youth unemployment, as well as the growing proportion of young people not in education, employment or training (NEET) and the long-term wage scarring effects of youth unemployment (Gregg and Tominey, 2005; Powell, 2018). Evidence suggests that while the overall effect of RPA on youth unemployment, predominately through delayed entry into the labour market and raising educational achievement, can be seen as positive, the policy has been seen to have a much smaller effect on boosting smooth transitions from education to work (Gregg, 2015). As such, while RPA may have contributed to a (pre-RPA) trend of falling NEET rates among 16- and 17-year-olds, a significant rise in the NEET population among the post-18 group provides evidence of a 'warehousing effect', with a growing number of young people emerging from post-16 education unable to make successful transitions into the labour market (Ainley, 2013; Maguire, 2013; Cornish 2018).

More broadly, a possible consequence of increasing participation in full-time education is that the remaining (and diminishing) pool of those not in full-time study are likely to have, on average, fewer skills and qualifications, and thus be less attractive potential employees (Wolf, 2011; LPC, 2016).

The original, intention of RPA was to place additional and varying responsibility on employers to offer statutory release to young workers to access education or training, in accordance with continuous and on-going post-16 education reform. These included duties for employers to check that a young person was enrolled in a suitable training course before starting work, and to agree suitable hours to allow them to access this training. Wolf (2007; 2011) described such responsibilities as potentially onerous, and likely to result in the displacement of 16-17 year olds in the labour market if workable models for training release were not developed. In line with this, Spielhoffer et al. (2007) identified evidence of a strong need to engage with employers to ensure that appropriate work-based learning opportunities existed for all young people to coincide with the conditions of RPA. Subsequently, in light of concerns about placing new burdens on employers, the Government decided not to commence these duties for employers in 2013. The onus is therefore on the young person to see that they meet the requirements for training; and for local authorities to monitor and report on the extent to which this requirement is being met (DfE, 2016).

Chart One: Proportion of 16-18 Year Olds in Education or Training in England



Source: Department for Education (2017)

Education Maintenance Allowance and the 16-19 Bursary Fund

The Education Maintenance Allowance (EMA) was a UK government means-tested cash transfer paid directly to young people aged 16-18 in the first 2 years of post-compulsory full-time education. First piloted in 1999, the scheme was introduced due to concerns about: participation rates in post-16 education; the proportion of young people who were not in education, employment or training (NEET); and low rates of retention in education at 17 and 18.

Evaluation of EMA pilots showed the scheme to be largely successful, increasing participation and retention in full-time post-16 education, as well as reducing the number of young people who became NEET (Middleton et al., 2005). The scheme was rolled out nationally in 2004, and was found to be broadly successful in delivering its intended outcomes. This included increasing participation amongst 16-17 year olds participating in full-time post-compulsory education, as well as targeting support for pupils with lower levels of achievement (Dearden et al., 2009; Roberts and Hubble, 2017). In line with this, EMA was considered an important tool in offsetting any encouragement that the introduction of the NMW might have provided to draw young people out of education and into the labour market (Crawford et al. 2011).

Due to concerns of high deadweight cost, the EMA was abolished in England and replaced with the 16-19 bursary fund in September 2011[5]. The intention behind the reform was to provide more efficient and better targeted support for post-16 learning by delegating allocation to schools, colleges and training providers (Britton and Dearden, 2015). The Bursary Fund has two parts: a yearly bursary of £1,200 for vulnerable young people[6], often referred to as Defined Vulnerable Group Bursaries, and a Discretionary Bursary Fund,

[5] EMA schemes are still in place in other parts of the UK.

[6] Defined as those in care; care leavers; young people receiving Income Support and young people receiving both Disability Living Allowance and Employment Support Allowance

allocated to young people by providers, often based on income-related criteria (Callanan et al. 2013; 2014; Lloyd et al. 2015).

Cumulative process evaluations of the 16-19 Bursary Fund consistently showed the majority of providers considered the programme to have a positive impact on young people's participation and engagement in learning, and to be effective in targeting young people facing the greatest barriers to participation (Callanan et al. 2013; 2014; Lloyd et al. 2015). Findings also suggested awareness of the fund was high amongst post-16 students, although often not early enough to inform decisions regarding further education prior to enrolment (Callanan et al. 2013; 2014; Lloyd et al. 2015).

However, an impact evaluation of the 16-19 Bursary Fund showed a fall in full-time participation amongst Year 12 and Year 13 students who would have previously been eligible for the full EMA award (Britton and Dearden, 2015), as well as a 2.3 percentage points fall in the Level 3 achievement rate (Britton and Dearden, 2015). Evidence therefore suggests that despite the intention of the Bursary Fund to more effectively target those most in need, the abolition of EMA has had a negative effect on the participation and attainment of the poorest students.

Changes to Vocational Education and Training

Since the late 1970s a series of regular and significant policy changes have been implemented that have affected vocational education in the UK. Most notably, in 1985, the *Review of Vocational Qualifications* saw the introduction of National Vocational Qualifications (NVQs), which aimed to reduce complexity by reducing the vast numbers of qualifications then available into a single comprehensible framework. As a result, by the time the National Minimum Wage was introduced in 1999, work-based training via vocational qualifications were considered an important way to improve the employability of young people, and played a central part in the Government's 'Investing in Young People' strategy.

Broadly speaking, vocational routes have typically been designed to enable people to gain work-based qualifications. They are offered at Levels 2[7] and 3[8], and have been considered to provide progression routes into further education and training or into the labour market for those who do not take the 'academic track', i.e. A-Levels. Historically, further education colleges have been the dominant providers in most categories of vocational qualifications. Students undertaking vocational options post-16 generally have different characteristics than those who undertake A-Levels. Hupkau et al. (2016), for example, suggest that those taking Level 3 are more like the average person in terms of prior attainment and demographics, whereas those who pursue A-levels have much higher GCSE results and are less likely to come from a disadvantaged socio-economic background. Similarly, those taking qualifications at Level 2 or below are much more likely to be from disadvantaged family

[7] Level 2 is notionally equivalent to an individual achieving 5 or more grade A*-C GCSEs.
[8] Level 3 is notionally equivalent to achieving 2 or more A Levels. Vocational qualifications at this level would typically be taken somewhere between the ages of 16 and 19, usually as an alternative to the academic A Level programme.

backgrounds, and generally do not have the pre-requisites to start their post-compulsory education at a higher level (ibid).

Over the years, and throughout multiple reforms, the vocational track has encompassed a wide variety of qualifications. By 2004, when the 16-17 Year Old Rate was introduced, students on the vocational path faced a diverse choice set, with thousands of available courses varying widely in length, degree of difficulty and specialisation (Hukau et al., 2016). In an attempt to simplify the system, the National Qualifications Framework (NQF) was introduced. Furthermore, following a partial take-up of the recommendations made in the Tomlinson Report, vocational diplomas were introduced via the Sector Skills Development Agency and the Sector Skills Councils in an attempt to further streamline the system and provide a route for students not well served by A-Levels. Throughout this time, as outlined by the 'National Skills Strategy: 14-19 education' and the '14-19 Education and Skills White Paper', employers were considered key to the design and delivery of vocational education and training. Employers were therefore urged to actively participate in their development, in order to ensure vocational education met their skills and staffing needs.

Despite attempts at streamlining, survey research has identified widespread confusion amongst employers over vocational education. Roe et al. (2006) estimated that fewer than half (45%) of all employers in England had any useful understanding of NVQs and that, despite its original goal, NVQs were further complicating the vocational education system. As a result, interaction with NVQs amongst employers was identified to be low, with only 16 per cent of all employers engaged in staff training of this kind. In addition to this, only a quarter of employers said the achievement of a NVQ would usually lead to a pay rise and only a fifth (21%) said it usually leads to improved job status or promotion (Roe et al., 2006). Furthermore, evidence submitted to the House of Commons Education and Skills Committee (2007) raised concerns regarding employer involvement in the diplomas system, suggesting the interests of small and medium employers were not sufficiently communicated via the relevant Sector Skills Council. Furthermore, survey research identified less than a fifth of Institute of Directors members (19%) had heard of the Sector Skills Development Agency or the Sector Skills Councils, and only a handful (3%) were active participants (ibid)

By 2011, despite attempts to simplify the system, a proliferation of vocational qualifications continued to be available for post-16 learning. As outlined in the Wolf Report (2011), at Level 3 alone, students in England could choose from among 3,729 qualifications, a significant proportion of which were considered to be low-level and to have low-market value. The low returns of vocational education were attributed to high drop-out rates, and a 'churning' of 16-18 year olds as they tried to find appropriate pathways within the vocational education system (Wolf, 2011). As such, as argued by Hayward and Williams (2011), vocational qualifications by and large were considered to have little value outside of the 'self-referential progression routes of education providers'. Evidence on the returns to vocational qualifications is mixed. While Lynch et al.'s (2015) review of the value of vocational qualifications suggests that achieving a vocational qualification at all levels has a positive impact on the likelihood of being in employment, and significant wage returns for most qualifications, McIntosh and Morris (2016) suggest that there are large variations by type of qualification, level and subject.

Within this context, a key recommendation of the 2011 Wolf Report was an urgent need to simplify the system. Thousands of qualifications were subsequently removed from performance tables to condense measurement of education providers' performance, and a clearer alternative pathway to A-Levels was introduced through qualifications at Level 3 (Applied Generals and Tech Levels) and non-GCSE qualifications at Level 2 (Tech Certificates). Furthermore, a key aspect of the Wolf Report was the development of 'employer-led' vocational education. This was in the light of evidence suggesting many current vocational qualifications were not valued by employers. Moreover, that employers have a preference for 'work history' rather than 'work-related experience' in an educational institution or government training scheme, where young people gain low returns in employment and pay rates (Wolf, 2011).

In the wake of the Wolf Report, an Independent Panel on Technical Education, chaired by Lord Sainsbury, was tasked with undertaking a review of technical education provision. Published in 2016, the panel report highlighted the continued fragmented and confusing nature of the vocational landscape: with over 20,000 different courses on offer through 160 providers, and little information on which types of pathways would provide the best route to employment. As such, a further process of reform to the vocational education system is currently being undertaken via the Post-16 Skills Plan. The biggest change is the introduction of a new system of technical education (T-Levels), to run in parallel with the academic or A level option, comprising two years of study post-16. These offer young people 15 routes[9], each to include a substantial work placement of up to three months. The content of T-Levels is being designed by employer panels, with the first T-Levels scheduled to start in September 2020 and full roll-out intended from September 2023.

Early CIPD research raises concerns around employer involvement in T-Levels, with just 40% of employers reporting that they had heard of T-Levels prior to being surveyed (CIPD, 2018). Furthermore, three-quarters of UK employers (74%) stated they would not be able to offer T-Level students the minimum amount of work experience needed to gain the qualification (CIPD, 2018). Other research on employer engagement with T-Levels suggests that, while employers welcome the programme, concerns remain around capacity and capability to offer the range and volume of placements required (Foster et al. 2018). In particular, employers raised concerns around the supervision and training of learners, and the extent to which this investment will be a subsequent benefit to the company (ibid).

Apprenticeships

In 1995, after a long-standing decline in the number of apprentices, Modern Apprenticeships were introduced to provide opportunities for young people to undertake paid work while receiving training toward a NVQ Level 3 qualification. Shortly afterwards, National Traineeships were also introduced at Level 2, to provide a pre-progression route. By the end of 1998, almost a quarter of a million people in England and Wales had started a Modern

[9] T-Levels consist of 15 routes, including: Agriculture, Environmental and Animal Care; Business and Administration; Catering and Hospitality; Childcare and Education; Construction; Creative and Design; Digital; Engineering and Manufacturing; Hair and Beauty; Health and Science; Legal Finance and Accounting; Protection Services; Sales, Marketing and Procurement; Social Care; and Transport and Logistics

Apprenticeship, the majority of which were in business administration, engineering manufacturing and retailing, and hosted within small firms (Mirza-Davies, 2015).

Over the next few years the system continued to evolve, with National Traineeships becoming Foundation Modern Apprenticeships and Modern Apprenticeships becoming Advanced Modern Apprenticeships. In the early 2000s, national frameworks were introduced defining the minimum standards required for each apprenticeship. By 2004, the two schemes were merged under the title of 'Apprenticeships', and the upper age limit of 25 was removed. As outlined by Lee (2012), concerns were raised during this time regarding the low status, poor standards, and variable quality of provision of apprenticeships. In 2006, in light of these concerns, the Leitch Report proposed a need to invest in the expansion in apprenticeships and to raise employer engagement, demand and investment (Leitch, 2006).

In 2009 the National Apprenticeship Service was introduced, and following the Apprenticeships, Skills, Children and Learning Bill in 2009, all apprenticeships were mandated to include a competencies qualification at Level 2 or 3, as defined by the Regulated Qualification Framework (RQF), as well as a technical qualification demonstrating knowledge and understanding of theoretical concepts. Furthermore, a minimum duration for apprenticeships of one year was introduced, as well as a minimum number of learning hours. As outlined by McIntosh (2007), evidence suggests that during this time apprenticeships provided substantial net costs for employers. These costs, however, have been identified to be recouped quickly if the apprentice is retained (Hogarth et al. 2012).

Following this expansion, evidence emerged that some apprenticeships continued to be of poor quality. As a result, and following the Richard Review (2012), new minimum standards for all apprenticeships were introduced, including a minimum duration of 12 months for most learners, a minimum of 30 hours' employment, and at least 280 Guided Learning Hours (GLH) in the college or workplace, of which at least 100 are off-the-job. Despite these changes, a number of aspects of the apprenticeship system remained subject to criticism. Employer engagement in apprenticeships, for example, continued to be low, with research showing that only 15% of employers offered formal apprenticeships (Shury et al. 2014). Furthermore, concerns were raised regarding perverse incentives for low-skilled sectors to take on apprentices due to: low cost; limited learning progression; and the extent to which employers are sufficiently involved in the design and delivery over education providers (Pullen and Clifton, 2016). Indeed, survey research with employers consistently suggests training providers take the lead in providing apprentices, simply offering training courses to employers, funded by government (BIS 2013; BIS 2016).

In 2015 the Government issued a commitment to improving the quantity and quality of apprenticeships, and enrolling three million apprentices by 2020 (BIS 2015). As part of this commitment, the Institute for Apprenticeships was established to ensure high-quality apprenticeship standards and to advise the government on funding. The Apprenticeship Levy was also introduced, requiring larger employers with a wage bill over £3 million to pay a levy of 0.5 per cent of their payroll to support the apprenticeships programme. Research on employer reactions to the Levy concluded that it was likely to encourage employers to utilise the apprenticeship training route rather than other available alternatives and would potentially accelerate uptake (Gambin et al. 2016). At the same time, the research raised concerns about employers' capacity to expand apprenticeship programmes, and therefore their ability to reclaim the levy in full (Gambin et al. 2016).

As outlined by Nafilyan and Speckesser (2017), the number of apprenticeships has increased substantially, from 167,700 in the academic year 2002/03 to half a million in 2014/15. During this period, apprenticeship starts for 16-18 year olds increased by 29% to 125,900, and more than doubled, to 160,100, for 19-24 year olds. The most significant growth, however, occurred for people over 25 years of age, which grew from zero to 213,900. Therefore, despite apprenticeships being considered a key component of the government's push towards increased participation for 16- to 17-year-olds (Acquah et al. 2014), evidence suggests they are rarely taken up immediately after completing compulsory education (Hupkau et al. 2016).

In the quarter immediately following the introduction of the Apprenticeship Levy there was a sudden fall in the number of apprenticeship starts, well below comparable periods in previous years (LPC, 2018). Since then overall starts have remained lower than in previous years across almost all age-groups and level categories, with the largest falls in the take-up of level 2 apprenticeships and in starts by people aged 25 or over.

Tuition Fees

Between the 1960s and the late 1990s, the UK higher education sector underwent significant expansion. After a major inquiry in 1997 (the Dearing Review), reform was considered necessary in order to sustain the system. Subsequently, from 1998, new entrants to full-time higher education programmes across the UK for the first time were required to pay up-front, means-tested tuition fees of £1,000 per year (Hubble and Bolton, 2018; NAO, 2017).

By 2004, higher education participation had continued to increase, raising concerns that universities were still underfunded, compromising their quality and competitiveness (Greenaway and Hayes, 2003). As such, in 2006/07, non-means tested, variable, deferrable fees up to £3,000 were introduced in England[10], alongside a means-tested package of support to help widen participation for the poorest students (Bolton, 2018b).

In 2012, following the Browne Report (an independent review of tuition fee policy in the UK) the Government brought in major reforms to the way higher education institutions (HEIs) in England were funded to make the system more sustainable. This included enabling HEIs to charge variable tuition fees of up to £9,000 per year (Hubble and Bolton, 2018a). As a condition of charging higher tuition fees, HEIs are required to invest in strategies to promoted wider participation, such as offering bursaries for poorer students, and to report annually on progress (NAO, 2017).

Despite tuition fees originally being implemented in every UK nation, student funding policies diverged after devolution in 1999. Tuition fees in Wales have, to a large extent, mirrored

[10] This was later introduced in Northern Ireland in 2006/07 and Wales in 2007/08

England's, and are currently capped at £9,000 a year. In 2001/2002 tuition fees in Scotland were replaced with a 'graduate endowment scheme', a one-off £2,000 charge paid by graduates who cross an earnings threshold, originally set at £15,000 per annum. In 2006/08 this scheme was abolished. Tuition has subsequently been free for domiciled Scottish students, covered by the Scottish government via the Students Awards Agency for Scotland (SAAS).

Estimates using 1992-2007 Labour Force Survey data suggest that the introduction of tuition fees in England, Wales and Northern Ireland had a significant adverse effect on university participation, with a £1,000 increase in fees resulting in a 3.9 percentage point decrease (Dearden et al. 2011). The number of home applicants via UCAS for full-time undergraduate courses shows a rise year on year between 1999 and 2005. The number then fell by 4.1% in 2006, following the introduction of £3,000 fees, but then quickly rebounded, growing strongly between 2007 and 2011. The number then fell again in 2012, by 7.6%, with the introduction of £9,000 fees, but then recovered by 2013. The number has since grown each year, with the exception of 2017 (Bolton, 2018a).

The increase in tuition fees has had a significant impact on student debt. As outlined by Belfield et al., (2017), average debt on graduation in 2017 in England stood at just over £50,000; more than double the average debt students would have faced had the system remained unchanged from 2011. Belfield et al. (2017) suggest that the increase in average debt between 2012 and 2017 was driven almost entirely by the replacement of maintenance grants to maintenance loans for poorer students from 2016. As a result, students from households in the lowest 40% of earners, on average, have debts of £51,600 upon graduation, compared to £38,400 in the top 20% of households (ibid).

As outlined by Cullinane and Montacute (2017), student loans had slowly been replacing grants since the nineties, before the latter were fully abolished in 1998. Maintenance grants were re-established in England in 2006, and scrapped again in 2016 for new students (Bolton, 2018b). Maintenance grants have long-been considered a key aspect of improving the participation of students from poorer backgrounds. Evidence however suggests that, despite the removal of maintenance grants, the number of disadvantaged young people going to higher education has risen significantly over recent years. Data suggest the proportion of pupils who received Free School Meals at the age of 15 and progressed to higher education by the age of 19 increased, from 17% in 2008/09 to 24% in 2014/15 (DfE, 2017). The cost of university, however, has been identified to affect students from disadvantaged backgrounds in other ways: including making them more likely to study in less prestigious institutions: to study near home: and to amend their subject choice (Wakeling and Jefferies, 2013).

The Tax and Welfare Benefit System

Since 1988 the tax-benefit system has treated people aged 18-24 differently from those aged 25 or over. Historically, under 25's have been treated differently in the following ways:

- 18-24 year olds have consistently had a lower personal allowance when in receipt of Income Support and income-based Jobseekers Allowance. For a single person over the age of 25, for example, the personal allowance stood at £71.70 in 2013/14. The rate for a single person (without children) under the age of 25 was £56.80, almost 20% lower.

- Since 1996 most under 25s have only been entitled to a Shared Accommodation Rate of Housing Benefit, restricting entitlement to a set amount for a single room only. This was extended to under 35's in 2012. The general principle behind SAR is that young people should not expect to receive Housing Benefit to pay for a higher standard of accommodation than their contemporaries in paid employment could afford (Kennedy, 2014). SAR was therefore considered effective in encouraging young people to remain in the parental home, and in preventing young people from taking on highly priced accommodation that they could not afford from their own earnings.

- People under the age of 25 have not been entitled to in-work support through Working Tax Credit, unless they have children or a disability. This age-related threshold was implemented to ensure the tax credit system concentrated in-work financial support on those most likely to be in persistent poverty (Kennedy, 2014). This was justified in terms of low-pay for young people being considered as largely transitory. It has also been considered to be more effective in targeting resources at poorest households, for which under 25s are more likely to be dependents.

Differential treatment and lower entitlements for those under 25 have been continued into the roll-out of Universal Credit[11], with standard allowances set lower for those under 25 than for those aged 25 and over. This reflects the view that young people generally have lower living costs and lower wage expectations (Social Security Advisory Committee (SSAC), 2018). It has also been justified in terms of reinforcing the strong work incentives that Universal Credit is expected to provide for younger claimants (Kennedy, 2014). One key difference with Universal Credit, however, is that people under the age of 25 who are in work are entitled to support on the same basis of those aged 25 or over. By extending new entitlements to this group, Universal Credit has therefore been considered to better incentivise younger people to transition into employment and improve their longer term labour market potential (Alakeson et al., 2015).

The differential treatment of under-25s within the tax and benefit system has typically been justified on the grounds that most young people do not live independently, and therefore are considered to have fewer financial responsibilities (Kennedy, 2014). LFS data however shows that a third of 16-24 year olds do live independently, 7 per cent of which are aged 16-17 (SSAC, 2018). SSAC therefore consider young people living independently as potentially vulnerable within the current tax and welfare benefit system, often unable to afford basic living costs (SSAC, 2018).

Evidence suggests young, childless single people out of work have a far lower income than their peers in work, full-time study or apprenticeships. This is due to lower benefit rates for

[11] Universal Credit is a single cash benefit payment, which replaces six means-tested benefits and tax credits from the legacy benefit system

under 25's, entitlement to housing benefit being limited to the shared accommodation rate, as well as most young people in work being paid above the minimum wage, making the income disparity between benefit payments and wages higher (SSAC, 2018). In line with this, SSAC (2018) identify significant vulnerability amongst independent young people on benefits.

Support into Work

When the NMW was first introduced the New Deal for Young People (NDYP) was a key part of the Government's Welfare to Work Strategy. NDYP was a mandatory programme for 18-24 year olds who had been claiming Jobseeker's Allowance (JSA) for six months or more. The programme's overall objectives were to help young unemployed people into jobs; improve their prospects of staying and progressing in employment; and to increase the long-term employability of young unemployed people (NAO 2002).

The programme comprised a mix of advice, training, support and other assistance, including work experience. It comprised three distinct phases:

- A Gateway stage, comprised of intensive job search under the supervision of a caseworker;
- An 'option' stage comprising either full-time paid employment (EMP), full-time education or training (FTET), or a work placement in a voluntary sector (VS) or working for an organisation with an explicit environment-focused remit (EFT); and
- A 'follow-through' stage, for continuing advice and assistance

With the exception of the EMP stage, all options under the NDYP were unpaid, whereby participants received an allowance equivalent to Jobseekers Allowance, as well as any linked benefits. For the Voluntary Sector and Environment Task Force Option, participants also received a grant of £400 payable over 6 months. Through the EMP option, participants received a wage, for which employers were subsidised £60 per week for a maximum of 6 months. **At the time of the first LPC report in 1998 it was made clear that the National Minimum Wage must not act as a barrier for claimants to receive structured training, nor act as a disincentive for employers to participate in the New Deal (LPC, 1998).** As a result, workers aged 18-21 as well as those over the age of 22 were entitled to the Youth Development Rate, as long as their employment included participation in accredited training (House of Commons, 1999).

Through the Employment Option, Voluntary Sector Option and Environment Task Force Option, employers were obliged to offer education or training at least one day a week toward a NVQ Level 2, for which they received up to £750 compensation. In this respect, the role of employers was crucial for the programme in that their requirements should be taken into account in preparing participants for the workplace (NAO, 2002).

Evaluations of NDYP identified that, despite early interest from employers, enthusiasm diminished after few clients were referred during the early stages of the national 'roll-out' (Hasluck, 2000). NDYP evaluations identified the main obstacles to employer participation were: a lack of suitable vacancies for young people; a concern with the ability of NDYP to meet immediate and pressing recruitment needs; and concerns about the training requirements of NDYP (Hasluck, 2000). Evaluation studies also found a mismatch between client job readiness and employers' needs, with clients sometimes not meeting criteria for basic skills and not prepared for work (Hasluck, 2000; Elam and Snape, 2000; NAO, 2002).

Evidence suggests that the great majority of subsidised employment places through NDYP were in the service sector, predominately in wholesale and retail (Bryson et al. 2001). Qualitative evidence about levels of pay in NDYP subsidised employment placements suggest that pay was relatively low even by the standards of earnings in the youth labour market. Survey evidence undertaken before the introduction of the minimum wage identified that around 26% of employment placements were in jobs paying less than £2.50 per hour, while 32% earned between £2.50 and £3.49[12] (Hasluck, 2000).

The requirement for employers to provide training was identified as a significant barrier to employer participants in NDYP (Elam and Snape, 2000). Survey findings suggested small employers tended to say they lacked the staff resources to support training, while larger employers found the restrictions of NDYP rules and the requirement to train too constraining (Hasluck, 2000). Furthermore, evidence suggested this training was often not relevant to employers' needs, and that the training subsidy was widely seen by employers as insufficient compensation (NAO, 2002). Qualitative research with NDYP participants also identified training to sometimes start too late to be of use, or to be occasionally entirely absent (Woodfield et al. 2000). However, quantitative research with employers found that two thirds of people recruited to subsidised employment remained in their job at the end of the subsidy period, and half were still in their job after 12 months (Hales et al, 2000). A key message that emerged from the programme was therefore that a period of subsidised employment is a more effective means of exiting unemployment and securing unsubsidised employment than the other options available under NDYP (Dorsett, 2006).

Following a significant review of welfare to work programmes (Freud, 2007), a new outcome-based, contracted support service was introduced, which sought to provide more individualised support for those seeking work through public, private and voluntary providers. Central to this approach was the idea that school-to-work transitions should be facilitated by reducing early exits from education, and that education and work should be combined to ensure young people acquire skills relevant to labour market requirements. Under this remit a new scheme called the **'Flexible New Deal' (FND),** was introduced in 2009. The key rationale underpinning FND was that the needs of the long-term unemployed were varied, and would be better met through specialist service providers. FND therefore sought to provide a more flexible, personalised approach to supporting all jobseekers into work (DWP, 2007).

The FND programme comprised four stages[13] based on the length of a JSA claim. The first three stages were delivered by Jobcentre Plus and lasted up to 12 months. If a person was still claiming JSA after 12 months they were then referred to an external FND provider. FND providers operated under a 'black-box' approach, in which they were able to design a

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[12] This was prior to the introduction of the National Minimum Wage. Evidence of post-NMW levels of pay is not available.
[13] Stage 1: 0 to 13 weeks; Stage 2: 13 to 26 weeks; Stage 3: 26 to 52 weeks; Stage 4: 52 weeks to 2 years.

personalised package of work preparation and job search support to address the needs of the customer balanced with the needs of the local labour market (Vegeris et al., 2011). A key part of the Stage Four provision was the requirement of every customer to undertake a minimum of four weeks continuous full-time work-related activity, in the form of a work trial, unpaid work experience, community work, voluntary work or work-focused training. As outlined by Dar (2015), because those on work placement schemes via welfare-to-work programmes are not considered “workers” and “employees” National Minimum Wage does not apply. Work placements rather are simply a requirement linked to on-going receipt of Jobseeker’s Allowance.

An evaluation of the FND found younger customers (aged 18-24) were more likely to still be claiming a year on from the start of FND compared to their counterparts under the NDYP over the same claim period (Vegeris et al., 2011). Furthermore, the evaluation identified it to be much more common for younger people to leave FND for short-term work compared to those over the age of 25 (who were more likely to leave FND for permanent employment). Correspondingly, follow-up survey research with FND claimants identified that one in five (17%) younger customers who had left FND to enter work were no longer working by the time of the follow-up interview, compared with one in ten (10%) customers aged 25 or over (Vegeris et al., 2011). Accordingly, Mulheirn and Merne (2009) raised concerns regarding the programme’s ability to promote sustainable employment and progression at work, and the extent to which employers were incentivised to train jobseekers stuck in ‘revolving door’ employment.

However, qualitative research with FND customers found younger jobseekers and those with no or lower qualifications were the groups most likely to have considered FND support useful. In general, the likelihood of considering the support useful decreased with age and level of qualification, indicating that services were less appropriate for people with more labour market experience and the higher skilled (Vegeris et al., 2011). This was reinforced by early evaluation evidence that suggested that the work customers entered was often lower skilled and lower paid (Knight et al., 2010). Stage four mandatory work-related activities were also identified to commonly be considered by FND provider staff as placements in ‘lower-end companies’ and equivalent to ‘minimum wage positions’’, albeit unpaid (Vegeris et al., 2011).

In 2011, the Flexible New Deal was replaced by the Work Programme. Similar to FND, the Work Programme was implemented under a ‘black-box’ approach, which gave outsourced public, private and third sector providers’ flexibility to develop tailored solutions for individuals. This included service providers having the freedom to introduce and implement their own schemes to help unemployed participants find work, including placing people in unpaid work-related activities and unpaid work experience placements (Dar, 2015)

Providers were paid through a staged, outcomes-related differential payment scheme structured around nine different payment groups[14]. Claimants were referred to Jobcentre Plus (JCP) at specific stages of their claim and could remain attached to the Work

[14] JSA aged 18–24; JSA aged 25+; JSA early access; JSA ex-IB; ESA volunteers; New ESA claimants; ESA ex-IB; IB/IS; JSA prison leavers.

Programme for a maximum of 104 weeks. Under the Programme claimants under the age of 25 were referred to in-work support after 9 months, as opposed to 12 months for those aged 25 and over.

An evaluation of participants' experience of the Work Programme found claimants aged 18-24 felt they had the most effective support, greater advisor continuity, and felt less pressure to take part in unsuitable activities compared to those who were older (Meager et al., 2014). Evidence also suggests that job outcome rates in the Work Programme declined with age. Analyses of Work Programme outcome data found younger participants were more likely to enter work than older participants, with those over the age of 50 identified to be the most disadvantaged (Meager et al., 2014). More specifically, analyses of Work Programme job outcome data show that 77% of participants aged 50 plus left the programme without employment, compared with 66% of 25–49 year olds and 65% of 18–24 year olds (Meager et al., 2014).

A key aspect of changes to support into work has been the strengthening of the sanctioning regime. This resulted from the Welfare Reform Act 2012 and affected claimants on Jobseekers Allowance and Employment and Support Allowance. A wide body of evidence suggests that benefit sanctions strongly disproportionately affect young people. Research shows that not only are those aged under 25 more likely to be referred for sanction, but they are also more likely to receive a sanction than any other age group (de Vries et al., 2017; Reeves and Loopstra, 2017). Statistics from the DWP on JSA sanctions by age show that claimants aged 18–24 receive a higher proportion of sanctions compared to their representation in the JSA population as a whole (Webster 2016)). This is also true for claimants of ESA, with a higher proportion of young claimants receiving sanctions compared to the overall proportion of young claimants in the ESA caseload (Webster 2016).

In November 2015, the Department for Work and Pensions (DWP) announced that it was replacing The Work Programme with a new Work and Health Programme for the longer-term unemployed and those with a health condition. Since February 2017, new referrals to the Work Programme have been discontinued. The programme officially stopped on 1 April 2017.

The Current System

The Work and Health Programme was launched in North West England and Wales in November 2017 and rolled out across the rest of England in early 2018. People who are disabled and those who have been unemployed for more than two years are eligible for the programme. People may also be eligible on a voluntary basis if they are a carer or former carer, homeless, a former member, or partner of a member of, the armed force, a care leaver, a young person in a gang, a refugee, experience substance abuse problems or an ex-offender serving a community sentence.

In addition to the Work and Health Programme, the Youth Obligation Support Programme (YOSP) was recently introduced as part of the roll-out of Universal Credit. Targeted at 18-21 year olds, the purpose of the programme is to provide intensive support to help young people find employment or an apprenticeship. The programme begins with an Intensive Activity Programme (IAP), comprised of 71 hours intensive support designed to support the claimant's return to work. An impact evaluation of the IAP showed the programme to be broadly successful, with participating claimants more likely to be off benefit and in-work by the fifth week of their claim when compared to non-participating claimants (Downes and Moran, 2016). Evidence also suggests these positive effects are sustained, suggesting a long-term role of IAP in moving claimants toward employment (Downes and Moran, 2016). As outlined by SSAC (2018), there is currently no equivalent, specialised support for young people aged 22 to 24. Claimants on YOSP who are not in employment or an apprenticeship six months into their claim are encouraged to take-up either a traineeship, sector-based work academy, or a guaranteed 3 month work experience opportunity (SSAC, 2018).

The Government also runs a Work Experience scheme, a voluntary programme seeking to provide placements of between two and eight weeks for 18-24 year olds in receipt of Jobseekers Allowance. The programme is organised by the Jobcentre as part of the support provided to claimants to find work. Participants on the scheme do not receive a wage, but continue to receive benefits and continue to look for work (Dar, 2015). A quantitative impact assessment focusing on the outcomes of three cohorts of 19 to 24 year-old JSA claimants who started a work experience placement in 2011–2013 showed a positive long-term effect, with participants spending on average 10 days less on benefit and 47 days longer in employment as a result of participation (Haigh and Woods, 2016).

Conclusions from the Policy Framework Review

The key issue for the Low Pay Commission is the extent to which the policy landscape for young people is now sufficiently different to the landscape when the minimum wage was introduced; such that a radical rethink of the minimum wage structure is required.

As identified by this review, the educational and labour market policy landscape for young people has undergone significant change in some respects since the introduction of the National Minimum Wage. Most notably, the proportion of young people in education and training has increased substantially, reducing youth unemployment through delayed entry into the labour market, and raising overall educational achievement through increased participation in both higher and further education.

Underpinning these trends, however, are longstanding concerns over whether the expansion of education and training opportunities for young people have translated into smooth, sustainable transitions into the labour market. In particular, this review raises significant questions concerning the participation and attainment of the most disadvantaged students, coupled with uncertainty around the quality of vocational and technical routes which they are most likely to undertake. In this respect, very little has changed.

Related to this, this review identifies low awareness and limited involvement amongst employers in the design and delivery of current manifestations of vocational and technical education in the UK. In addition to this, familiar concerns remain amongst employers regarding their capacity to provide the range and volume of support required of the vocational and technical education system, as well as the extent to which their investments will be returned and whether young employees will subsequently meet their labour and skills needs. A key aspect of this framework review is therefore the identification of persistent and on-going challenges in incentivising employers to engage with reform, and its subsequent ability to facilitate pathways for young people to enter the labour market.

The system of employment support has arguably seen bigger changes over the 20 years since the minimum was introduced, and central to this is the move from paid work placements to unpaid work placements. In this respect there are now fewer implications for the minimum wage, although wage floor considerations may still be important in facilitating movements into secure paid employment.

Furthermore, while recent in-work support shows relatively better outcomes for young people when compared to older groups, under 25's continue to face an increasingly conditional and constrained financial environment via the tax and welfare benefits system when compared to those aged 25 or over.

Findings of Case Study Research with Employers

The second stage of this report presents findings drawn on new evidence collected via semi-structured, telephone interviews with employers and employer bodies. While young people work in a variety of sectors, our research focuses on four: **Hospitality**, **Retail**, **Cleaning** and **Childcare**.

We sought to include a variety of employers, including:

- those using the NMW age rates;
- those paying all young people the NLW;
- and those setting pay somewhere between the youth rates and NLW.

We aimed for the sample of employers to be geographically representative. We also ensured firms varied by size and location in the UK.

We used a number of channels to identify employers. First, we approached employers who took part in our previous research on the National Minimum Wage and National Living Wage for BEIS, and a number of these agreed to be interviewed. We also approached other employers who had taken part in our recent research on the potential impact of Brexit. A third method involved asking for introductions from employer representative bodies. This proved most useful for childcare and cleaning.

We experienced difficulties recruiting employers who used the youth rates. Our initial interviews were mainly with employers who made no use of the rates or used them for discrete groups of workers, typically those aged under 21. We therefore actively requested the help of employer bodies to encourage employers who use the rates to come forward. This resulted in a small number of additional introductions. We also used social media to encourage participation of employers in the selected sectors using the youth rates. This did not prove successful.

Employers were sent a pro-forma to complete before the interview to record data on employee numbers and use of the youth rates (see Appendix One). Prior to being interviewed, participants were given a research briefing which provided an overall explanation of the aims and objectives of the research. They were also given a guarantee of anonymity and confidentiality. Interviews with employers took place by phone and lasted around 45 minutes. All interviews were recorded with the permission of participants and recordings were fully transcribed. The topic guide used in the interviews, and developed in partnership with the LPC, is included in Appendix 3 of this report. Data collected was analysed using a framework approach using NVivo[15]. Interviews were conducted between April and October 2018. Interviews therefore referred to the National Living Wage and Youth Rates as they were at the time.

[15] This entailed coding the data of the separate research groups into themes and issues. Some of these were predetermined ones, embodied in the discussion guides and main areas of questioning, while others emerged from the interviews. The codes and groups developed in the analysis of data formed the analytical framework of this research, and were used to structure the findings of this report.

About Employer Bodies and Case Study Companies

We interviewed a total of 19 employers across the four case study sectors. A summary of the organisations is provided in Table 1. They comprise:

- four retail companies, three of them large chains and one a medium-sized convenience store chain;
- six hospitality companies, again all large but including some with hundreds rather than thousands of employees;
- six childcare providers, including five small settings and a large chain.
- and three cleaning companies, all large size enterprises.

We interviewed one representative in each organisation, in most cases the head of human resources, the head of pay and rewards, or the business owner/ manager.

Table 1: Case Study Employers

Type of business	Sector	Location in the UK	Number of employees
Convenience store chain	Retail	South England	4,000-5,000
Fashion chain	Retail	National	3,000-4,000
Supermarket chain	Retail	National	100,000-200,000
Retailer	Retail	National	10,000-15,000
Holiday resort	Hospitality	South West England	300-400
Hotel	Hospitality	London, South East & Midlands	400-500
Lunch & snack chain	Hospitality	National	10,000-15,000
Brewery, pubs & retail	Hospitality	East England	500-1,000
Hotels & resorts	Hospitality	National	15,000-20,000
Budget hotels	Hospitality	National	10,000-15,000
Pre-school setting	Childcare	South-East England	5
Nursery setting	Childcare	North-East England	25
Multi-chain nursery provider	Childcare	National	Unknown
Nursery setting	Childcare	North-West England	5
Nursery setting	Childcare	South England	36
Pre-School Setting	Childcare	South-East England	15
Cleaning in education sector	Cleaning	London, South East England	1400-1500
Commercial cleaning	Cleaning	Scotland, London, North West England &West Midlands	1300-1400
Facilities management company	Cleaning	National	10,000+

We also carried out interviews with employer representative bodies to gain a perspective on practices across the four sectors. These interviews focused on the industry response to the NLW and their views on the current relativities of the youth rates in relation to each other and the NLW. We explored with these interviewees their wider reflections and comments on the direction and implementation of the rates. Representatives of employer bodies varied in the extent to which they were involved in, and informed about, pay issues in their sector but they were able to at least comment on the direction of policy in relation to youth employment and pay and its impact on the sector. We also asked employer bodies for help in recruiting employers to the research, especially those who pay the youth rates.

We interviewed employer bodies in all of the case study sectors listed in Table 2. With the exception of the hospitality sector, we interviewed two organisations, representing different parts of the sector. Therefore, in the retail sector, one of the employer bodies covered the whole sector and the other convenience stores. In the cleaning sector, one covered just cleaning companies and the other facilities management more widely. In the childcare sector, one of the employer bodies covered the day nursery sector and the other represented early years' workers, nannies and childminders.

None of the employer bodies were directly involved in any pay negotiations or discussions around pay setting, but they had regular conversations with members about pay and non-pay rewards more broadly, and specifically about the National Living Wage, youth rates and the Apprentice Rate. This included, for example, engaging with members through annual membership surveys about pay issues including on youth rates, or as part of an evidence-gathering exercise ahead of submitting evidence to the LPC. Some employer bodies undertook regular research and consultation with members around staffing, pay and funding.

Table 2: Employer Bodies

Name of employer body	Sector	Type
British Retail Consortium	Retail	Retail companies
Association of Convenience Stores	Retail	Convenience stores
UK Hospitality	Hospitality	Hotels, restaurants, resorts
British Institute of Facilities Management	Cleaning	Cleaning, building management
Cleaning and Support Services Association	Cleaning	Cleaning industry
National Day Nurseries Association	Childcare	Nurseries
Professional Association for Childcare & Early Years	Childcare	Early years workers, nannies & childminders
Federation of Small Businesses	All sectors	Smaller employers

The process was similar to that used for the employer interviews and the topic guide is included in the report as Appendix 3.

Due to its qualitative nature the value of our empirical research is its ability to provide insight into a broad range of views on employer setting for young people. Therefore, while our research shows the range and diversity of views and experiences among those interviewed, they may not necessarily reflect the views of the wider population. In particular, our sample is somewhat biased towards large firms who are less likely to use the youth rates than smaller employers who were harder to engage in the research. The following findings should therefore be considered within the context of the research's strengths and limitation.

Employment of Young People in the Case Study Companies

Throughout our interviews, employers and employer bodies provided varying estimates of the proportion of young people within their sectors, and the roles they undertake. Typically retail companies thought that between a quarter and a third of employees were under the age of 25. Employers within childcare considered there to be large proportions of young people working within the sector, typically in positions consummate to their qualifications. In general, large multi-chain nurseries were considered to have larger proportions of staff under the age of 25, in part due to more extensive use of training and apprenticeship schemes.

Hospitality employers described the sector as offering many entry level jobs. This also applied to retail, childcare and cleaning, with retail and hospitality being particularly accessible to young people because of: the number of vacancies on offer; the availability of part-time, weekend and evening working; and location near centres of population. Overall, many employers mentioned the availability of hours which suit commitments such as study, or during school and university vacations. Some employers in hospitality targeted students for short-term, seasonal work, an approach which, as we explain later, informed its approach to the youth rates.

In the childcare sector, recent policy developments around education and training were widely thought to have resulted in a crisis in both attracting and retaining young people. In particular, reference was made to requirements for GCSE English and Maths, an attrition of post-Level 3 qualified staff, and a lack of career pathways into graduate status, pay and recognition.

Cleaning employers and employer bodies said that the sector was struggling to attract young people and young people were underrepresented within the industry. This underrepresentation has been explained by the nature of the work, which tends to be unsociable and repetitive compared to other sectors, and does not offer non-pay benefits to workers in contrast to other industries (e.g. retail or hospitality).

Reasons for Employing Young People

Reasons for employing young people varied between the sectors. In hospitality, the recruitment of young people was described as meeting its considerable immediate labour requirements, particularly for shift work and seasonal jobs. They were also seen as important in ensuring the future supply of managers and supervisory staff. Similarly in the retail sector, young people were a source of flexible, as well as permanent labour, with students employed in a range of part-time roles and graduates taken on in full-time and training posts. Across sectors, young people were valued for their ability to cope with the physical demands of some jobs, for example kitchen work and childcare. A further factor is image and the preference of employers in some businesses, for example bars and clubs, to employ young people who fit the brand.

It was common for employers across sectors, but especially hospitality and retail, to say that hiring decisions are not based on age, but instead on their ability to fulfil the job responsibilities. They emphasised that all candidates go through the same process, and that they have no age-related policies for making hiring decisions. Typical comments from two retail case study companies were:

> *'We don't have any internal, formal or informal, policy that talks about the age of an individual. If somebody can come in and do the job then that's fine by us'.* Convenience store chain

> *'Everybody, regardless of age, will go through the same interview process, so those interviews are held obviously in our stores and it's all on their ability or potential ability to do the job, it's not focused on age at all.'* National fashion chain

Some employers remarked that it is, of course, stipulated by law that employers must not discriminate by age, and in a few cases, interviewees said they thought it ironic that current legislation allows employers to practice age discriminate on pay but not when hiring. Nevertheless, some employers said they had anecdotal evidence that in some parts of retail sector there have been unofficial discussions about recruiting younger people to achieve a lower wage bill. The employer body for convenience stores had also seen a large increase in their annual members' survey of respondents who actively recruited younger people, from 49% to 63% of respondents.

Even if hiring decisions are not based on age, it may be that employers perceive benefit or disadvantages in their younger or older workers. Employers in hospitality and retail often mentioned that younger workers were a useful asset to their workforce as their availability outside term-time often coincided with peak periods for their business. Employers often said that having a diverse workforce ensured that they were able to cover all timeslots, and young workers and students were an integral part of this strategy. They also noted the importance of having a diverse workforce across ages and demographics to match their customer base and to provide tailored customer service. Younger people were often return employees, as they returned for holidays or after a period of study. In this case, they were easier to integrate and required less induction as they already knew the business and processes, and sometimes they pursued a career later.

In terms of productivity and behaviour, employers in hospitality and retail did not report any significant differences and found difficultly making a generalised statement. As one retail employer commented:

> *'We are just as likely to have behavioural issues with staff of all sorts of ages, it's not age specific.'* Convenience store chain

Some employers said they had not discussed or explored within the organisation whether any such differentials existed. They noted that when they explored differentials in productivity and behaviour, they had not looked at age as a factor.

Jobs Performed by Young People

Employers in retail and cleaning largely said that people's roles were largely unaffected by age, and young people were typically employed in full and part-time roles which were similar to other age groups and types of employees. This was also reported by larger employers in the hospitality sector. Smaller employers in the sector, however, said their young workers tended to be concentrated in front of house roles, for example serving food and drink. This applied especially to young workers, aged under 21, and was explained by the limited skills requirement for such roles.

In the childcare sector, young people were thought to be working in positions largely commensurate with their qualifications, and in accordance to restrictions around staff-to-child ratios, as discussed below.

Across sectors it was stated that supervisory and management roles were generally held by staff aged over 25 because of the need to accrue experience. Employers aimed for at least a proportion of young people to progress to such roles, although they believed that their sectors were not necessarily attractive to young people with high career aspirations.

Restrictions on Young People's Employment

Case study employers typically said that changes in the wider policy framework had not noticeably affected their employment of young people in recent years. In retail and hospitality for example, while there had been substantial policy changes around the school leaving age and other factors such as the Apprenticeship Levy and the introduction of the National Living Wage, they said that the reasons why people were attracted to their sectors, such as the flexibility it offered, remained.

Barriers to the employment of young people were mentioned by some employers. Young people were sometimes seen to lack skills, abilities and attributes valued by the sector. These included literacy and maths skills and the maturity required for public facing roles. These were mentioned particularly by employers in the hospitality sector (although hospitality is by far the largest employer of young workers).

Employers across sectors said there were a number of restrictions on the employment of young people in their businesses. Some restrictions applied to workers under the age of 18, such as health and safety legislation and more generous break and rest time legislation. These restrictions were not usually seen as problematic where young people worked in temporary and part-time roles, but were more problematic where they were part of the permanent, full-time, workforce. Therefore, in hotels, young people could not be employed on overnight reception duties. Other restrictions in retail and hospitality concerned the sale or serving of alcohol and tobacco. These restrictions largely did not affect hiring decisions, but influenced shift allocations, as store managers had to make sure that they had a balance of age groups at the till. However, for specific retailers such as convenience stores, the sale of alcohol and tobacco was seen as essential to their day-to-day business and therefore affected hiring decisions as this restriction prevented younger people under 18 from fulfilling certain key roles:

> *'Those store colleagues aren't able to do the full range of duties that we need from a store person, so we would probably not be able to employ a store that's predominantly staffed by people who are under 18'*. Convenience store chain

> *'It wouldn't make business sense for the retailer to have to be there supervising each transaction that involves those goods over the till.'* Employer body for convenience stores

The employer body for convenience stores said this was one of the main reasons why the convenience store sector had a slightly smaller proportion of younger workers compared to the broader retail sector. The employer body estimated that around 21% of the workforce in the sector is aged under 25. Another reason for the smaller proportion of younger workers may be found in safety concerns in convenience stores. The sector was generally seen as a lucrative and soft target for criminals, leading to an increase in violence in stores in recent years. The convenience store employer noted that they were not necessarily comfortable leaving young people unsupervised, in case something happened.

The cleaning employer in the education sector said that schools tended not to accept staff under 18 and this affected hiring decisions as younger people could not work in certain settings.

Particular restrictions on the employment of young people operate in the childcare sector. Firstly, strict staff-to-child ratios are in place to ensure the safety and wellbeing of children within the setting (DfE, 2017). For a member of staff to count toward these ratios they must be qualified (at a minimum Level 2 or 3, depending on the age of children), and must generally be over the age of 17 (DfE, 2017). Furthermore, as of September 2014, staff had to hold GCSE English and Maths A*-C.

In the context of these requirements, both representative bodies and case study employers described limitations to the recruitment of the youngest members of staff:

> *'Our industry is totally governed by ratios, of both staff to children as well as children's space, and the level of qualification within the workforce, practically you have to have over fifty per cent of your workforce qualified to a minimum of a Level Three. So if you take a seventeen year old, there's no way they're going to be a Level Three. So they're going to be unqualified.'* Childcare employer

In light of these limitations, one childcare employer described progression in pay according to qualifications, which coincided with age as opposed to being defined by it.

> *'Two years later, maybe three years later, they may have a Level Three, which takes them to twenty, possibly, or even twenty one, then they've got the qualification, then they can be classified as a qualified member of staff, which inevitably means they get paid a bit more money anyway.'* Childcare employer

The main deterrent to employing young people in the childcare sector was therefore the fact that at a young age they lack qualifications and experience to count in the staff to child ratio. In addition to this, childcare employers suggested there were limitations to what young people could offer providers in the context of regular and high-stakes inspections from OFSTED. Therefore, as one employer explained:

> *'…to retain high levels from Ofsted, you have to have people that will speak up when Ofsted come round and speak to you, every individual member of staff, and talk to them about Child Protection, and they will fail you if they think a member of staff is not up to scratch, but it may be just because of maturity.'* Childcare employer

For some childcare employers, staff experience was a crucial determining factor around decisions to recruit older members of staff. Therefore, even though employers recognised the financial benefits of hiring younger staff on the youth rates, the risks of having an inexperienced member of staff were often too great. Associated with this, one childcare employer questioned the suitability of recent qualifications and their ability to provide young people with sufficient experience and knowledge to actively contribute in the workplace.

> *'I'd go on regular training and these young girls are all newly qualified, and they're often, they'll sit with me, and say I don't know what I'm doing, because I'm in a room in charge of this, because I've got that qualification, but not the experience.'*
>
> *'Financially it would make sense to have younger ones, but you've got to pay that bit extra and have the experience.'* Childcare employer

Overall, both representative bodies and employers indicated a preference for a balance between younger and older members of staff in the childcare sector. Older members of staff were considered to have an important role in passing down and sharing experiences to younger members of staff, and were also considered important to gain the trust of parents.

Other barriers, noted by some employers across sectors, were practical rather than legislative. For example, in hospitality, some features of the sector were seen to restrict the employment of young people, for example in sites which are not served well by public transport such as country pubs. Otherwise, the perceived qualities of some young people were cited by employers across sectors, but more often as a drawback rather than impediment to their employment. These included low levels of literacy and numeracy, responsibility and reliability. Time off for study was also mentioned as a downside to employing students.

Types of Contract Used to Employ Young People

It appears to be usual for employers in hospitality and retail to have a workforce model consisting of a core of permanent, salaried, staff and a second tier of hourly-paid staff. Whether or not this model operated, young people were often employed on part-time, temporary contacts. These were typically 'zero hours' contracts, to meet fluctuating customer demand. In some case study companies the proportion of hourly-paid staff was much greater than those on fixed weekly hours. Some employers said that, in practice, staff on zero hours contracts were able to work as many hours as they wished. Other employers in the hospitality sector used agency staff as an additional resource during busy periods. In the case of a hotel, agency workers accounted for around 10 per cent of the workforce. Other hospitality and retail businesses dealt with seasonal peaks through employing casual staff directly. For example, a brewery and pub chain employed a small number of young people during university vacations on a casual basis.

In addition to standard employment contracts, some of the hospitality companies offered apprenticeships. These were offered to attract young people to the business and to ensure a stronger flow of employees to more senior posts. Employers were not attracted by the prospect of paying youth or apprentice rates. For example, a medium-sized holiday resort offered 10 apprenticeships but did not pay the Apprentice Rate, choosing instead to pay the National Living Wage. However, employers either expected or encountered difficulties with the apprenticeship system. The employer offering 10 positions reported logistical difficulties in getting the new apprenticeships off the ground, having changed since the previous NVQ-based system. This included waiting for local colleges to provide approved courses and the training the company wanted.

In hospitality, retail and childcare, some young people were employed as trainees, including apprentices and those on graduate programmes. One large hotel chain took on up to 180 trainees three times a year, paying them, as all staff, at the National Living Wage. The size of this employer allowed it to offer young people a range of opportunities and experiences which smaller companies found more difficult to provide. The cost of training was clearly another factor in the practices of employers who did not offer structured training programmes. Some companies made use of the Apprenticeship Levy and the employer body for the retail sector said there had been a recent push around apprenticeships, with clear progression pathways through the retail sector. Almost every large retailer now had their own graduate programme or a school leaver programme though it was not as prevalent among smaller employers. The employer body for convenience stores said that only 5% of independent retailers in the sector employed an apprentice, which was largely down to the limited interest among people to undertake a retail apprenticeship, leading to difficulties in filling the positions. This meant that for larger groups of independent retailers who had to pay the levy, they would not be able to recoup the costs. A number of employers in the hospitality sector also found the apprenticeship funding rules somewhat restrictive, in particular in relation to requirements for off-the-job training. Nevertheless, some employers in the sector were interested in expanding their training provision in the future, motivated by reclaiming the levy but also to address growing skills shortages.

In the context of the perceived staffing crisis in childcare, apprenticeships were considered one of the main mechanisms in which younger people were being brought into the sector. The Apprenticeship Levy, however, was considered to be an important determining factor for big providers, and the extent to which apprentices could be retained in such a low-paying sector.

> *'And I think the bigger issue there is the levy, and how that works and what impact that is likely to have on some of those bigger providers. And then the apprenticeship model at the end of that, do they keep them and retain them or not.'* Childcare employer

Due to the high costs associated with supervising and training, questions were raised as to how feasible it was for smaller settings to take on apprentices. Furthermore, concerns were raised regarding apprentices particularly the low rate of pay.

> *'I think it can be a little confusing, because there's different levels of what you will pay and again my thought is that if you're coming in to learn, some of the apprenticeship levels of pay are very low and that concerns me in the fact that they do, people do have to live as well.'* Childcare employer

Determinants of Pay

Employers in the retail and hospitality sectors said the most important influence on their pay rates was their competitors' offer. As we discuss later, this was a key factor in the decision by some employers to pay all their staff the full adult NLW rate. Pay rates were influenced by recruitment and retention, both generally and by location.

A fashion employer explained how they aimed to position themselves in terms of their market competitors:

> '*Our pay position is to the median of the market… We collect our data annually, we review what that median position is for the market and we adjust our pay rates accordingly. Over the past few years… that positioning has changed or been impacted somewhat by the living wage and the significant increases. However, we do aim to maintain that market median position where possible and budget allowing.'*
> Large fashion chain

Other key influences on pay rates were inflation and affordability based on company performance. In some cases, pay of either the whole workforce or sections was determined in part by this. In addition, many employers were concerned to maintain internal pay differentials. Individual performance-related pay was not common in the case study companies.

In childcare, a main determinant of pay was affordability in accordance to the funding available, and employers' ability to fill places.

> *'People in our sector are quite highly qualified, but the government funding that we get just doesn't even cover our minimum wages.'*
> Childcare employer

In the cleaning sector it is usual for employers to have a part-time workforce, performing shifts outside the typical office hours. Employees with full-time roles tend to work in different places, moving from one place to another depending on the clients' demand. The process of pay setting was slightly different in this sector to retail, hospitality and childcare as subcontracting was commonplace and pay rates were client driven. In negotiating employees' pay rates with clients, employers ask clients either to pay the citizens' living wage or the NLW. Pay rates were also influenced by recruitment and retention of staff which was particularly important for clients because of trust and security requirements.

The National Living Wage as a Benchmark

Among our case study employers, the NLW appeared to set a benchmark, with many workers either paid the exact rate or slightly above. A number of case study employers said that, from its inception, they had used the NLW as the benchmark in their annual pay review process. For some employers, this meant paying a majority of their staff exactly at NLW. For instance, 78% of employees entitled to the National Living Wage rate in the convenience store sector were paid £7.83, according to the employer body's latest member survey. The broader retail sector generally paid above the NLW, and according to its employer body, most stores planned to continue doing so over the next couple of years though cost pressures challenged this ambition. A national supermarket chain said that they currently paid above the NLW but with the guide path to reach £8.61 by 2020[16], they would need to plan for higher increases in the future, and potentially have to remove current bonus systems, non-pay benefits and removing pay grades.

[16] The forecast rate for NLW for 2020 has since been revised to £8.62 in the 2018 Low Pay Commission report.

The practice of benchmarking with the NLW was also found in the hospitality sector. As one hotel employer explained:

> *'We have added 25p an hour, roughly, to try and pay that little bit more to recruit people. The hotel up the road is paying minimum wage. It's competition and £8 an hour sounds better than £7.83 an hour. So in an advert it's going to stand out. It's going to attract them: it doesn't seem much but it adds up over the week.'* Hotel employer

For hospitality employers, this strategy was also driven by competition for employees with the retail sector, where the NLW was more commonly paid. Other hospitality employers had adopted the same strategy: a lunch and snack chain had purposefully decided to set its pay rates at 5% above the NLW, both for strategic reasons of wanting to get the best people, but also from practical considerations:

> *'So it's quite easy then. Every year when the new living wage comes out, I do a piece of work that looks at all of our job grades and I set the lowest one at 5% higher… Then we just scale them all up from there'.* Lunch and snack chain

In the cleaning sector, the NLW was reported to be the standard rate for contract cleaning. According to the employer body, market rates and customers determined the industry rate, with big cities tending to be dominated by a market rate above the NLW.

In the childcare sector, the NLW was often identified as the benchmark for staff that possessed the minimally-required level of qualification, often Level 3. As such, it was considered ideal to be able to pay more highly qualified staff above the NLW in order to recognise achievements, skills and responsibilities. Childcare employers' ability to do this, however, was increasingly constrained. Several employers described tightening differentials between junior and senior members of staff, limiting their ability to financially reward employees for their qualifications and achievements. This in turn was thought to be discouraging life-long learning within the sector, and discouraging progression into management roles.

> *'Whilst you're obliged to put the Living Wage up, you don't necessarily have the funding to give the same percentage increases to the other members of staff, so those gaps are closing. So what we're finding now is the most junior members of staff are kind of almost catching up with the senior member of staff's hourly rate.'* Childcare employer

> *'We're aware the lower end of the salaries are increasing each year, but those of us at the slightly higher end are stagnating. Because the money's just not there to increase everybody.'* Childcare employer

In this respect smaller childcare providers used increases to the National Minimum Wage and National Living Wage as a benchmark to maintain differentials and to remain relatively attractive amongst employers.

> *'We would maintain their differential between what they get and what the minimum rate is. So if it goes up twenty five pence, we wouldn't*

not give them twenty five pence, we would give them whatever the greater is.' Childcare employer

From one childcare employer's perspective, other providers took a far more simplistic approach; simply using the minimum rate of pay for the most unqualified members of staff and benchmarking accordingly depending on the qualification demands of the setting.

> *'What's the minimum rate of pay, and I'll pay that to anybody who's unqualified and everybody who's qualified, I'll pay them x amount more than that", in other words they don't even think about it, they don't look at their business.'* Childcare employer

A number of employers, across hospitality, retail and childcare sectors, said they would like to pay more than the NLW but that they were constrained by cost pressures on the business. Auto-enrolment of pensions was mentioned most frequently as exerting downward pressure on wages. Hotels also faced high overhead costs and fluctuations in income resulting from a volatile market.

It was common for employers to calibrate pay rates of more experienced and skilled staff, such as supervisors against the NMW/NLW. In some of the hospitality and retail case study companies, internal pay differentials were benchmarked against the NLW. For instance, a medium-sized convenience store chain paid a majority of their staff the NLW, with duty managers' hourly rates pegged at an additional 10% of the NLW. Pay of more highly skilled staff and managers was decided separately. In two companies the NLW was reported to have initially squeezed wage differentials at the supervisory level, but recent market forces meant they had risen back in line.

The Living Wage Foundation Rate as a Benchmark

One employer in the retail sector used the Living Wage Foundation rate (LW) as a benchmark, although we generally excluded such employers from the research. This employer, with a global brand, had recently become a Living Wage Foundation employer and had done so to position itself as a higher paying employer for recruitment purposes. The process of transition to the Living Wage Foundation rate (LW) had required substantial investments which had only been made possible by relying on initial subsidies from other branches of the organisation.

One employer in the cleaning sector confirmed that the majority of their clients were accepting their recommendation to pay the London Living Wage (LLW), even if, in some cases, this was not perceived as beneficial by workers, if higher pay affected their receipt of benefits.

One employer in the childcare sector had chosen to pay the LW as strategic choice, in recognition of the widespread use of the NMW and NLW across the sector. The Living Wage was therefore considered a good way to attract and retain employees, and minimise costs and disruption associated with staff turnover.

> *'[Providers] that are paying above rates of pay are not having a problem attracting staff, but those ones that have only can afford to pay the minimum rates of pay, or rates just above it, they're struggling to find staff.'* Childcare employer

Variation by Region and Size

Our sample, either within or across sectors, was not sufficiently large to ascertain anything meaningful about pay variation across local areas. However, it was common to find that larger employers typically worked with a three-tiered structure (Central London, Greater London/South East and rest of the UK). One retail employer noted that, following the uprating of the NLW, they had reviewed their pay structures and removed a fourth band, which had been used in premium locations in the rest of the UK, such as major cities or difficult-to-recruit areas.

Two examples from the hospitality sector illustrate regional variation in pay setting:

- A lunch and snack chain paid a starting rate of £8.25 an hour in London and some other areas of the country with higher than average living costs. Elsewhere rates were 5p an hour less. For most employees, rates were boosted by a £1 hourly performance bonus related to store inspection.
- A hotel with branches in London, the South East and the Midlands, reported paying the NLW in the Midlands and paying above the NLW in London and the South East. This was explained with reference to the lower revenues of the hotel but was a matter of some discussion within the company since the hotel found it hard to compete for staff with a local supermarket. This did not affect young people's pay because the company paid the NLW for all employees and did not pay the youth rates in any location.

One cleaning employer explained variations in pay practices by location. As mentioned, in the cleaning sector the pay is driven by clients and while 70% of clients in London paid the London Living Wage, elsewhere rates were less. This was explained by the effect of the citizens' living wage campaign which increased awareness among clients of the need to pay higher rates to retain staff.

Our sample was not big enough to ascertain the differences between smaller and bigger employers, but it was clear from our conversations with employers that differences existed. Larger employers across sectors recognised that they had a competitive advantage to maintain higher pay rates and differentials. A medium-sized retail employer said that company size was a dividing line in the competition:

> '*The larger retail chains can afford to pay more, and are paying more, and there is not really a lot we can do about that.'* Convenience store chain

In contrast, a number of respondents in the childcare sector suggested private day nurseries and big chains were more likely to pay the youth rates.

> *'I think a lot of the big private day nurseries, certainly the big chains, are going for those younger people because they can pay them less.'* Childcare employer

The Process for Pay-Setting

In the hospitality and retail sectors, the process of pay setting was reported to involve senior leaders with responsibility for pay and rewards, human resources, operations, finance and ultimately the CEO. Unions were not involved in pay negotiations in the case study companies. In the childcare sector, pay setting was either undertaken by the owner and/or business manager for smaller providers, or by larger HR functions in multi-chain businesses. In the cleaning sector, the process for pay-setting was determined by the process through which work is contracted to cleaning companies, who then recruit staff. In line with the sub-contracting model, pay was reported to involve negotiation with clients for which cleaners work.

Impact of the Minimum Wage Rates

Most of the case study employers we spoke to made relatively little use of the age rates. Discussion, therefore, about the impact of the minimum wage, and minimum wage increases, mainly focused on the NLW rather than the youth rates.

Some employers had calculated the cost of increases in the NLW and NMW and reported that it was a significant amount. Hospitality employers reported various degrees of impact on their wage bill, of up to 7% in one case where all employees were paid slightly above the NLW. Setting pay rates in April was also reported to be a cost to businesses which were used to uprate minimum pay rates in October, but this was a one-off cost once employers changed their annual pay cycle.

Some employers said that increases in the NLW and NMW, either to all staff or to young people, had not affected other areas of the business, for example investment in infrastructure or technology. Some of these employers expressed the view that pay is an investment in people who are the industry's main asset.

A brewery and pub chain reported that minimum wage increases had impacted heavily on the pub side of the business which in some cases had led to closure. This was explained by the low profit margins in these businesses and high rates of use of the NMW including youth rates. The company had also reduced headcount in other parts of the business and had introduced a new on-line rota system with a view to make further staffing efficiencies through smarter work planning.

A sandwich company had looked at how they might offset the impact of minimum wage increases and had done so through changes in product costs. While it had looked at making savings in areas such as staff bonus and paid breaks, it had decided to be cautious in eroding any staff benefits to finance the NLW.

A hotel chain looked each year for ways to off-set the costs of the increased pay rates and had started to invest in automated processes, for example check-in to reduce its payroll.

In the retail sector, employers explained how the introduction in 2016 of the NLW had impacted substantively on their cost base. This had led to structural changes including removing pay bands, initiatives to improve productivity, reducing non-pay benefits, reducing pay differentials, reducing the number of payroll hours and accepting less profit. However, challenges still remained in a very competitive market with thin margins. The efficiencies that employers had typically made so far were one-off cuts that couldn't be made again and 'low-hanging fruit', and many employers now faced having to making more substantial changes such as stripping out roles, introducing flexible contracts or further limiting and squeezing pay differentials, and potentially introducing youth rates. Some companies who used to be wage competitive were no longer due to NLW, and they faced tough decisions as to how to stay attractive for employees.

> *'This is no longer an HR reward finance exercise; this is the whole of the business looking at what we need to do.'* Large fashion chain

The employer body for convenience stores also noted that most companies in the sector had not achieved any productivity improvements from the NLW, as they had seen no reduced absenteeism or turnover, nor any evidence of employees working harder as a result of the higher pay. Their opportunities for investing in technology to improve productivity were limited, as it represented a very high upfront cost for their typically small stores, and they had to be manned anyway, particularly due to the prominence of age-restricted sales.

There was a particular focus among employers on the struggle to maintain pay differentials. In some places, reduced pay differentials had caused disgruntlement among existing employees, such as older employees who had worked their way up through the traditional structures and received incremental increases each time, but who now in many cases were only paid marginally above less experienced employees. Industry-wide surveys showed that recruitment had improved due to the uprating of NLW, but employers struggled to retain employees; fewer employees were applying for promotion; and a higher proportion said that the small increase in pay did not make up for the increase in responsibilities. It should be noted that employers generally didn't see the youth rates as a viable option to re-establish meaningful pay differentials. The employer body said that generally the retail sector was not moving in that direction but instead towards better paid and higher quality jobs in the future. The increase in base pay fed into a broader narrative around the transformation of the retail sector, in which there will be fewer jobs overall in the future, but better and more productive jobs, with clear progression routes and higher pay.

> *'It's moving from… a transactional purchase over the counter, to a customer experience type opportunity which will take potentially more skill, potentially more time and personalised service which is something that you can, you would only assume would be rewarded in a higher way.'* Employer body for retail sector.

Another consequence of the NLW was that people increasingly moved between industries. Previously, people predominantly moved between retail companies, but now retail employers also recruited people from sectors such as hospitality and social care, because retail employers offered the same or sometimes even better pay packages for potentially less emotional strain and less responsibility.

For those childcare employers who made use of either the National Minimum Wage or the National Living Wage, upratings had a significant effect, substantially increasing payroll costs over a short period of time. For one employer, relatively fast increases in the NLW over recent years had resulted in pay for the majority of staff being capped at the lowest possible rate. For another, increases to the NLW had resulted in having to cut hours for staff as they were unable to pay for the additional staffing cost.

> *'I really had to look at the hours that our people were working, just to see if I could pare back at all. And I did sort that, I did have to cut hours that*

they were working just to try and claw a little bit back really.' Childcare employer

Use and Non-use of the Youth Rates

Use of the youth rates varied between the four case study sectors. The hospitality employer body was aware they were used within the sector, but not on the extent of their use. There was also a view that companies may not be using the exact rates, but that young people were sometimes paid less than the NLW, especially for temporary and causal work. Their use in the retail sector was reported to be less common, and again it was reported that very few retailers used the exact youth rates. The cleaning sector appeared not to use the youth rates in any form, but to contract work according to a single, market-driven rate negotiated with clients.

In relation to our case studies, none of the retailers we interviewed used the exact youth rates, but some did use age-related rates that were between the NMW age rates and the NLW. Participants noted that you generally didn't see age-related rates among bigger brands, but that they might be used more among smaller retailers. The employer body for convenience stores said that it was more prevalent in their sector compared to the broader retail sector. They noted that they had seen a substantial increase recently, primarily due to on-going cost-cutting exercises in response to the introduction of NLW in 2016. Their annual member survey had found that half of responding employers paid staff at the minimum rate for 18 – 20 year olds, up from 32% the previous year. Similarly, the use of the minimum rate for 21-24 Year Olds had increased from 38% to 53%."

The hospitality case studies also included employers who made use of some, but not all, of the youth rates, and those who had adapted the youth rates slightly. The most common practice was to pay all staff aged 18 and above at the NLW or above, and to use the 16-17 Year Old Rate for some employees, usually casual workers.

No childcare case study employers made use of the full youth rates. They did, however, differentiate pay according to other criteria. In one setting, where all staff were aged over 25 and had at least Level 3 qualifications, all staff were paid the National Living Wage (£7.83); the exception being one member of staff with Qualified Teacher Status (QTS), who was paid approximately £10 per hour:

> *'My qualified teacher, she is paid above the minimum wage, and that's in the region of about ten pounds, per hour, but that is nowhere near what a teacher's pay should be…, there was no way I could pay what she would get in a school but she's accepted that.'* Childcare employer

Another employer, who had staff across all age groups, paid at least the voluntary Living Wage (£8.75 per hour). However, it implemented two concurrent age-related rates: one for key workers, differing for those over and under the age of 25; and one for non-key workers, differing for under 18's, 18-21 and over 21. The basis for this difference mainly related to additional responsibilities, but also experience and qualification.

'You've also got performance-related pay scales related to your job title, so obviously once you move into Deputy Manager or Manager. And then other roles within Early Years, so you can be the Special Needs Coordinator, or you can be a key person rather than a Pre-School Assistant. So the actual terms you're talking about is probably an extra 50p an hour.' Childcare employer

Where the Youth Rates were Used

Only one of the six hospitality employers in our study paid the youth rates in their entirety. Two did not use them at all. However, three others did pay versions of the youth rates:

- A holiday company paid the youth rates for all under 25s but supplemented them on an ad-hoc basis where a higher rate was seen as deserved by the individual;
- A brewery and pub chain paid a lower rate for staff aged 16-20, but above the 18-20 Year Old Rate in order to compete with employers offering the NLW for workers under 21;
- Two other companies paid youth rates for 16-17 year olds, particularly for seasonal and casual work.

None of our retail case studies used the exact youth rates, but again, some paid versions of the youth rates in-between the exact youth rate and the NLW. These included:

- A convenience store chain, which paid customer service assistants aged 18-24 slightly above the 21-24 rate and paid workers under 18 somewhere between the 18-20 Year Old Rate and 21-24 Year Old Rate.
- A supermarket chain, which paid workers aged under 18 between the 18-20 Year Old Rate and 21-24 Year Old Rate during their first 6 months of employment and then moved them on to the standard rate which was slightly above NLW.
- A parent retail company for one of the interviewed companies, which paid workers aged under 21 somewhere between the 18-20 Year Old Rate and 21-24 Year Old Rate, and the rest of staff slightly above the National Living Wage. Previously they had paid all the youth rates, but they were currently in the process of abolishing the age-related pay to align it with the takeover organisation.

But even in case where it was not used and where it was strongly opposed on moral grounds, it was said to be a conversation that was part of the pay review every year:

'It is a conversation that happens every year. It is one of those well okay let's look at the numbers, so we go through the number crunching based on: how many people have we got in each of these different age categories and if we paid them by age what would that look like, how much would we save.' Large fashion chain.

This employer also noted that, just as age-related rates were difficult to remove overnight from a financial perspective, it was also difficult to introduce age-related rates of pay. Their organisation would only introduce age-related pay or youth rates on financial grounds and only for new hires.

For the large childcare employer case study, the Apprentice Rate was used. Subsequent increases in pay, however, were not associated with age. Rather, apprentices' hourly rates of pay were increased when they had had their competencies assessed and therefore had additional responsibilities. Beyond the apprentice stage, the employer offered differing rates of pay linked to qualifications, responsibilities and experience, and not necessarily linked to age.

> *'If you've got a Degree or a Masters, and you've put in the work and the time and the effort, regardless of your age, they should be recognised.'* Childcare employer

Reasons for Using the Youth Rates

The principle reason for using the youth rates was affordability, and specifically to reduce the cost of the wage bill. Within this, the cost of NLW upratings was cited as a strong influence. Therefore, some of those who paid a version of the youth rates said that doing so made the NLW upratings more affordable. More generally, affordability was the main reason for using age-related pay, and also cited as the main attraction by those who did not currently use it. Employers said that age rates offered flexibility to adjust the wage bill when financial pressures were felt.

Some of the case study companies that had introduced age-related pay rates emphasised that this decision was made reluctantly, because the general view was that it was unfair to pay someone differently based purely on age:

> *'The first national living wage, the move we did kept everybody on the same rate, because ethically we felt that was the right thing to do. Because are doing the same job regardless of age, but unfortunately, just from an affordability point of view, then we had to bring in the split, between the 18-24 year olds and the 25 and over, just purely for affordability.'* Convenience store chain

In this context, some employer bodies said that the use of age rates was inevitably being considered as part of the cost-cutting exercise that was still on-going as part of some companies' response to NLW in 2016. In the preceding years, all the one-off initiatives and all the 'low-hanging fruit' had been exhausted and companies were now looking for more far-reaching measures including pay policy which had not previously been considered. The employer body for convenience stores thought that this was probably the main reason for the sharp increase in the use of youth rates they had seen in their member survey:

> *'A lot of those retailers feel they've done those one off cuts already to employee packages and things and they're looking to where else they can try and manage their costs as any business would.'* Employer body for convenience stores.

Companies who did not make use of the rates also said that if they ever had to implement the youth rates into their pay policy, it would be taken as a measure of last resort for affordability reasons:

> *'It could be that maybe we get to a point in the future where we literally can't afford it, we're not making any money so we really have*

> *to do something otherwise we're going to have to get, we're going to go out of business.'* National supermarket chain

One retail employer whose parent organisation used age-related rates of pay said that this was more effective for that business as it employed a large proportion of young people under 25. This also made it difficult for the rate to be removed in the short-term. Another retail employer said that age-related pay rates were discussed every year as part of its internal pay review. However, short-term gains were seen as limited because the rates could apply only be applied to new hires, as pay for existing staff could not be lowered to the age rates. Transitioning would also result in staff on the different rates in the same job, an issue which could affect staff morale.

Case study employers in retail and hospitality described the main tension between fairness and affordability:

> *'The case for is driven by affordability, the case against fairness.'* National supermarket chain.

> *'From a business point of view I think you need to have some flexibility. From a moral and ethical point of view, if somebody is doing exactly the same job I think it's very difficult to justify paying somebody a different rate.'* Convenience store chain.

Similarly, affordability was cited as the principal reason for using the rates by employers in the childcare sector. A representative body for the childcare sector believed that employers were using the National Minimum Wage youth rates due to low government funding rates for its early education offer. Use of the youth rates was therefore explicitly associated with the employment of apprentices and the recruitment of staff at the early stages of their career.

> *'And I certainly know from the work that we do, that a lot of the child minders who are employing childminding assistants, and the nurseries that are employing apprenticeships and staff at that entry point. They are paying them just what they have to pay, because they just cannot afford to more than that.'* Employer body for childcare

A representative body for the childcare sector believed that employers were using the National Minimum Wage youth rates because of affordability. Use of the youth rates in this respect was explicitly associated with the employment of apprentices and the recruitment of staff at the early stages of their career.

> *'And I certainly know from the work that we do, that a lot of the child minders who are employing child minding assistants, and the nurseries that are employing apprenticeships and staff at that entry point. They are paying them just what they have to pay, because they just cannot afford to more than that.'* Employer body for childcare

In the childcare sector pay constraint due to limited affordability was considered to be a significant issue by all the childcare representative bodies and employers who took part in this research. This constraint was in part, attributed to the everyday business costs.

> *'My operating costs are the same as any business, I pay horrendous business rates, I pay a humongous amount of rent, my fuel bills have got VAT on them and they're business tariffs, not domestic tariffs. So all my charges are business charges.'* Childcare employer

The recent free childcare offers were considered to be a fundamental constraint on providers' ability to offer higher rates of pay. These constraints were exacerbated with the roll-out of 30 hours free entitlement, due to less flexibility in the funding mechanisms.

> *'[The 30 hour childcare offer] has huge impact on what you offer your staff, when you think what has to, regulations that Ofsted has put on you, everything else I can assure you, Health and Safety, healthy eating, all of that, comes into that amount of money and it just doesn't stretch far enough to pay I think staff, that you want to keep, it just doesn't meet up, it's not enough money… it's now really hitting in now. I'm constantly looking at our figures and we are really struggling to get through each term.'* Childcare employer

One employer body suggested that the introduction of 30 hours free childcare and the growth of the minimum wage and National Living Wage was pushing employers to reduce staffing costs by employing more young people and/or unqualified people. In line with this, recent NDNA research reported that fifty-eight per cent of survey respondents were considering recruiting younger and less qualified staff (NDNA, 2018). One employer body for childcare suggested the recruitment of younger and less qualified staff has been exacerbated as older, more experienced staff are leaving the profession due to poor pay and progression.

Within this context, the employer body suggested that it is increasingly organisationally problematic to accommodate increases in the NMW and NLW and the government should consider the bigger picture and take into account other cost increases. The pay differential between different levels of staff is becoming more difficult and nurseries and childminders are struggling to increase fees to cover increased wage costs.

Use of the Youth Rates for Seasonal and Casual Work

Hospitality employers who used the rates largely did so for seasonal and casual workers. Some expressed some misgivings since they generally felt the rates were hard to justify. However, this applied less where there were discrete groups of young workers. Therefore, paying a lower rate for young people aged 16-17 carrying out seasonal or casual work was seen as justified by hospitality employers due to the nature of the work carried out by these young people. Skill requirements were low and included, for example serving drinks and food. A company which was strongly committed to paying the NLW for all staff used the age rates for students aged under 18 employed in seasonal work, for example in its beach hire business and staff working as plate carriers in its restaurant at weekends. These staff were paid the 16-17 Year Old Rate but were paid the full adult NLW rate and transferred to full waiting staff duties on reaching the age of 18. In another case, a hotel paid under 18s hired to work at hotel functions or serving breakfast a £1 less an hour than other staff. They justified this on grounds of skills as well as seasonality and temporary status:

> *'They certainly are not going to have the people skills, the experience. They've just come out of school they haven't done anything before and they need a lot of training and support. Most of*

them are coming in and helping out on a function, they are not doing a full-time job'. Hotel employer

Another reason provided by employers in other sectors to pay the youth rates was that young people were typically employed in different roles such as casual workers. The case study employer in the convenience store sector explained that younger workers under 18 were not able to fulfil the full range of job responsibilities because of the volume of sales of alcohol and tobacco. However, they acknowledged this was a way of justifying use of the rates, and that their main motivation in paying them was affordability.

Productivity and Skills as a Reason for Using the Youth Rates

Employers using the youth rates did not justify their use on grounds of productivity, with a number of employers stating that they are as productive as older staff. The one hospitality employer using the full range of youth rates had restructured its workforce in line with the rates, describing this as 'deskilling'. Reducing the skills of younger, seasonal, workers and paying the rates had enabled them to upskill the jobs of permanent workers aged 25 and above:

> *'Because of the cost of paying National Living Wage we have tended to then upskill the jobs that are more permanent and then deskill the jobs that are more seasonal. And therefore, when we get younger people working in those deskilled jobs, then we're happy to pay the lower rate'.* Hospitality employer

As with other respondents, this employer did not say that younger workers were less productive when in the same roles as older colleagues. However, this particular employer was purposefully employing young people in lower skilled work to save costs which had increased because of the NLW.

Use of the Youth Rates for Initial Training Period

We looked for examples of where the youth rates were used for young workers during an initial training or induction period.

The employer body for the retail sector said they had seen instances of companies using age-related rates of pay during an initial training or induction period for young, inexperienced workers. We did not find any concrete examples of this in our case study companies. The closest was a large retailer which used a rate of just under £6 for workers under the age of 18 during their first 6 months of employment. They felt this was justified on the grounds that this period developed the worker's skill level and enabled longer-term career and pay progression. Another employer in the fashion sector, while not using age rates for this or any other purpose, argued that age-related rates in some instances may be justified on developmental grounds:

> *'It just doesn't feel fundamentally right. If we're giving them less pay, at least make sure that we are enhancing the level of skill that they're able to develop into, that they might be able to progress onto a higher rate of pay through their career or whatever that might look like. It's the only way I feel we could justify those rates personally and as a business.'* National fashion chain

Both the employer body and the business that used lower rates emphasised that it was only for a limited period, after which the employee was guaranteed to move onto the normal rate, which in this case was slightly above the NLW. The employer body said that this was typically for 2 weeks to 3 months while the large retailer typically used it for a 6-month period.

We didn't find any examples in the hospitality sector, but the hospitality employer body did suggest that the rates may be used by larger companies for young employees on a structured training plan, in which their pay increases as they acquire operational knowledge and experience. In principle, whether for training or not, a number of employers expressed the view that there is a case to be made for the 16-17 Year Old Rate on the grounds of skills and productivity, although they also felt that the current rate is very low. In practice, however, hospitality employers who offered training posts said they needed to pay above the youth rates to attract such entrants.

Use of the Youth Rates due to Legacy

Another, minor reason, for using the youth rates in some form was because they had been used in the past. One retail employer had recently merged with another company and retained their own separate pay policies. But the new company had previously used all the youth rates in all the relevant age bands in order to reduce the wage bill. The takeover, case study, company were committed to removing this pay policy and had put transitional measures in place to do so. This meant they now only differentiated between two age groups, workers aged under and over 21. A transition period had been necessary for affordability reasons, with the company employing a large number of young people:

> *'It's something that we haven't been able to remove overnight, but we have a guide path for removing it over time.'* Large supermarket chain.

In the childcare sector, there was a view that traditional practices of paying youth rates exerted some influence, despite an apparent decline in their use in other sectors. One respondent suggested the childcare sector was one that historically operated around minimum rates of pay, attracting young, female employees. This was considered to have a legacy effect, allowing some employers to continue to use the youth rates despite increasing job requirements:

> *'With the requirements today, and what have you, you have to have a high level of academic knowledge, and again, the reason why it was low paid, is because you employed young people, who had no knowledge and no experience and it was a, perceived to be an easy job just playing with children.'* Childcare employer

Reasons for not Using the Youth Rates

Respondents in companies that used the rates, and in those that did not, commented that their overall approach towards pay is not driven by considerations of age. For example, a budget hotel chain which made no use of the rates commented that:

'The truth is we don't really talk a lot across the organisation about age, we talk about segments'. Hotel chain

The view that age should not be a key consideration was shared by employers across sectors. The reasons given for not paying the youth rates included skills, fairness, recruitment and retention, and productivity.

On most of these issues, the rates were seen as less applicable to young people in the older age bands, but views on the cut off point for paying NLW varied between employers. The view of one employer body representative, commenting on the wider impact of the rates, was that when the NLW was introduced a lot of companies and particularly larger ones, said that they would pay the NLW from the age of 21 because a difference in rates was not justified for this age range in particular.

Skills as a Reason for not Paying Youth Rates

A number of reasons were given for paying the NLW for all entry level jobs rather than age related NMW rates. The main reason was the view that the rate should relate to the job rather than to the person. Employers felt that paying by age was not justified where skills are the same, and they argued that in entry level jobs they are. Older employees were not seen to bring any additional skills or abilities to these roles. Therefore a common statement was:

'Why should we pay someone who has just turned 25 more than someone who is 24?'

'It's my belief very strongly, and so far I've managed to bring the board with me, that we are paying for the job, not the age. So it's as simple as that. We believe if you are doing the same job, you get the same amount, regardless of who you are.'

Paying different rates within teams was seen to introduce unfairness and potentially cause resentment between staff and the company. It was seen as contrary to the company values which place an emphasis on contribution rather than age.

Fairness as a Reason for not Paying the Youth Rates

Fairness was a common theme in discussions about the youth rates with many employers arguing that paying different rates to individuals for the same work cannot be justified. The basic argument of many employers was that it is hard to justify paying different rates to people in the same job purely on grounds of age. It was seen as a moral matter rather than purely business issue, with a number of employers referring to it specifically in such terms:

'If a seventeen year old is doing the same job as an eighteen year old, why should the seventeen year old earn less? … It is wrong, it is fundamentally wrong and that's why we don't do it.' Large retailer

'Morally I don't see the difference between somebody who is 23 and 26 doing the same job, and why should they be paid different rates?' Holiday resort

'Our rates are driven predominantly by getting the people in, but I morally am so against paying somebody just because you turn an age one day and you get paid £5.80 and the next day you're paid £7. It's not right.' Small hotel chain

> *'It's a moral thing. I don't understand how you can pay someone £5.90 if they're working alongside someone on £7.83 doing identical work and identical standard. It feels morally repugnant.'* Brewery and pub chain

> *'I don't think morally for me, if you're going out to do a day's work, I think we should recognise that as a good day's work and it doesn't really matter about your age… we shouldn't discriminate those people by paying them considerably lower.'* Childcare employer

> *'My philosophy is at the end of the day if they're doing the same job as the person beside them they get paid the same wages, end of the story. I don't feel it's fair to ask them to go and clean a set of toilets and give somebody else more money for doing that job.'* Cleaning education sector

As we described earlier, it was also argued that the rates are discriminatory:

> *'It's always been an interesting concept for me that, as an employer I cannot discriminate on the basis of age when I'm looking to employ somebody, so I'm not really sure why statute allows discrimination on pay rates on the basis of age when two people are doing the same job.'* Holiday resort

The employer body for hospitality felt that the youth rates were hard to justify on grounds of equity and fairness and that this likely informed employers' decisions not to use them. It also reported a concern among larger companies to be seen as following good employment practices and a belief that paying the youth rates could be damaging in reputational terms.

The fairness argument was also acknowledged, perhaps even more strongly, by companies who had been forced to introduce age-related pay rates:

> *'From a moral and ethical point of view, if somebody is doing exactly the same job I think it's very difficult to justify paying somebody a different rate. It's very hard to stand in front of a 25 year old and a 24 year old and say I know you're doing the same job, but we're going to pay you £7.45, and we're going to pay you £7.83. It's nothing to do with your worth, it's nothing to do with how good a job you are doing, it's purely to do with affordability, and keeping our business running.'* Convenience store chain

For this convenience store, the principle of fairness had also played a role in their decision to merge 18-24 into one youth rate, while retaining an under-18s rate on grounds of restrictions related to alcohol and tobacco sales.

Case study employers in the childcare sector also questioned whether it was fair to pay younger members of staff less simply because of their age. This was in part due to the qualification requirements of the profession, and the need to recognise the efforts made.

> *'I think if you're capable of doing the job to a really good standard and you've got qualifications, we could recognise the fact that these people have gone out of their way to get a qualification and I think they should be treated equally in age as to anybody else.'* Childcare employer

Another childcare employer also considered it unfair to offer staff minimum rates of pay given the risks and responsibilities involved when working in the childcare sector.

> *'Now there's not many jobs where you're on minimum rates of pay, have that type of consequence if you get it wrong, and I may be going to an extreme, but I think you have to take the extremities, compared to an unqualified job with no consequences if you get your job wrong, apart from getting sacked, ours you could end up being sent to prison.'* Childcare employer

Therefore, responsibility was cited as a further factor which inclined some employers not to pay the youth rates.

Recruitment and Retention as a Reason for not Paying the Youth Rates

Employers across sectors said that it was necessary to pay above the youth rates in order to recruit young people. Paying above the rates was also seen as necessary to retain young people in the longer term and for them to progress within the company. Although few employers offered apprenticeships, those who did said the rate was too low to attract trainees and therefore did not use it.

For one company in the hospitality sector, a resort hotel, paying above the youth rates reflected a long term process of increasing wage rates for entry level jobs in order to ensure continuing supply. A strategy of raising the pay of young employees had been developed alongside the aim of reducing seasonality and encouraging all-year round trade. This reduced the proportion of temporary, seasonal jobs and increased the requirement for permanent staff. Offering lower rates to young people was seen to be incompatible with this strategy as well as less necessary as the proportion of seasonal jobs reduced. The company also increased its training activity in order to increase the skill level of jobs and therefore the pay rate.

Related to this, other employers expressed the view that paying above the statutory minimum brings benefits to an industry like hospitality which relies on the quality and motivation of staff. It also reduces the costs of staff turnover created where employees leave for better paid jobs elsewhere.

The issue of staff morale, and its potential impact on turnover, was raised by many employers, but particularly in the retail sector. Some noted that differential pay by age could cause resentment among younger workers and affect staff morale, recruitment and retention negatively. The employer body for the convenience sector said that they had heard anecdotally that some stores avoided using youth rates to prevent any negative morale on younger staff:

> *'If you have two or three people working on a shop floor at a time…, it's so easy for them to compare the rates they're on.'* Employer body for convenience stores

The reward manager for the convenience store chain we interviewed, who did have age-related pay rates, also acknowledged these potential negative effects:

> *'I think people are fairly canny, they understand the pressures of running a business, but, yes, absolutely, I think people are only*

> *human, and they are going to be hacked off if they can see somebody that's doing exactly the same as them, or, in their eyes, perhaps not doing it as well as they do, and they get paid less for doing it.'* Convenience store chain

Not paying the youth rates was also seen by some employers to make the work environment more attractive:

> *'The fact that we don't pay based on age sets us apart and is a good differential, a positive differential for us when trying to attract employees.'* National fashion chain

Similarly, the convenience store who paid people between 18-24 slightly above the 21-24 Year Old Rate said that this was to give them a competitive edge.

The retail employer body stated that, in theory, youth rates could be used as a way of re-introducing pay differentials between more and less experienced members of staff which had been eroded in recent years after the introduction of NLW. Some companies had a significant proportion of employees who had worked their way up through the traditional structures and incrementally gained higher pay. However, the employer body said that the broader retail sector had not seen youth rates as an attractive option to reinstate pay differentials in order to improve morale. Of course, this was also a double-edged sword as the youth rates brought their own problems related to the morale of young people.

In the context of a staffing crisis and a constrained funding environment, childcare employers and employer bodies suggested the youth rates were not attractive enough to prevent young people going elsewhere in the labour market.

> *'They can go to Aldi, or they can go to Lidl and get eight pound fifty. They haven't got the pressure of parents, they haven't got long days, they're not working, half seven to six o'clock, they haven't got Ofsted breathing down their neck, they walk in and they walk out again.'*

> *'The Early Years sector is losing staff. To be honest, you can earn more as a cleaner. So that's where the brain-drain is coming from.'*

Not paying youth rates was therefore used as a strategy to attract and retain staff. Furthermore, in the view of one small provider, improved staff retention meant reduced recruitment costs which in turn helped to cover the increased wage costs.

> *'How much does it cost to actually employ a member of staff? And to recruit them, the advertising costs, and the disruption to your services and all that sort of business and I actually showed that if you have a staff turnover of twenty per cent, you could actually reduce that down to say ten per cent and pay the difference in higher rate, and you would actually by paying the higher rates, you would reduce your staff turnover.'*

Case study employers in the cleaning sector also stressed the difficulties the industry is facing in attracting staff from other sectors, noting that differential pay by age could impact on staff morale impacting negatively on recruitment and retention.

> *'So they have got to be looked after and we need to keep them into the industry, we don't need to hammer them down and say to them*

'well you are only worth half of what your co-worker is worth'. Cleaning education sector

Fear of Enforcement and Litigation as a Reason for not Paying the Youth Rates

A few employers expressed concern about accidentally breaching the NMW and NLW and said this was a consideration in paying slightly above the rates. Employer representatives said that youth rates potentially exposed employers to underpaying employees below the NMW. HR systems have to be effective in ensuring that pay is updated in line with birthdays when workers cross a minimum wage threshold, since not doing so could potentially lead to HMRC action. It was felt that minimum wage compliance was a top priority for HMRC and therefore some employers were concerned not to run the risk of enforcement and reputational damage.

As noted above, some employers were also concerned about the wider issue of legality of the rates in relation to age discrimination. One employer raised concerns about the legality of paying youth rates even if it was based on government-mandated legislation. They were concerned that such a measure might result in ending of the youth rates. Therefore, by not having applied the youth rates in the first place, they would not bear the cost of having to move all employees to the NLW in a short space of time.

> *'That's what it feels like because you've got these legal firms that are out there looking for equality, looking for fairness, looking for justice. I don't think it will be long before … there is a first claim for discrimination on the basis of age and pay even though it's a justified difference based on Government legislation.'* National fashion chain

Administration Costs as a Reason for not Paying Youth Rates

A few of the case study companies discussed whether there was an administration cost to implementing and maintaining an age-related pay system. The answer to this seemed to depend on their existing HR system. Some companies had payroll systems in place which automatically checked for each pay run whether an employee had reached a particular birthday and duly moved that employee onto a higher rate. Others noted that if they introduced age-related pay there would be an administration cost for the payroll provider to build different configurations into their HR system.

One childcare employer suggested implementing differential rates of pay would be a considerable administrative burden, particularly for smaller businesses.

> *'Having multiple rates of pay for under twenty five's, over twenty five's, under twenty ones, over eighteens, must be a nightmare for them, yet I find the easiest way is to turn round and say make sure I'm well above it, then I don't have to think about it.'* Childcare employer

Contrary to this, one childcare case study employer suggested administration was not a deterrent to implementing the age-related rates of pay. This view, however, is likely to be associated with the number of staff employed:

> *'It comes up on the HMRC site, everything is there, you can't fail anything, once, because it's all there, it's all logged in, if you're on the*

pay system… our administrator will do that, so that's, no that's not really a problem no'. Childcare employer

For some employers, the complexity around offering varying rates of pay was more of an issue for recruitment than for pay administration. Advertising a post at a fixed rate was seen as easier and more attractive to job-seekers than one which offered varying rates by age.

For one cleaning employer simplicity was given as a further reason for not using age-related rates of pay:

> *'Simplicity really. So it's, if someone is coming and cleaning for us it's irrelevant what age they're at and we don't want to set things that we've got to remember when people's birthdays are because they change from sixteen to seventeen, seventeen to eighteen, it's, if they're good enough to pass their probation, good enough to do the job then they're good enough to earn the same pay rate as everybody else.'* Cleaning employer

Future Use of the Youth Rates

Discussions about the future in relation to the youth rates focused on pressures on pay resulting from recruitment challenges. We also asked case study employers about whether they might take up the option of using the rates, if they currently didn't do so, or whether they would like to have the option to do so.

General Pressures on Pay

Employers across sectors said they faced a number of pressures on pay in the short to medium term. They expected cost pressures to increase as their sectors face greater competitive pressures. However, concern that the youth rates were seen as unfair was countering the pressure to use the youth rates to mitigate cost pressures.

Employers were finding it harder to recruit and retain EU citizens, which they explained with reference to the fall in the value of sterling, the hostile environment around immigration and increased opportunities in EU migrants' countries of origin. This had led to increased efforts being directed at recruitment, including of young people. A sandwich chain had created a new team to attract and retain young people. The team's work in engaging with schools and youth organisations had achieved some success and the company was considering expanding its apprenticeship programme as part of this work. A representative of the company explained that:

> *'Our endless supply of motivated, hard-working, fully flexible people from Europe is not there anymore, or won't be there anymore. So everyone has to work harder to get people through the door and young people are a part of that. There are other streams to that as well, but young people are an important stream for us'.* Sandwich chain

A commercial cleaning company decided to set up an online platform to facilitate the recruitment process having noticed that since the result of the Brexit referendum, the word-of-mouth referrals used as the only recruitment strategy previously was not working anymore. The employer felt the lack of clear government statements of right to work for EU citizens was creating anxiety among workers and inhibiting new applications.

Hospitality employers reported pressures on pay, with employees using job offers from competitors to negotiate pay increases. Migrant employees were reported as more likely than other staff to be tempted by higher pay offered by competitor companies, since they were more often motivated by pay than other factors. Brexit was therefore seen as exerting upward pressure on wages in a number of ways, which meant that the youth rates were less likely to be used than they might otherwise be.

The hospitality employer body also reported that Brexit is impacting on employers' practices but largely in staffing matters other than pay. In particular it was aware of increased efforts to reduce turnover through improvements in management and supervision as well as training and development. Increases in remuneration were reported to focus on bonus schemes to improve retention rather than increases in the hourly rate. This is in line with our findings from employer interviews.

More directly related to the NMW and NLW, there was a view in the retail sector that, while raising base pay had been quite a steep change for parts of the retail sector, it fits into the broader narrative around the transformation of the retail sector into one with fewer, but higher quality, more productive and higher paid, jobs, with clear progression routes. A representative of an employer body envisaged that the type of job roles in the retail sector would change:

> *'It's moving from… a transactional purchase over the counter, to a customer experience type opportunity which will take potentially more skill, potentially more time and personalised service which is something that you can, you would only assume would be rewarded in a higher way.'* Employer body for retail sector

Tightening of the labour market for hospitality, resulting from Brexit, was also seen as being counteracted by other forces which are increasing labour supply. Those mentioned by respondents included the worsening performance of retail the sector, and automation in sectors such as logistics and warehousing, all of which were expected to result in job losses. These were seen to have the potential to improve the supply of labour to the hospitality sector. At the same time, hospitality employers were concerned about the health of their own businesses, through cost pressures created by Brexit, especially of imported products such as food and wine, and also a downturn in economic performance and consumer spending more broadly. One hospitality employer gave several examples of restaurant chains which had ceased trading in 2018, and expressed some concern for the health of the sector.

For hospitality respondents, future policy in relation to pay and other human resourcing issues were seen to depend to some extent on the direction of future immigration policy, given the sectors' high use of migrants, including from the EU.

With regard to other policy developments, hospitality employers also talked about the opportunities for expanding the offer of apprenticeships in the sector. They felt that this would be a challenge for parts of the sector, with kitchen work an unpopular choice among young people. However, opportunities in areas such as IT and front of house work were seen as more attractive, and as areas which could be expanded.

The employer body in the childcare sector said the industry faced a number of pressures on pay. One of the main challenges was the dilemma between maintaining better wages for their staff in order to compete with the public sector, or reducing the quality of the offer and employing more young people.

A survey conducted by the childcare employer body suggested that while a number of employers already paid their staff above the national minimum wage, they were struggling to attract enough staff into the sector.

With the introduction of the 30 hours free childcare, nurseries had started limiting the number of places for funded children. This was due to the fact that the more free places they delivered, the more losses they made. The employer body stressed the need to sort out government funding for the sector, taking into consideration all government-imposed regulations on nurseries.

By and large, employers in the childcare sector saw the constrained funding environment and potential crisis in staffing as the main determinants of future pay-setting within the sector.

Factors Affecting Future Use of the Youth Rates

A number of case study companies were considering whether they might either continue to use the youth rates or make more use of them in the future. This depended in part on whether they expected to increase their employment of young people. For one hospitality employer who used the youth rates, this depended in part on whether school and university vacations continued to match their own peaks in demand.

One factor for some employers was affordability of the NLW and whether young people might be attracted to jobs paying some variation of the youth rate. An employer paying the youth rates was also monitoring turnover.

One large hotel chain was considering using the youth rates should it expand its training programme. Its trainees are currently paid the NLW.

More generally some employers said that they would like the flexibility of using the rates since it might be necessary to make cost-savings in the future. However, this was not seen as an ideal choice, as one hotel chain manager (as above) explained:

> *'I would absolutely hate to say to hundreds of people you can't have a job because I've got to pay these people more... So ultimately having choices is a good thing for an employer'.* Hotel chain

Some companies said that from a business point of view, it was valuable to have the option of paying the youth rates, particularly in the current environment where businesses were facing high costs. Therefore, an employer in the convenience retail sector stated:

> *'I think commercially, if you took away the current age differences you would cripple a huge number of retailers.'* Convenience store chain

The holiday chain which had made use of the youth rates to carry out a deskilling programme wanted the youth rates to be continued so that its strategy could stay in place:

> *'The way we're managing in the context is to deskill the jobs. So try and imagine that disappearing overnight. It would be damaging for our business.'* Holiday chain

However, at the same time, this employer recognised that adopting the strategy of paying the rates and deskilling young people had got them into *'a cycle of not paying very much, therefore we don't expect very much'*.

With this same consideration in mind, a representative for the retail sector said they did not envisage retailers starting to use youth rates. At the same time, data from the retail convenience employer representative survey reported that their members had increased their use of the youth rates quite substantially. This was thought to be from concerns to mitigate costs, both in the wage bill and across the business more generally.

Therefore, for employers we interviewed, any future use of the youth rates would depend on to what extent cost pressures, such as those arising from NLW upratings, the Apprenticeship Levy, pension auto-enrolment etc., forced them to look for savings on their wage bill.

Conclusions

Young people are valued for meeting immediate needs and potentially for senior roles.

Employers across the sectors we explored, with the exception of cleaning which employs relatively few young people, told us they value young people to meet immediate labour requirements as well as for longer term employment. They also regarded young people as important in helping to ensure the future supply of supervisors and managers. However, as low-paying sectors, they found it challenging to recruit and retain young people in the longer term. Students were seen as a valuable source of immediate recruitment and future potential. For some sectors, student holidays matched business peak times which was valued by employers, while for other sectors the need to take time off for study was seen as a disadvantage.

Employers commonly told us that hiring decisions were not based on age but ability to do the job in question. The age rates were seen as somewhat in conflict with other policies which discouraged consideration of age in decisions around hiring and employment.

Despite the perception that age should not affect hiring decisions there was some evidence of firms employing young people to reduce costs by using the youth rates. For employers in our sample, however, where the youth rates were often not used, the main business benefit of employing younger workers was their flexibility and availability at busy times of the week or year.

Restrictions on their employment affect young people’s roles, but only to an extent.

The past 20 years have seen fairly substantial policy changes affecting young people’s participation in the labour market, including the school leaving age, apprenticeships and benefit entitlements. The many and wide-ranging reforms to the education, training and employment of young people were not seen by employers to have caused noticeable changes in the employment of young workers. This is possibly because they have taken place over an extended period of time, during which alternative sources of labour have become more prevalent in lower skilled sectors, for example EU migrants. A further factor is that many respondents did not have sufficient tenure in the sector to reflect on its changing workforce composition.

Some barriers were identified to the employment of young people in terms of skills, abilities and experience, including poor literacy and maths skills which reduced the quality of young peoples’ work. Of our four sectors, these were most substantial in childcare where staff-to-child ratios operate and include qualification and age criteria.

Employers were also mindful of restrictions on the employment of young people aged under 18, including legislation relating to health and safety and break/rest time. Restrictions on the sale of alcohol and tobacco were also mentioned. However, such restrictions did not usually mean that young people were not employed; they meant that shifts had to be allocated to ensure the presence of over-18s. In the convenience store sector, this was more of an issue because of workforce size and the importance of alcohol and tobaccos sales.

Other barriers to employing young workers were more practical, for example the location of hospitality sites which required private transport.

Pay of lower skilled workers is determined by competition and affordability rather than age.

Employers in low paying sectors appeared to be highly aware of their competitors' pay. Among our retail and hospitality employers, the most important influence on pay rates was the competitors' offer. Other factors included affordability, inflation, recruitment and retention and maintaining pay differentials. Employers were always mindful that increasing pay at the lowest end impacts on rates above, since incentives to take on more responsible roles need to be considered.

For many employers, the NLW seems to have become the main benchmark used in the annual review process, leading to them paying either exactly at the NLW or slightly above, often defined in percentage terms. Employers commonly reported being constrained in the rates they could pay by cost pressures and affordability. Many employers referred to the costs of pension auto-enrolment, the Apprenticeship Levy and business rates. They saw these costs as reducing the size of the pot for pay increases.

Some employers said that the annual uprating of the NLW had put pressure on their business and had necessitated measures to mitigate its cost. These measures included reducing head-count, increasing productivity, making staffing efficiencies, charging higher prices or accepting lower profit margins. In relation to pay, they included reducing non-pay benefits and the removal of pay bands/staff grades. Specifically in relation to the NMW/NLW, they included employing a higher proportion of the workforce at the NLW, rather than above it, and, for some, paying youth rates. Some employers said that the changes they had made so far to make the NLW affordable were often one-off and were 'low-hanging fruit'. Many expected to face future challenges in paying the NLW, given its projected path.

The youth rates are used in varying ways.

We found a wide range of practices both in relation to the youth rates and the NLW/NMW more widely. We found little use of the youth rates in full, and according to their exact amounts. Other than in cleaning, where we did not find examples of their use, it was fairly common to find employers using the youth rates to some extent, but rarely using all of them. In some cases, employers used the exact rates for the age bands, while others used a rate in between the age band and the NLW. The latter was the case for most of our case study companies. Most often employers had created their own age-bands, typically based on merging age bands, for instance by creating a pay rate for 16-20 year-olds, or for 18-24-year-olds, or by only using age-related pay for people aged under 21 or under 18. We are mindful that our findings on the extent of the use of the rates are based on a small sample, and one in which large employers are over-represented and in which employers using the youth rates proved hard to recruit, potentially due to the concerns over fairness among employers. At the same time, our findings suggest that there are a wide range of practices in relation to the youth rates, with employers adapting them to meet their own needs. Our main purpose was to explore employers' reasons for using, or not using, the youth rates. And on this question, we found some quite consistent evidence.

Reducing cost is the main reason for using the youth rates.

The principal reason for using the youth rates was affordability, to reduce the size of the wage bill. For employers who used them, and for those who did not, it was the main rationale for their existence. They also emphasised that the decision had been made reluctantly, when other measures to cut costs had been insufficient. The perception that the rates were unfair was the main reason for regretting their use and reluctance to use in the future.

Some forms of their use, notably for seasonal and casual work by 16-17 year olds, were seen as more justifiable on the grounds of the unskilled nature of the work, and its temporary status. In some cases, restrictions for 16-17 in relation to work responsibilities such as selling alcohol were also seen to partly justify use of the rates. However, affordability remained the main reason. In the childcare sector, quite specific downward pressures on pay operated due to the 30-hour childcare offer. In the cleaning sector, specific upward pressures on pay operated through the contracting model. There are likely to be specific pressures in other low pay sectors, for example social care, where the funding model has led to affordability issues.

In some instances the youth rates were also found to be used during an initial period of training or induction in the case of young inexperienced workers. Here, employers justified their use on developmental grounds. However, we only have anecdotal evidence of this. The retail employer body, for example, said they had seen instances of using young, inexperienced workers at lower rates for a short initial induction period, typically between 2 weeks and 3 months, but we did not find any such examples across the sectors we examined, with most employers reporting that for full training posts, including apprenticeships, they needed to pay at least the NLW to attract young people.

Employers also remarked on the difficulty of changing their use of the rates: removing them led to immediate problems of affordability and introducing them led to problems of perceived fairness between new and existing employees. Therefore, employers who had chosen one approach to the rates were sometimes reluctant to change their policy, unless demanded by affordability.

Fairness is the main reason for not using the youth rates.

As stated above, employers often emphasised that their pay policies and practices were not driven by age. While we found some justification for their use for very young and inexperienced employees, they were seen as less applicable to young people aged 18 and above. Pay differentials between those aged 21-24 and 25+ were seen as especially unjustified.

The main reason given for not paying the youth rates was that pay should relate to the job, not to the person. Low skilled jobs were seen as generally implying the same level of skills, qualification and experience regardless of age.

Related to the view that pay should be for the job, not the person, fairness and moral justification was the other main reason for not paying the youth rates. While many employers used the term ‘moral’ to describe their decision, it was also seen as a business issue: it was seen as unfair to pay different rates to co-workers performing the same job. But this argument was taken further to suggest that using the rates was to practice age discrimination. This concern was raised by employers who used the rates, as well as those who did not. It led some employers to apply a watered down version of the rates rather than the actual levels.

Recruitment and retention was a further, and important, reason for not using the rates. Employers across sectors said they have to offer higher pay to recruit and retain people of the quality they want. Wages at the NLW and above were also said to be necessary in some sectors, businesses and localities to limit staff turnover resulting from low pay. Employers also noted low morale which might result where co-workers are aware they are paid by age rather than a rate for the job.

Some employers expressed concern about breaching the NMW/NLW and of litigation which could result. They felt that paying different rates, including by age, could expose them to breaches arising from errors in their HR systems which record age. More generally, the youth rates were seen to lead to additional complications for businesses' HR systems, though most employers said that their systems could easily deal with uprating in line with employees' birthdays. However, advertising job vacancies at varying age rates was seen as complicated and off-putting.

Cost is likely to be the main driver of future use of the youth rates.

Employers anticipated increasing pressures on pay in the short to medium term. However, concerns that the rates are unfair and unjustified made it unlikely that they would opt to use the youth rates to any real extent. In fact, some of the pressures they anticipated were leading them to focus more strongly on young people as a source of recruitment. For some employers, Brexit had already led to a fall in the supply of EU migrants and greater efforts to recruit young UK workers. The labour market at the lower skilled end was perceived as more volatile than in the past, with workers switching employers for relatively small increases in pay. This was leading some employers to improve their non-pay benefits including training and management. Employers felt constrained in their ability to increase pay, by affordability, but many did not see reducing pay, including through use of the youth rates, as feasible. At the same time, worsening performance of some low paying sectors, such as retail, was seen by hospitality employers to have the potential to increase the labour supply giving them possibly greater flexibility over pay.

Despite concerns about the ability to recruit and retain staff, a number of companies were considering whether they might either continue to use the youth rates or make more use of them in the future. This depended in part on whether specific groups such as students continued to match their own peaks in demand. However, the main reason given for using the rates in future was to keep costs down. And while one employer was considering using the rates to expand its training programme, another was using them to deskill the work carried out by young people. Therefore, just as the rates have been used in a variety of ways, retaining the rates is also likely to result in a range of practices. Primarily, however, they are likely to be used to reduce costs where other measures have been found not to be sufficient.

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