

**Framework Agreement**

**Low Pay Commission**

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## INTRODUCTION

This Framework Document has been drawn up by the Department for Business, Innovation and Skills (the Department) in consultation with the Low Pay Commission (LPC), 8th Floor, Fleetbank House, 2-6 Salisbury Square, London, EC4Y 8JX. Subject to the legislation noted below, this document sets out the broad framework within which the LPC will operate. The document does not convey any legal powers or responsibilities. It is signed and dated by the Department and the LPC. Copies of this document and any subsequent substantive amendments shall be placed in the libraries of both Houses of Parliament and made available to the public on the LPC's website.

### 1 Purpose of the LPC

1.1 The Low Pay Commission (LPC) is an advisory non-departmental public body (NDPB) set up by the National Minimum Wage Act 1998

1.2 The Act, as amended by the Employment Act 2008 sets out the purpose of the LPC to provide advice to the Prime Minister and Secretary of State for Business Innovation and Skills on matters relating to the National Minimum Wage referred to it by the Secretary of State.

1.3 Its primary role is to advise the Government about the National Minimum Wage (NMW) and the LPC's remit for the year is set by the Government and outlined in the annual business plan. The remit for 2016 is at Appendix 2.

1.4 The Government's aim is to have NMW rates that help as many low-paid workers as possible, while making sure that NMW does not damage their employment prospects. The Government's objective is to have a National Living Wage of over £9 by 2020.

## **ACCOUNTABILITY**

### **2 Legal basis for LPC's powers**

- 2.1 The LPC's powers and duties stem primarily from the National Minimum Wage Act 1998, as amended.
- 2.2 It is an independent statutory non-departmental public body (NDPB) set up under the National Minimum Wage Act 1998 to advise the Government about the National Minimum Wage. The LPC is made up of nine Commissioners and supported by a small Secretariat. It submits a report to the Government each year making recommendations on the future level of the minimum wage, and related matters. To enable the LPC to do this its activities include:
- Extensive consultation with employers, workers, their representatives and other bodies with an interest in the NMW;
  - Commissioning independent research projects;
  - Analysing relevant data and actively encouraging the Office of National Statistics to establish better estimates of the incidence of low pay;
  - Holding oral evidence sessions and taking evidence from a wide range of key stakeholders; and
  - Undertaking fact-finding visits throughout the UK to meet employers, workers, their representative and other bodies with an interest in the NMW.
- 2.3 The LPC is accountable to the Secretary of State for Business, Innovation and Skills, who is ultimately answerable to Parliament for the LPC's activities. BIS is also the sponsoring Department and funds the activities of the LPC. The relationship between the LPC and the Department is governed by this Framework Agreement.

### **3 Overall Aims**

- 3.1 Although not stated in statute, the aim of the LPC is to recommend levels for the minimum wage rates that will help as many low-paid workers as possible without any significant adverse impact on employment or the economy as agreed by the Commissioners and adopted by the Government. The advice the LPC offers the government, in pursuit of this aim, is based on the best available evidence as outlined in its terms of reference.
- 3.2 The LPC's objectives and key targets shall be agreed within the LPC's business planning process. These are included in the LPC's Terms of Reference document and annual business plan and supporting work programme.

### **4 Ministerial responsibility**

- 4.1 The Secretary of State is accountable to Parliament for the activities of the LPC. His/Her responsibilities include:
- oversight of the LPC's strategic objectives and the policy and performance

framework within which the LPC will operate as set out in this framework document and associated documents;

- carrying out responsibilities specified in the Act, including:
  - appointments to the Commission,
  - approving the terms and conditions of the Chair and Commission Commissioners,

4.2 The Department is responsible for appointing a Secretary to the LPC and, setting performance objectives and remuneration terms linked to these objectives for the Secretary to the LPC which give due weight to the proper management and use of public monies.

4.3 Where matters are referred to the Low Pay Commission under subsection (1) in the Act, the Commission shall, after considering those matters, make a report to the Prime Minister and the Secretary of State which shall contain the Commission's recommendations about each of those matters:

If, following the report of the Low Pay Commission under subsection (3), the Secretary of State decides.

- (a) not to make any regulations implementing the Commission's recommendations, or
- (b) to make regulations implementing only some of the Commission's recommendations, or
- (c) to prescribe under section 1(3) single hourly rate which is different from the rate recommended by the Commission, or
- (d) to make regulations which in some other respect differ from the recommendations of the Commission, or
- (e) to make regulations which do not relate to a recommendation of the Commission, the Secretary of State shall lay a report before each House of Parliament containing a statement of the reasons for the decision.

If the Low Pay Commission fails to make its report under subsection (3) within the time allowed for doing so under section 7, any power of the Secretary of State to make regulations under this Act shall be exercisable as if subsection (1) had not been enacted.

## **5 The Accounting Officer of the sponsor Department's accountabilities and responsibilities**

5.1 The Permanent Secretary, as the Department's Principal Accounting Officer (PAO), is responsible for the organisation and overall management and staffing of the sponsor Department and the LPC Secretariat and for ensuring that there is a high standard of financial management in the Department and its NDPBs as a whole. The PAO has designated the Secretary to the LPC as the LPC's Accounting Officer and may withdraw that designation if he/she believes that the incumbent is no longer suitable for the role. The responsibility of the Accounting Officer is described in further detail in Chapter 3 of Managing Public Money.

5.2 The PAO is responsible for advising the responsible Minister:

- on an appropriate framework of objectives for the LPC in the light of the

LPC's annual remit and the NMW Act 1998.

- that the financial and other management controls applied by the Department to the LPC are appropriate and sufficient to safeguard public funds and for ensuring that the LPC's compliance with those controls is effectively monitored ("public funds" include not only any funds granted to the LPC by Parliament but also any other funds generated by approved activities or falling within the stewardship of the LPC);
- that the internal controls applied by the LPC conform to the requirements of regularity, propriety and good financial management;
- on how well the LPC is achieving its strategic objectives and whether it is delivering value for money

**5.3 The PAO is also responsible for ensuring arrangements are in place in order to:**

- monitor the LPC's activities on a continuing basis;
- address significant problems in the LPC, making such interventions as are judged necessary;
- periodically carry out an assessment of the risks both to the Department and to LPC's objectives and activities;
- inform the LPC of relevant Government policy in a timely manner; and
- bring concerns about the activities of the LPC to the full LPC Commission, requiring explanations and assurances that appropriate action has been taken.

5.4 The Strategic Finance and Sponsorship Team in the Labour Market Directorate of the Department is the primary contact for the LPC Secretariat and Commissioners. They are the main source of advice to the Secretary of State on the discharge of his/her responsibilities in respect of the LPC. They also support the PAO on his or her responsibilities toward the LPC, and are the primary point of contact for the LPC in dealing with the Department. The Sponsorship Team shall carry out its duties under a senior officer who shall have primary responsibility for overseeing the activities of the LPC.

**6 Responsibilities of the Secretary to the LPC as Accounting Officer**

6.1 The Secretary to the LPC, as Accounting Officer, is personally responsible for safeguarding the public funds for which he/she has charge; for ensuring propriety, regularity, value for money and feasibility in the handling of those public funds; and for the day-to-day operations and management of the LPC. In addition, he or she should ensure that the LPC as a whole is run on the basis of the standards, in terms of governance, decision-making and financial management that are set out in Box 3.1 to Managing Public Money.

6.2 Responsibilities for accounting to Parliament include:

- adhering to BIS system of internal control - see annex 3.1 in Managing Public Money.
- ensuring that effective procedures for handling complaints about the LPC are established and made widely known within the LPC.

- acting in accordance with the terms of this document, *Managing Public Money* and other instructions and guidance issued from time to time by the Department, the Treasury and the Cabinet Office.
- giving evidence, normally with the Accounting Officer of the sponsor Department, when summoned before the Public Accounts Committee (PAC) on the use and stewardship of public funds by the LPC.

6.3 Particular responsibilities to the Department include:

- establishing the LPC's business plan in the light of the LPC's annual remit and the NMW Act 1998;
- informing the Department of progress in helping to achieve the Department's policy objectives and in demonstrating how resources are being used to achieve those objectives;
- ensuring that timely forecasts and monitoring information on performance and finance are provided to the Department; that the Department is notified promptly if over or under spends are likely and that corrective action is taken; and that any significant problems, whether financial or otherwise, and whether detected by any means, are notified to the department in a timely fashion; and
- BIS Departmental Board to receive an annual performance report on the LPC from the BIS sponsor team to allow ongoing performance and impact to be monitored and assessed

6.4 The Secretary to the LPC is responsible to the Chair and Commission Commissioners for:

- advising the Commission on the discharge of the LPC's responsibilities as set out in this document, in the founding legislation and in any other relevant instructions and guidance that may be issued from time to time;
- advising the Commission on the LPC's performance compared with its aim and objectives;
- ensuring that financial considerations are taken fully into account by the Commission at all stages in reaching and executing its decisions, and that financial appraisal techniques are followed;
- taking action as set out in paragraph 3.8.5 of *Managing Public Money* if the Commission, or its Chair, is contemplating a course of action involving a transaction which the Secretary to the LPC considers would infringe the requirements of propriety or regularity or does not represent prudent or economical administration, efficiency or effectiveness, questionable feasibility, or is unethical.



## CORPORATE GOVERNANCE

### 7. Commission appointments – the Chair and Commission Commissioners

7.1 The LPC Chair and Commission Commissioners are appointed for a period of up to 3 years by the responsible Minister. Subject to satisfactory performance, the Chair and Commissioners may be re-appointed for a further 3 year term or further terms not exceeding 10 years in total. Such appointments will comply with the Code of Practice of the Office of the Commissioner for Public Appointments and the Centre for Public Appointments Guidance to departments on Making and Managing Public Appointments (September 2013).

### 8. Composition of the Commission

8.1 The composition of the Commission is governed by Schedule 1 to the National Minimum Wage Act and the code of conduct for board members of public bodies.

8.2 The LPC has a Code of Conduct for its Commission Commissioners and maintains a Register of Interests which is published on the LPC's website.

8.3 The Secretary of State may remove the Chair and Commissioners from office if any:

(i) has become bankrupt, has had a debt relief order made in respect of him (under Part 7A of the Insolvency Act 1986), has made an arrangement with his creditors, has had his estate sequestrated, has granted a trust deed for his creditors or has made a composition contract with his creditors; or has been absent from two or more consecutive meetings of the Commission otherwise than for a reason approved by them; or

(ii) is in the opinion of the Secretary of State unable or unfit to perform his duties as a member.

8.4 The Chair and Commissioners are entitled to claim a fee for attendance and Commission and other relevant meetings, and may be reimbursed for reasonable out of pocket expenses. Details of what the Chair and Commissioners are entitled to claim is set out in the 'Low Pay Commission Guidance on Fees and Expenses' which should be published, together with information on the amounts actually claimed in each financial year on GOV.UK or otherwise made available for public inspection.

8.5 The Commission usually meets around 8 times a year, usually in London, and Commissioners are bound by the LPC code of conduct.

### 9. Duties of the Commission (Chair & Secretary)

9.1 The Commission should ensure that effective arrangements are in place to provide assurance on risk management, governance and internal control. The Commission is expected to assure itself of the effectiveness of the internal control and risk management systems.

9.2 The Secretary is specifically responsible for:

- establishing and taking forward the strategic aims and objectives of the LPC consistent with its overall strategic direction and within the policy and resources framework determined by the Secretary of State;

- ensuring that the Secretary of State is kept informed of any changes which are likely to impact on the strategic direction of the LPC or on the attainability of its targets, and determine the steps needed to deal with such changes;
- ensuring that any statutory or administrative requirements for the use of public funds are complied with; that the Commission operates within the limits of its statutory authority and any delegated authority agreed with the sponsor Department, and in accordance with any other conditions relating to the use of public funds; and that, in reaching decisions, the Commission takes into account guidance issued by the sponsor Department;
- ensuring that the Commission receives and reviews regular financial information concerning the management of the LPC; is informed in a timely manner about any concerns about the activities of the LPC; and provides positive assurance to the Department that appropriate action has been taken on such concerns;
- demonstrating high standards of corporate governance at all times to help the Commission to address the key financial and other risks;

## **10. Personal responsibilities of the Chair of the LPC**

10.1 The Chair is responsible to the Secretary of State. Communications between the LPC Commission and the responsible Minister should normally be through the Chair. The Chair is responsible for ensuring that LPC's policies and actions take into account its annual remit as set by the Secretary of State; and that the LPC's affairs are conducted with probity. Where appropriate, these policies and actions should be clearly communicated and disseminated throughout the LPC.

10.2 In addition, the Chair has the following leadership responsibilities:

- formulating the Commission's strategy;
- ensuring that the Commission, in reaching decisions, takes proper account of guidance provided by the responsible Minister or the Department;
- promoting the efficient and effective use of staff and resources;
- delivering high standards of regularity and propriety; and representing the views of the Commission to the general public.

10.3 The Chair also has an obligation to ensure that:

- the work of the Commission and its Commissioners is reviewed and is effective;
- the Commission has a balance of skills appropriate to directing the LPC's business, as set out in the Government's *Code of Good Practice on Corporate Governance*;
- Commission Commissioners are fully briefed on terms of appointment, duties, rights and responsibilities;
- he or she, together with the other Commission Commissioners, receives appropriate training on financial management and reporting requirements and on any differences that may exist between private and public sector practice;
- the Secretary of State is advised of the needs of the LPC when Commission

vacancies arise;

- he or she assesses the performance of individual Commission Commissioners when being considered for re-appointment;
- there is a code of practice for Commission Commissioners in place consistent with the Cabinet Office model code

## **11 Personal responsibilities of LPC Commissioners, including the Chair**

### **11.1 Individual Commissioners should:**

- comply at all times with chapter 3.1 and 3.7 of Managing Public Money and with the rules relating to the use of public funds and to conflicts of interest;
- not misuse information gained in the course of their public service for personal gain or for political profit, nor seek to use the opportunity of public service to promote their private interests or those of connected persons or organisations;
- comply with the Department's rules on the acceptance of gifts and hospitality, and of business appointments;
- act in good faith and in the best interests of the LPC.
- comply with the LPC code of conduct.

## **12 Report**

12.1 The LPC must publish and provide the Department with an annual National Minimum Wage Low Pay Commission report in response to the remit set by the SoS.

## **13 Internal Audit**

13.1 The LPC shall:

- Keep a record of all expenditure, and prepare and forward to the Department an annual report on fraud and theft suffered by the LPC and notify the sponsor Department of any unusual or major incidents as soon as possible.

13.2 The Department's Internal Audit Service has a right of access to all documents prepared by the LPC, including where the service is contracted out.

## **14 The Department Audit**

14.3 The Department may carry out examinations into the accounts/finances, efficiency and effectiveness with which the LPC has used its resources in discharging its functions. The Department will review LPC's finances each quarter to assess if spending is in-line with its budget.

14.4 The Department has the right of access to all LPC's records and personnel for any purpose including, for example, sponsorship audits and operational investigations.

## MANAGEMENT AND FINANCIAL RESPONSIBILITIES

### **15 Managing Public Money and other government-wide corporate guidance and instructions**

- 15.1 Unless agreed by the Department and, as necessary, by HM Treasury, the LPC shall follow the principles, rules, guidance and advice in *Managing Public Money*, referring any difficulties or potential bids for exceptions to the sponsor team in the Department in the first instance. A list of guidance and instructions with which the NDPB should comply is in Appendix 1.
- 15.2 The LPC shall have authority to incur expenditure without further reference to the Department, on the following conditions:
- The LPC shall comply with the delegations, outlined in the delegation letter (sent separately) and with the delegated authorities in section 21 below. These delegations shall not be altered without the prior agreement of the sponsor Department;
  - The LPC shall comply with *Managing Public Money* regarding novel, contentious or repercussive proposals;
  - The LPC shall provide the sponsor department with such information about its operations, performance, individual projects or other expenditure as the sponsor department may reasonably require.

## **16 Risk Management**

- 16.1 The LPC shall ensure that the risks that it faces are dealt with in an appropriate manner, in accordance with relevant aspects of best practice in corporate governance, and develop a risk management strategy, in accordance with the Treasury guidance *Management of Risk: Principles and Concepts*. It should adopt and implement BIS policies and practices to safeguard itself against fraud and theft, in line with Treasury's guide: *Managing the Risk of Fraud*. It should also take all reasonable steps to appraise the financial standing of any firm or other body with which it intends to enter into a contract.

A risk register should also be kept and available for inspection at any time by BIS.

## **17 Business Plan**

- 17.1 The LPC shall submit to the Department, by the end of December each year, a draft of their Business Plan for the next financial year. The plan should include a profile of expected income and expenditure over the financial year. The LPC shall agree with the Department the issues to be addressed in the plan if different from its main aim and the timetable for its preparation. The plan shall reflect the LPC's statutory duties and, within those duties, the priorities set from time to time by the Secretary of State (including decisions taken on policy and resources in the light of wider public expenditure decisions).
- 17.2 The business plan shall be updated to include key targets and milestones for the year immediately ahead and shall be linked to budgeting information so that resources allocated to achieve specific objectives can readily be identified by the Department. The business plans should be published by the LPC on gov.uk or otherwise made available for public inspection.
- 17.3 The approved annual business plan will include a budget of estimated payments and receipts together with a profile of expected expenditure and of draw-down of any departmental funding and/or other income over the year. These elements form part of the approved business plan for the year in question.

## **18 Financial Planning**

- 18.1 Once the LPC's Business Plan has been approved by the LPC and shared with the Department, the LPC shall have the authority to incur expenditure approved in the plan without reference to the Department, on the following conditions:
- LPC shall comply with the delegations (delegation letter sent as a separate document) concerning losses, bad debts, special payments and contracts document. These delegations shall not be altered without the prior agreement of the Department;
  - LPC shall comply with the conditions set out in paragraph 21 (and in compliance with *Managing Public Money*) below regarding novel, contentious or repercussive proposals;
  - LPC shall provide the Department with such information about its operations, performance, individual projects or other expenditure as the Department may reasonably require.

## **19 Reporting performance to the Department**

- 19.1 The LPC shall operate management information and accounting systems that enable it to review in a timely and effective manner its financial and non-financial performance against the budgets and targets set out in the corporate and business plans. The LPC shall inform the sponsor Department of any changes that make achievement of objectives more or less difficult. It shall report financial and non-financial performance, including performance in helping to deliver its annual remit, and the achievement of key objectives on a regular basis. The LPC's financial performance shall be formally reviewed by the Department quarterly to assess if the body is on target to spend its budget. The responsible Minister will meet the Chair and Secretary to the LPC at least once a year at the time the LPC publishes its Report. The Chair of the LPC will meet the senior sponsor from the Department's Sponsorship Team to review his performance over the proceeding year.

## **20 Providing monitoring information to the Department**

- 20.1 As a minimum, the LPC shall provide the Department with information monthly that will enable the department satisfactorily to monitor actual and forecast outturn by resource heading, and consolidated into BIS accounts. LPC shall provide the Department with planning, budget and financial reporting information on a financial year (April – March) basis.
- 20.2 Officials of the Sponsorship Team will liaise regularly with LPC officials to review LPC financial performance against plans, achievement against LPC targets and the LPC's expenditure against the Departments' Annually Managed Expenditure (AME) allocations. The National Minimum Wage Policy Team will also meet with the LPC Secretariat on a regular basis to explain wider policy developments that might have an impact on the LPC.

## **21 Delegated Authorities**

- 21.1 The NDPB's delegated authorities are set out in the delegation letter – sent separately. The NDPB shall obtain the Department's prior written approval before:

- incurring expenditure for any purpose that is or might be considered novel or contentious, or which has or could have significant future cost implications;
- making any significant change in the scale of operation or funding of any initiative or particular scheme previously approved by the Department;
- making any change of policy or practice which has wider financial implications that might prove repercussive or which might significantly affect the future level of resources required.
- carrying out policies that go against the principles, rules, guidance and advice in Managing Public Money.

## **NDPB STAFF**

### **22. Broad responsibilities for NDPB staff**

22.1 LPC Secretary has discretion over the grade mix of staff and staff numbers, subject to budget. LPC will adhere to BIS HR processes. This includes:

- the rules for recruitment and management of staff create an inclusive culture in which diversity is fully valued; appointment and advancement is based on merit; there is no discrimination on grounds of gender, marital status, sexual orientation, race, colour, ethnic or national origin, religion, disability, community background or age;
- the level and structure of its staffing, including grading, and staff numbers, are appropriate to its functions and the requirements of economy, efficiency, and effectiveness;
- The performance of its staff at all levels is satisfactorily appraised and the LPC's performance measurement systems are reviewed from time to time;
- staff are encouraged to acquire the appropriate professional, management and other expertise necessary to achieve the LPC's objectives;
- proper consultation with staff takes place on key issues affecting them;
- adequate grievance and disciplinary procedures are in place;
- whistle-blowing guidance is followed in accordance with the Public Interest Disclosure Act;
- a code of conduct for staff is in place based on the Cabinet Office's *Model Code for Staff of Executive Non-departmental Public Bodies*.

### **23. Staff costs**

23.1 Subject to its delegated authorities, the LPC shall ensure that the creation of any additional posts does not incur forward commitments that will exceed its ability to pay for them.

23.2 All of the Secretariat staff are BIS employees and the Department's policies on employee relations are set out in the civil service management code. This lays down the processes for handling discipline and grievance issues related to individual staff and the process for dealing with collective staff and trade union issues.

23.3 The Department may appoint such staff, including a Secretary to the LPC, upon such terms as to remuneration, pension rights and other conditions of service, as it

determines. Such appointments must be in line with Public Sector Pay Policy and central Government guidance in terms of staff grading and remuneration. The Department will operate a system of recruitment based on fair and open competition.

## **REVIEWING THE ROLE OF THE LPC**

### **24. Review process**

24.1 The LPC shall be subject to a review (a Triennial Review) at least once every 3 years in accordance with the Cabinet Office guidance. The date of the next review will be in 2016.

### **25. Arrangements in the event that the NDPB is wound up**

25.1 The sponsor department shall put in place arrangements to ensure the orderly winding up of the LPC. To this end, the Department shall:

- ensure that procedures are in place in the LPC to gain independent assurance on key transactions, financial commitments, cash flows and other information needed to handle the wind-up effectively and to maintain the momentum of work inherited by any residual body;
- specify the basis for the valuation and accounting treatment of the NDPB's assets and liabilities;

25.2 The NDPB shall provide the Department with full details of all agreements where the NDPB or its successors have a right to share in the financial gains of developers. It should also pass to the Department details of any other forms of claw back due to the NDPB.



## LIST OF APPENDICES TO THE FRAMEWORK DOCUMENT

Appendix 1– List of government-wide corporate guidance instructions

Appendix 2 – Low Pay Commission Remit 2016

Approved

Signatures



Simon Blake  
Secretary to the LPC  
Low Pay Commission



Chris Thompson  
Deputy Director  
National Minimum Wage and  
Labour Market Analysis, BIS

Date

8/9/15

Date

21/9/15

## List of government-wide corporate guidance and instructions

LPC shall comply with the following general guidance documents and instructions:

- Appropriate adaptations of sections of *Corporate Governance in Central Government Departments: code of good practice* available on the Treasury website;
- Managing Public Money;
- *Management of Risks: Principles and Concepts*: issued by the Treasury;
- *Managing the Risks of Fraud*, issued by the Treasury;
- Departmental Banking: a Manual for Government Departments, issued by the Treasury as Annex 5.7 of *Managing Public Money*;
- relevant Dear Accounting Officer Letters;
- *Regularity, Propriety and Value for Money*, issued by the Treasury;
- the Parliamentary Ombudsman's *Principles of Good Administration*;
- the Consolidation Officers Memorandum, issued by the Treasury;
- relevant Dear Consolidation Officer Letters;
- relevant guidance and instructions issued by the Department of Constitutional Affairs on the Freedom of Information Act;
- other relevant guidance and instructions issued by the Treasury in respect of Whole of Government Accounts;
- other relevant instructions and guidance issued by the central Departments;
- specific instructions and guidance issued by the sponsor Department;
- recommendations made by the Public Accounts Committee, or by other parliamentary authority, that have been accepted by the government and relevant to the NDPB

## **National Minimum Wage – Low Pay Commission Remit 2016**

Over the last 15 years the National Minimum Wage (NMW) has helped eliminate extreme low pay and preserve jobs in the face of recession. We appreciate the role that the Low Pay Commission (LPC) has played in these successes. Against the background of a continuing recovery, the Government would like the LPC to monitor, evaluate and review the levels of each of the different NMW rates (16-17, 18-20 age groups, adult and apprentice rates) and make recommendations on the increase it believes should apply from October 2016. Our aim is to have NMW rates that help as many low-paid workers as possible without damaging their employment prospects.

The Government is building on its strong economic performance that has seen 2 million more people in work in the last five years. A remaining, key economic challenge the Government wants to address is to move away from a low wage, high tax, high welfare society and encourage a model of higher pay and higher productivity – supporting people who work hard and want to get on in life to fulfil their aspirations.

As such, the Government wishes to see a higher wage for more experienced workers and so is introducing a premium for workers aged 25 and over. This will be over and above the NMW which will remain in place. The Government will set the first premium in April at 50p bringing the total National Living Wage to £7.20 in April 2016. The Government asks the LPC to recommend the level of the National Living Wage to apply from April 2017.

The Government estimates that the level of the combined NMW and the premium in April 2016 will be 55% of median earnings and has set out an ambition that this should continue to increase to reach 60% of median earnings by 2020, subject to sustained economic growth. The Government's objective is to have a National Living Wage of over £9 by 2020.

In making recommendations in relation to the premium the LPC is asked to consider the pace of the increase, taking into account the state of the economy, employment and unemployment levels, and relevant policy changes.

Depending on the outcome of the review into bringing forward the NMW cycle, alongside the NMW recommendations in February 2016 the LPC are asked to provide indicative NMW rates for 2017, in order to give more certainty to business. Alongside the premium recommendation in October 2016 the LPC are asked to provide an indicative premium rate for April 2018. Both of these being subject to confirmation in light of economic conditions.

### **Timing**

The LPC is asked to provide a report to the Prime Minister and the Secretary of State for Business, Innovation and Skills on the NMW rates as early as possible in February 2016, and on the premium by October 2016.

