Department for Business Innovation & Skills

NATIONAL MINIMUM WAGE

Final government evidence for the Low Pay Commission's 2016 Report

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Department for Business Innovation & Skills

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January 2016

This publication is based on data and statistics available in December 2015.

Ministerial Foreword

The UK labour market and economy is continuing to make strong progress. The employment rate is at a record high of 73.9%; real wages have grown by 1.9% which has not been seen since the recession; and the Office for Budget Responsibility now forecasts GDP growth of 2.4% or higher in 2015, 2016, and 2017. It forecasts employment to be 31.1 million in 2015, rising each year to 32.2 million in 2020.

In this context, the National Minimum Wage provides a fair deal on pay for hard working people. It gives as much support as possible to the wages of the lowest paid without damaging their employment prospects, and it provides added incentive to work.

With such strong progress in the economy, now is the time to move to a higher wage, lower tax, lower welfare society and ensure that low paid workers take their fair share of the gains from growth. The National Living Wage will be implemented in April 2016 and set initially at a rate of £7.20 per hour. This is the largest annual increase in a minimum wage rate across any G7 country since 2009, in cash and real terms. It is estimated that 2.7 million hard working people will directly benefit from this new rate. The OBR also forecasts that up to 6 million in total could see a pay rise as a result of the ripple effect of higher earnings further up the earnings distribution.

The Low Pay Commission will continue to play a key role advising the Government on all National Minimum Wage rates as well as the pace of the increase in the National Living Wage toward the Government’s ambition that it reaches 60% of median earnings.

The NMW Interim Evidence (October 2015) set out Government policy relevant to the Low Pay Commission’s analysis. We are now publishing the supporting economic evidence and updates on compliance and enforcement operations.

We look forward to receiving the Commission’s 2016 report

Nick Boles MP

Minister of State for Skills

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Executive Summary

The Government has asked the Low Pay Commission (LPC) to make recommendations on the National Minimum Wage to be implemented from October 2016. The Government published its interim evidence in October 2015 which covered relevant Government policy to support the LPC's work. It also set out further detail on the Government's policy on the National Living Wage. The Government is asking the LPC to make recommendations on the level of the National Living Wage for 2017. Further information about the remit for the LPC is set out on page 8.

The Government is publishing this final evidence to support the LPC's recommendations. This evidence brings together the latest data and forecasts which we believe the LPC should have regard to in making its recommendations.

Macroeconomic context

- UK growth is on a firm path, supported by consumption and services, but is a little slower than in 2014 and below forecasts from March. Growth is forecast to be robust throughout the next few years

- Labour markets continue to perform well. The employment rate has continued to grow and reached a record high of 73.9% in the three months to October 2015. Similarly, the rate of unemployment has fallen to 5.2% in the three months to October 2015, the lowest rate since January 2006.

- The UK's productivity growth has recently shown some signs of strength, reaching 0.9% in 2015 Q2, and is now 0.4% above its previous peak (2008 Q2).

- Growth in nominal average wages has picked up in 2015. After a period of higher inflation that dragged on real wages between 2008 and 2012, low inflation in recent months has contributed towards growth in real earnings.

- The official forecast for GDP growth in 2015, 2016 and 2017 is 2.4%, 2.4% and 2.5% respectively. Recent forecasts for near-term growth have been revised downwards slightly. For example the OBR and the Bank of England revised their predictions for 2015 by 0.1ppts. This reflects unexpected weakness in the global economy and especially in emerging markets.

Trends in pay

- We have entered a phase of real terms increases in National Minimum Wage (NMW) rates. All four rates increased after adjusting for inflation in 2014 and 2015, and the adult rate is now only 0.5% below its 2007 peak.

- This comes at a time of recovery in real wages for each of the NMW groups. Between 2014 and 2015, the inflation-adjusted median wages for the whole population increased by 1.9%, and there was stronger growth for younger workers – 2.8% and 3.4% for 16-17 and 18-20 year olds respectively. According to the Annual Survey of Hours and Earnings, apprentices fared particularly well with median real wages for those eligible for the apprentice rate growing by 11% between 2014 and 2015, although this result should be treated with caution.

- The growth in median wages means that – while the NMW rate increased slightly relative to median earnings for the adult population – the respective rates decreased compared to median earnings for the youth and apprentice rates.

- Looking forward, the introduction of the National Living Wage (NLW) will mean that the dynamics for the adult rate will change. The pay conditions for those aged 21 to 24 differ from those aged 25 and above, with lower median wages but with faster real wages growth from 2014 to 2015

- There is evidence of strength in earnings growth at the lower end of the distribution. Weekly earnings of the lowest paid ten percent grew 3.1% between 2014 and 2015, while weekly earnings for the highest paid ten percent grew 0.9%.

- On average, hourly labour costs continue to increase for businesses, with non-wage costs increasing at a faster rate than wages. However, it is important to consider the different changes to labour costs across the earnings distribution. For example, increases to the threshold at which employers must pay National Insurance Contributions (NICs) will mean that fewer low paid workers will incur this additional non-wage labour cost. In addition, policies such as NICs relief for under 21s and increases to the employment allowance will impact on the distribution of non-wage labour costs.

Trends in employment

- The headline employment conditions for those aged 25 and above performed strongly post-recession.

- While the employment conditions for younger workers were particularly hit during the recession, there are recent signs of promising improvement:

  - for those not in full-time education, the unemployment rates are currently around 10% lower for workers aged 16-17 and 18-20 compared to their respective 2011 peaks, while the unemployment rate for those aged 21-24 is approximately 5% lower than its 2013 peak.
  - The employment rate for young workers not in full-time education has increased for the past two years.
  - The number of workless under 25s has decreased since 2012 both for those who have and who have not previously had a job.
  - The 16-24 year old NEET rate (not in education, employment or training) is at its lowest since the series began in 2001.

- There is further evidence of strength in the labour market from job flows. Job inflows continue to increase while job outflows continue to fall and job-to-job flows show strong recovery post-recession.

- Employment and total hours worked in low pay sectors continue to perform well against the backdrop of significant increases in the NMW rates.
- The unemployment rates for those aged 21-24 are around 5% higher than for those aged 25 and over. This difference has fallen in recent years.
- Across the UK, apprenticeship starts have performed well over recent years. In particular, higher level apprenticeship starts have grown significantly - although from a small base – and advanced level apprenticeship starts increased by a quarter in England between 2013/14 and 2014/15.

Low Pay Commission Remit 2016

Over the last 15 years the 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 (NLW) to £7.20 in April 2016. The Government asks the LPC to recommend the level of the NLW 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 NLW 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.

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 NLW by October 2016.

Macroeconomic Context

Summary

The strength of the economy is an important factor in determining the appropriate level of the National Minimum Wage. This chapter considers key indicators and the future prospects for the economy.

- UK growth is on a firm path, supported by consumption and services, but is a little slower than in 2014 and below forecasts from March. Growth is forecast to be robust throughout the next few years

- Labour markets continue to perform well. The employment rate has continued to grow and reached a record high of 73.9% in the three months to October 2015. Similarly, the rate of unemployment has fallen to 5.2% in the three months to October 2015, the lowest rate since January 2006.

- The UK's productivity growth has recently shown some signs of strength, reaching 0.9% in 2015 Q2, and is now 0.4% above its previous peak (2008 Q2).

- Growth in nominal average wages has picked up in 2015. After a period of higher inflation that dragged on real wages between 2008 and 2012, low inflation in recent months has contributed towards growth in real earnings.

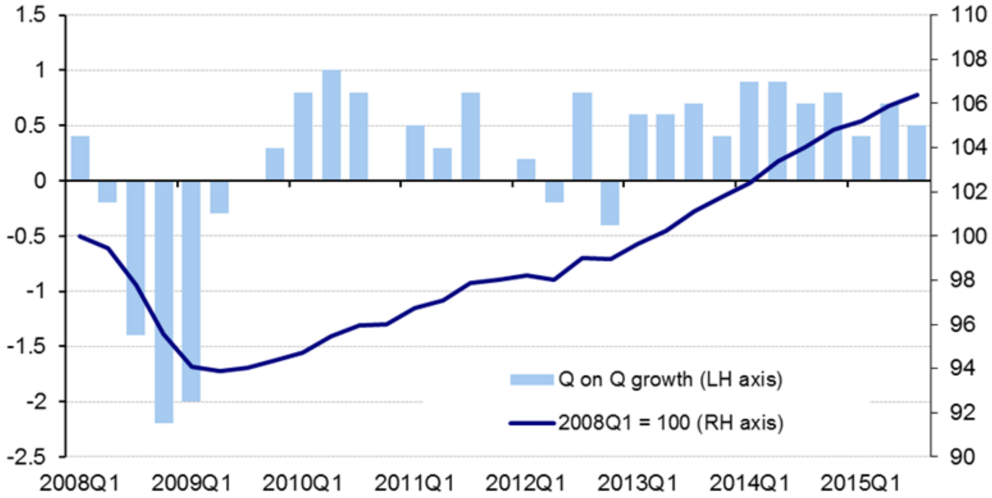
- The official forecast for GDP growth in 2015, 2016 and 2017 is 2.4%, 2.4% and 2.5% respectively. Recent forecasts for near-term growth have been revised downwards slightly. For example the OBR and the Bank of England revised their predictions for 2015 by 0.1ppts. This reflects unexpected weakness in the global economy and especially in emerging markets.

Key indicators

Economic growth

After contracting by 6.1% in the 2008/09 recession, recovery in the UK was initially slower than for other major G7 economies. From 2013 however, UK recovery strengthened. Annual growth in 2014 was 2.9% and the level of GDP is now 6.4% above its pre-recession peak. In 2013 and 2014, the UK was the fastest growing economy in the G7. There is some initial evidence that growth has slowed a little in 2015, with quarterly growth in Q1 and Q3 of 0.4% and 0.5%, although growth in Q2 came out at a strong 0.7%.

Chart 1: Quarterly GDP growth and level, seasonally adjusted



Source: ONS.

Growth continues to be largely supported by the services sector, which grew by 0.7% in 2015 Q3, driven by strong growth in business services and finance. Services output surpassed its pre-recession peak in 2012Q1 and is now 11.1% above it. Performance of the production and construction sectors was mixed. In Q3, manufacturing contracted by 0.4% - in large part due to a 13.8% contraction in the iron and steel manufacturing sector - and construction by 2.2% (after an increase of 1.4% in Q2). The recovery in these sectors has been weaker, with manufacturing and construction 6.4% and 4.4% below their pre-crisis peak. Mining & quarrying grew by 7.5% and 2.8% in 2015 Q2 and Q3 respectively. According to the ONS this was possibly due to a reduction in major maintenance, measures adopted in the March budget to support the sector, and opening of new facilities.

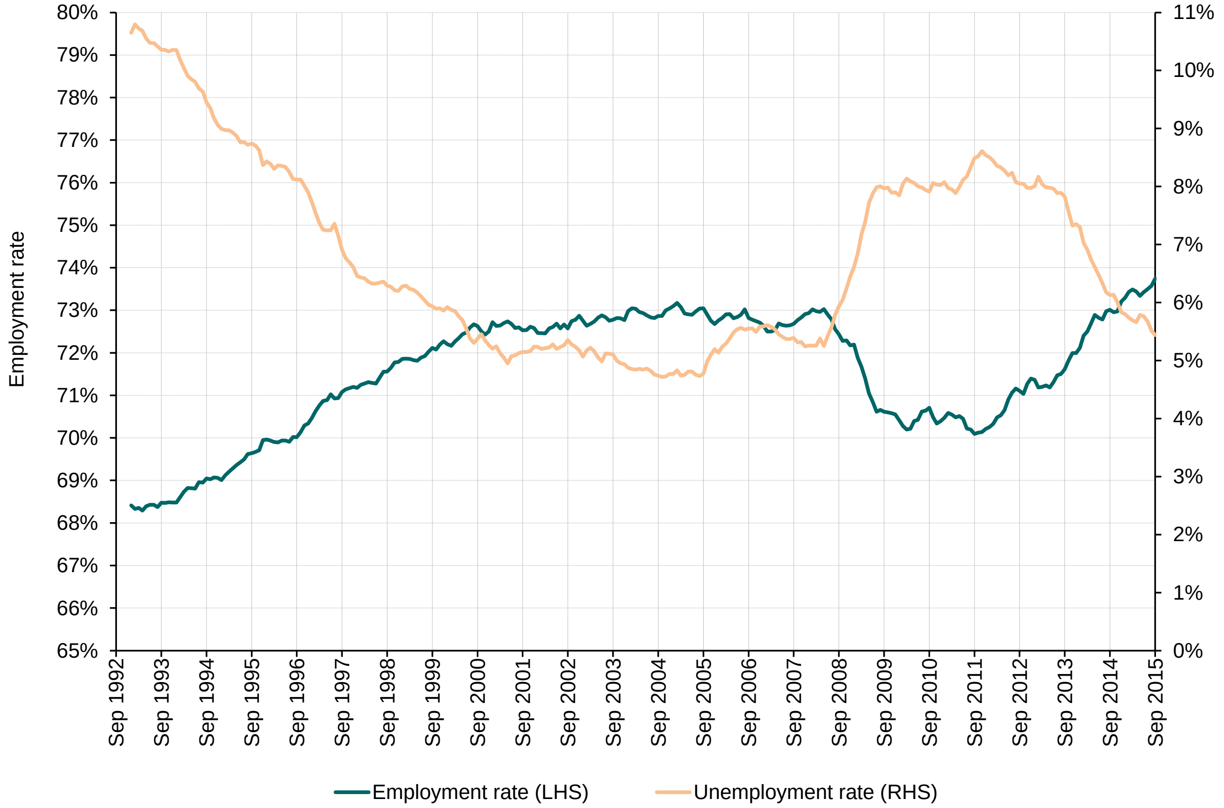
On the expenditure side, growth continues to be driven by consumption and investment spending. Household consumption increased by 0.8% in 2015 Q3 and has increased for 9 consecutive quarters. Compared to the same quarter in 2014, household consumption increased by 3.1%. Business investment increased by 2.2% in 2015Q3; between 2014Q3 and 2015Q3 it has increased by 6.6%. Net trade has had a mixed impact on GDP in 2015, displaying high strength in Q2, which did not persist in Q3. The relatively weak performance of exports over recent years has been driven in part by unexpected weakness in the global economy.

Employment

Employment growth in the UK has been exceptionally strong, with overall growth of 505,000 in the year to October 2015. The employment rate is at a record high of 73.9%. Most of the increase in employment in the year to October 2015 was in full-time employment, but with 33% of the increase in part-time employment, a higher contribution than over the same period last year. An estimated 68% of part-time workers do not want a full-time job and the proportion of people in part-time work that could not find a full-time job fell from mid-2013 to a low of 15.2% in September 2015 (since increasing to 15.5% in October 2015).

The UK unemployment rate is currently at 5.2%, its lowest rate since January 2006. The rate has fallen by 0.8ppts on the year. The level of unemployment is 1.7 million on the ILO measure, down 244,000 on the year, mainly driven by the fall in long-term unemployment.

Chart 2: UK employment and unemployment rates



Source: ONS Labour Force Survey.

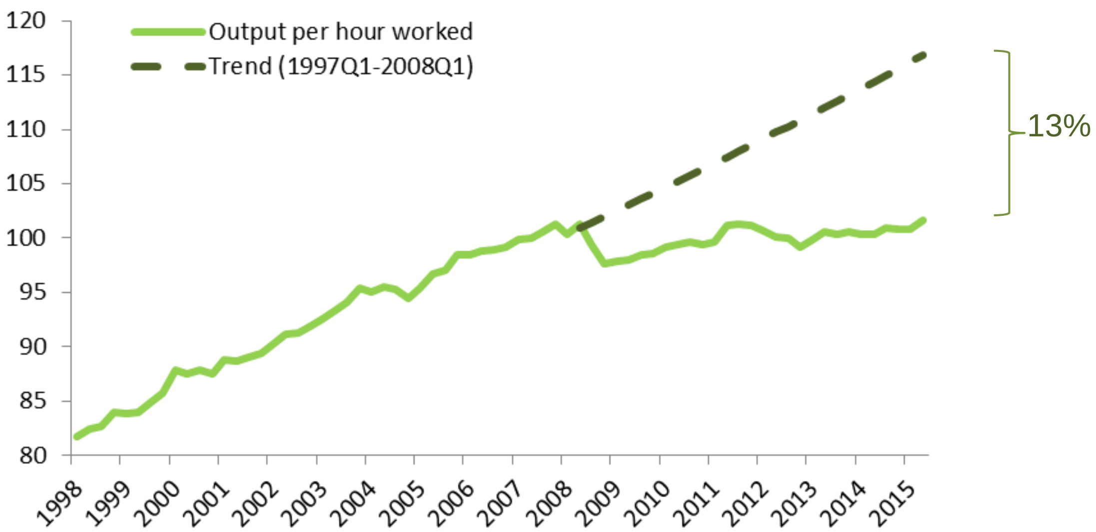
Productivity

The UK's productivity growth has recently shown signs of strength, reaching 0.9% in 2015 Q2, and 0.4% above its previous peak (2008 Q2).

The latest data also show the UK's productivity growth in 2014 as being comparable to France and Germany, but below the USA. The UK's longstanding productivity gap against its peers persists. Compared to the UK, in 2014, output per hour worked was 20% higher in the rest of the G7; 32%, higher in France and the USA; and 33% higher in Germany.

Although UK productivity is still 13% lower than it would have been if pre-crisis trends had continued, recent growth forecasts have been more positive. For instance, the OBR expects productivity will return to its long run average growth rate of 2.2% by 2018.

Chart 3: UK productivity since 1998



Source: ONS and BIS calculations.

In July the Government published "Fixing the foundations: Creating a more prosperous nation" – a plan for productivity growth in the UK over the next decade. The plan included measures such as: cuts to corporation tax and an increase in the Annual Investment allowance to incentivise investment, proposals for a network of Institutes of Technology to deliver higher level skills, a reformed planning system to make more land available for housing and businesses and an apprenticeship levy to incentivise companies to invest in skills.

Wages

While average weekly wages have grown relatively slowly since the crisis, wage growth has picked up in 2015. Annual growth in average weekly earnings including bonuses was 2.4% in the three months to October 2015, up 0.9 percentage points on the year. Combined with low inflation, this has supported real wage growth. Annual real terms growth in average weekly earnings including bonuses was also 2.4% in the three months to October 2015, and according to the Annual Survey of Hours and Earnings, median full-time weekly earnings increased 1.9% in real terms in the year to April 2015.

Inflation

CPI inflation was -0.1% on the year to October 2015, after having been at or around 0.0% since February 2015. The weakness in inflation can be attributed to external factors, including weak import prices, strengthening sterling and the decline in prices of commodities, oil and food in particular. Core inflation CPI (excluding volatile items such as food and oil prices) was 1.1% in October 2015. As mentioned above, low inflation in recent months has supported real wage growth. This follows a period between April 2008 and April 2012 when CPI inflation was generally above 3%

International context

After a 3.4% growth in 2014, global output is forecast by the IMF to grow by 3.1% in 2015. Global growth declined in the first half of 2015, reflecting a weaker recovery in advanced economies and a further slowdown in emerging markets, with growth below forecasts for both groups of countries. The world economy has been characterised by declining commodity prices, oil and metals in particular, depreciation of the Euro and Yen as well as a number of emerging market currencies, and heightened financial market volatility in August, according to the VIX index.

In the Euro area, growth remains on an upward trajectory, as the risks of the Greece crisis receded, although growth has weakened in the last two quarters. The IMF expects GDP to grow by 1.5% in 2015 and the largest economies, France and Germany, to grow by 1.2% and 1.5% respectively. US GDP grew by 0.4% in 2015 Q3, down from 1.0% in the previous quarter and it is expected to grow by 2.6% in 2015. China has been undergoing a smooth slowdown towards a consumer-driven economy and it is expected to grow by 6.8% in 2015, although there remain risks of an accelerated slowdown.

Forward look

UK economic outlook

The OBR expects UK growth to be 2.4% in 2015 and 2016 and at 2.5% in 2017. Forecasters have generally revised down by 0.1-0.2ppts their expectations for growth in 2015. The latest forecasts from OBR and OECD for 2016 saw 0.1ppts upward revisions. The OBR has also revised up by 0.1ppts its forecast for 2017.

The OBR, as reported in its latest Economic and Fiscal Outlook, expects private consumption and business investment to support growth, although they will gradually slow down as GDP converges to its long-term growth trend. Private consumption is forecast to grow at 2.6% and at 2.3% in 2016 and 2017 and business investment at 7.4% and 7.1%. Net trade is expected to make a small negative contribution to GDP in every year of the forecast period after 2015.

Growth has continued to be supported by services, where growth is expected to remain strong, according to private sector surveys. While construction output has displayed weakness in recent GDP data, private sector surveys suggest continuing strength, with more than half of the firms forecasting a rise in business activity in the next 12 months, according to the latest construction Purchasing Managers' Index. In manufacturing, CBI surveys suggest that firms are anticipating a decline in their output in the coming quarter.

Following strong employment growth, the OBR continue to expect productivity to pick up over the forecast horizon, while employment growth is expected to be weaker toward the end of the forecast. The OBR forecasts the unemployment rate to continue falling to 5.2% in 2016 and 2017, while rising back to 5.4% in 2019 and 2020. New forecasts for average earnings have been adjusted downwards to take in to account the additional costs to employers from pensions auto-enrolment and the apprenticeship levy. Together, auto-enrolment and the new apprenticeship levy reduce earnings over the forecast period (to 2020-21) by 0.7%, although the OBR acknowledges that there is significant uncertainty associated with these estimates. On the other hand, the apprenticeship levy will promote training and investment through apprenticeships, with feed-through to productivity.

Both the Bank of England and the OBR have revised down their expectations on CPI inflation by 0.4ppts and 0.6ppts respectively for 2016. The Bank of England now expects inflation to be at 1.1% in 2016Q4, down from 1.5% in August, and the OBR at 1.0%. Both forecasters point out that external factors act as a drag on inflation, especially the continuing fall of commodity and other imported goods prices. In terms of domestic pressures, the OBR suggests these to be mixed, with unit labour costs starting to rise but profit margins remaining weak. The OBR has revised up its forecast for 2017, expecting inflation to reach 1.8% by the second half of that year, 0.1ppts higher than its previous forecast.

Table 1: Forecasts for the UK

Forecasts for the UK (revisions in parenthesis, ppts)	2015	2016	2017	Date of publication
OBR[1]				25th Nov 2015
GDP growth	2.4% (-0.1)	2.4% (+0.1)	2.5% (+0.1)	
Employment level	31.1m (-0.1m)	31.5m (0.0m)	31.7m (+0.1m)	
Unemployment rate	5.5% (+0.1)	5.2% (+0.1)	5.2% (0.0)	
Productivity growth	1.1% (+0.2)	1.5% (-0.2)	1.9% (-0.5)	
Average earnings growth	2.6% (+0.5)	3.4% (-0.2)	3.7% (-0.2)	
CPI inflation	0.1% (-0.1)	1.0% (-0.1)	1.8% (+0.1)	
Bank of England Inflation Report[2] (mean projection)				Nov 2015
GDP growth	2.7%	2.5%	2.6%	
Unemployment rate (Q4)	5.3%	5.2%	5.0%	

[1] http://cdn.budgetresponsibility.independent.gov.uk/EFO_November__2015.pdf
[2] http://www.bankofengland.co.uk/publications/Pages/inflationreport/2015/nov.aspx

CPI inflation (four-quarter inflation in Q4)	0.1%	1.1%	2.0%	
HM Treasury, average of independent forecasts made in the last three months[3]				Nov 2015
GDP Growth	2.5%	2.4%		
Unemployment rate (Q4)	5.3%	5.1%		
Average earnings growth	2.7%	3.4%		
CPI inflation (Q4)	0.2%	1.6%		

Global outlook

According to the IMF, global growth is expected to recover from the relative slowdown in 2015, increasing to 3.6% in 2016 and to 3.8% in 2017. Growth in Emerging Markets and Developing Economies (EMDEs) has been revised down for 2015, 2016 and 2017 from the April forecasts. The slowdown in growth in EMDEs reflects a number of factors, including falling commodity prices and weaker Chinese growth.

UK direct exposure to EMDEs is limited. EMEs account for 23 % of UK's total exports, according to the Financial Stability report published in December 2015 by the Bank of England. In the November 2015 Inflation Report, the Bank of England has estimated that a 3% fall in Chinese GDP relative to its trend would lead to a 0.3% fall in UK GDP – with most negative effects through indirect trade channels. Indirect impacts would be transmitted through other more exposed economies such as the rest of Europe, to which 40% of all UK exports go.

Although the major European economies are exposed to the slowdown in the emerging economies, the Euro areaeuro area is expected to continue to slowly recover in 2016, with growth edging up to 1.7% in 2017. The recovery will continue to be sustained by lower oil prices, depreciation of the euro and monetary easing. Growth is expected to pick up in France, Italy and especially Spain in which it will reach 2.5% in 2016.

3 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/478521/PU797_Forecasts_for_UK_economy_343_Nov_2015.pdf 5

Table 2: IMF international forecasts, October 2015

IMF forecasts October 2015 (revisions on July in parenthesis, ppts)	2014	2015	2016
World	3.4%	3.1% (-0.2)	3.6% (-0.2)
Advanced Economies	1.8%	2.0% (-0.1)	2.2% (-0.2)
EMDEs	4.6%	4.0% (-0.2)	4.5% (-0.2)
Euro area	0.9%	1.5% (0.0)	1.6% (-0.1)
China	7.3%	6.8% (0.0)	6.3% (0.0)
India	7.3%	7.3% (-0.2)	7.5% (0.0)
Russia	0.6%	-3.8% (-0.4)	-0.6% (-0.8)
Brazil	0.1%	-3.0% (-1.5)	-1.0% (-1.7)
South Africa	1.5%	1.4% (-0.6)	1.3% (-0.8)

Trends in Pay

Summary

This chapter examines developments in wages and labour costs.

- We have entered a phase of real terms increases in National Minimum Wage (NMW) rates. All four rates increased after adjusting for inflation in 2014 and 2015, and the adult rate is now only 0.5% below its 2007 peak.

- This comes at a time of recovery in real wages for each of the NMW groups. Between 2014 and 2015, the inflation-adjusted median wages for the whole population increased by 1.9%, and there was stronger growth for younger workers – 2.8% and 3.4% for 16-17 and 18-20 year olds respectively. According to the Annual Survey of Hours and Earnings, apprentices fared particularly well with median real wages for those eligible for the apprentice rate growing by 11% between 2014 and 2015, although this result should be treated with caution.

- The growth in median wages means that – while the NMW rate increased slightly relative to median earnings for the adult population – the respective rates decreased compared to median earnings for the youth and apprentice rates.

- Looking forward, the introduction of the National Living Wage (NLW) will mean that the dynamics for the adult rate will change. The pay conditions for those aged 21 to 24 differ from those aged 25 and above, with lower median wages but with faster real wages growth from 2014 to 2015

- There is evidence of strength in earnings growth at the lower end of the distribution. Weekly earnings of the lowest paid ten percent grew 3.1% between 2014 and 2015, while weekly earnings for the highest paid ten percent grew 0.9%.

- On average, hourly labour costs continue to increase for businesses, with non-wage costs increasing at a faster rate than wages. However, it is important to consider the different changes to labour costs across the earnings distribution. For example, increases to the threshold at which employers must pay National Insurance Contributions (NICs) will mean that fewer low paid workers will incur this additional non-wage labour cost. In addition, policies such as NICs relief for under 21s and increases to the employment allowance will impact on the distribution of non-wage labour costs.

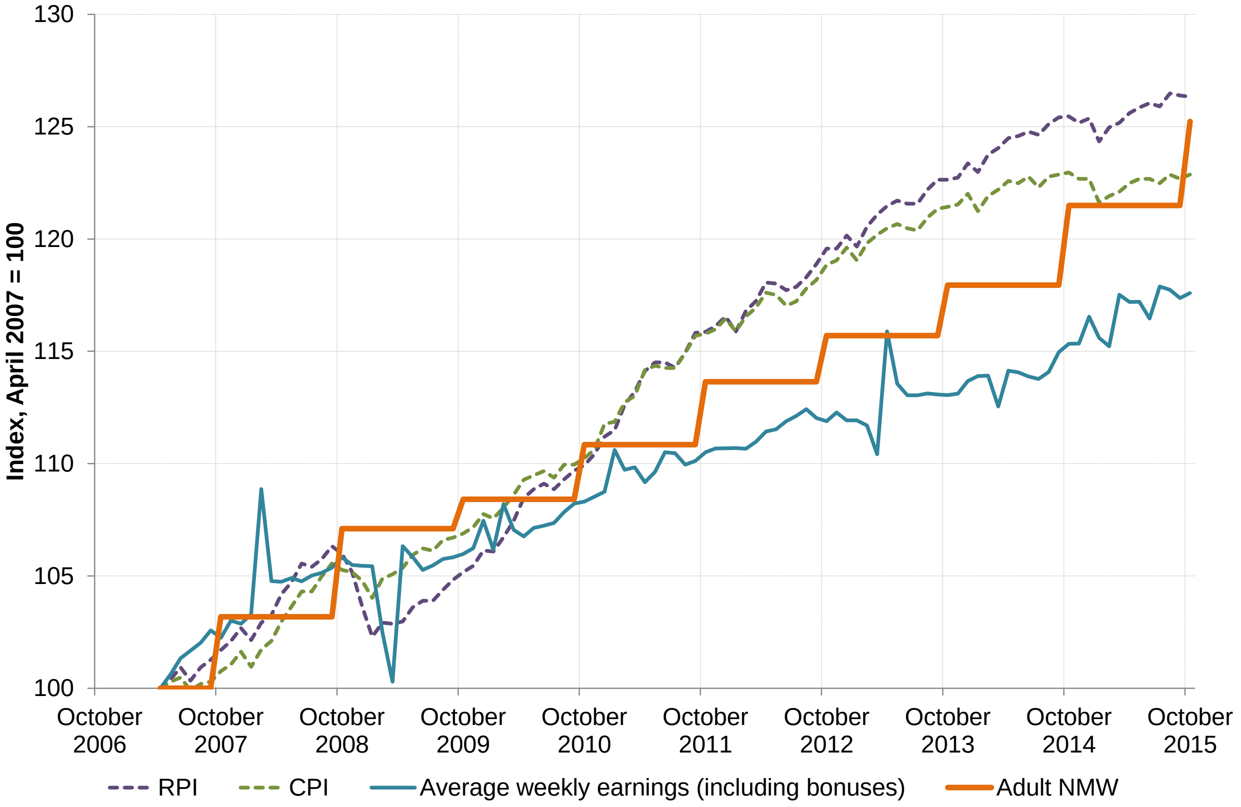
Wage trends

Real growth in NMW rates and wages

We have entered a phase of NMW rates increasing in real terms. With the exception of during the recession, rates have tended to rise faster than inflation, including relatively large real terms increases in the early 2000s. On balance, evidence from the LPC has suggested that rate increases to date have had little impact on the employment outcomes of the lowest paid.

Chart 4 shows that from April 2007 (October 2006 NMW rate) to October 2015, the adult NMW rate increased faster than average weekly earnings. Over the whole period, the adult NMW rate increased slightly faster than CPI but slower than RPI. Partly due to relatively high inflation through much of 2008-12, CPI overtook the adult NMW, although this trend has reversed more recently.

Chart 4: Growth of the adult NMW, retail and consumer prices, and average weekly earnings, April 2007 to October 2015



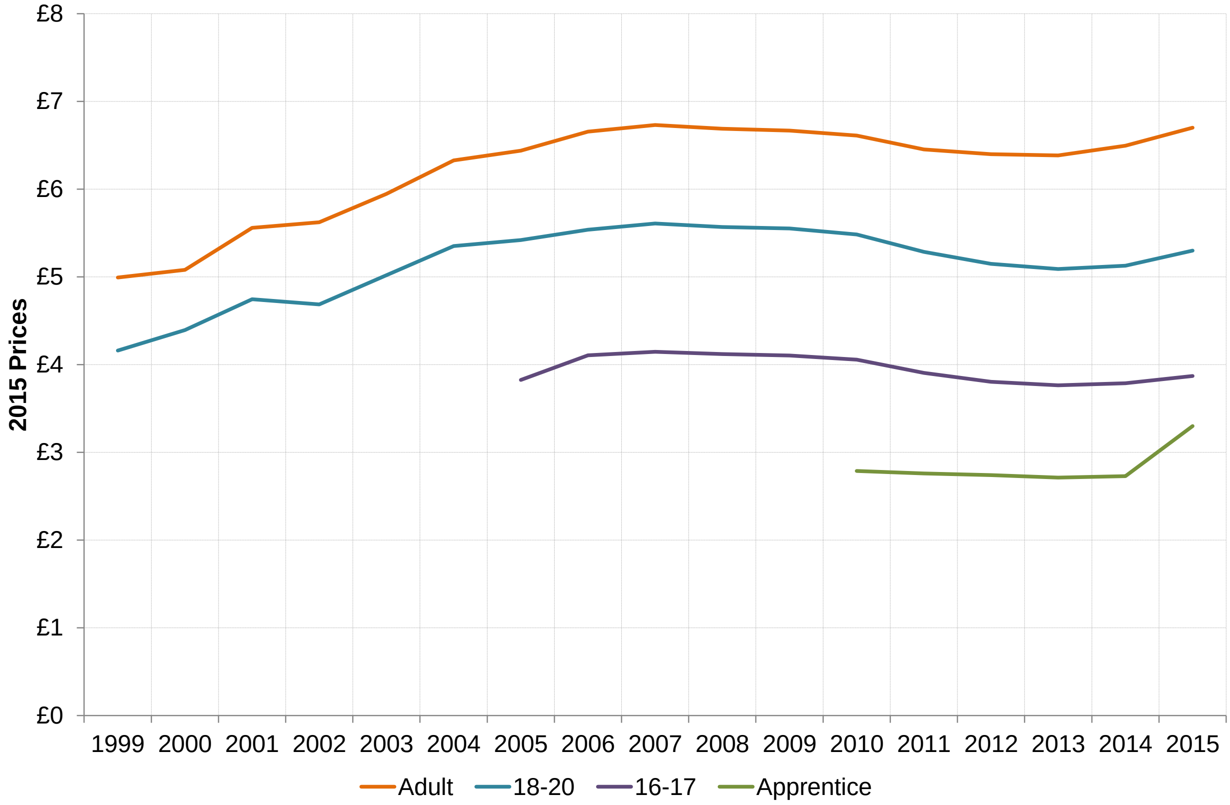
Source: ONS Average Weekly Earnings (K54U), MM23 Consumer Price Indices (CHAW and D7BT).

The same is true of the other NMW rates. The wage floor has fallen in real terms since the financial crisis in order to protect employment prospects. Chart 5 maps the progression of the various NMW rates after adjusting for consumer price inflation.

The adult and youth rates reached their peak in real terms in 2007. Following six years of real decreases, the real terms adult, 18-20, and 16-17 rates fell 5.2%, 9.3% and 9.2% respectively from their peaks to post-crisis lows.

However, all four rates have grown in real terms in 2014 and 2015 beginning their recovery to pre-crisis levels. In particular, the current adult rate of £6.70 is only 0.5% below the 2007 real terms peak.

Chart 5: Real value of NMW rates October of each year 1999 to 2015, 2015 prices.



Note: real value of NMW rates is calculated for each year by comparing the October uprating NMW rates with the CPI (D7BT) for that October.

These real increases in the NMW come at a time of recovery for average real wages across the economy. In 2015, real wages returned to growth for the first time since the recession. Adjusting for inflation, median full-time weekly earnings increased by 1.9% in 2015 compared to 2014. This is the first increase in real earnings since 2008[4]. This is due to growth in average earnings and a low level of inflation, with CPI falling by 0.1% in the year to April 2015.

Growth in median weekly wages can differ from growth in hourly wages because people work different patterns of hours. A worker earning the median hourly wage may not be earning the median weekly wage. The real growth in average hourly wages between 2014 and 2015 was most pronounced for workers under the age of 25 and those eligible for the apprentice rate. Table 3 compares nominal and real growth in the median hourly wage for the populations eligible for each NMW rate. The particularly strong growth in the median wage for those eligible for the apprentice rate – i.e. apprentices aged between 16 and 18 or in their first year of an apprenticeship – should be treated with caution. A compositional change in apprentices between the 2014 and 2015 ASHE may account for part of this growth in wages.

[4] ONS Annual Survey of Hours and Earnings, 2015

Table 3: Growth in the median wage for each NMW group, 2014-15

Growth rate 2014-15	21-24	25+	16-17	18-20	Apprentice
Nominal	3.1%	1.6%	2.7%	3.3%	11.1%*
Real (CPI)	3.2%	1.6%	2.8%	3.4%	11.2%*

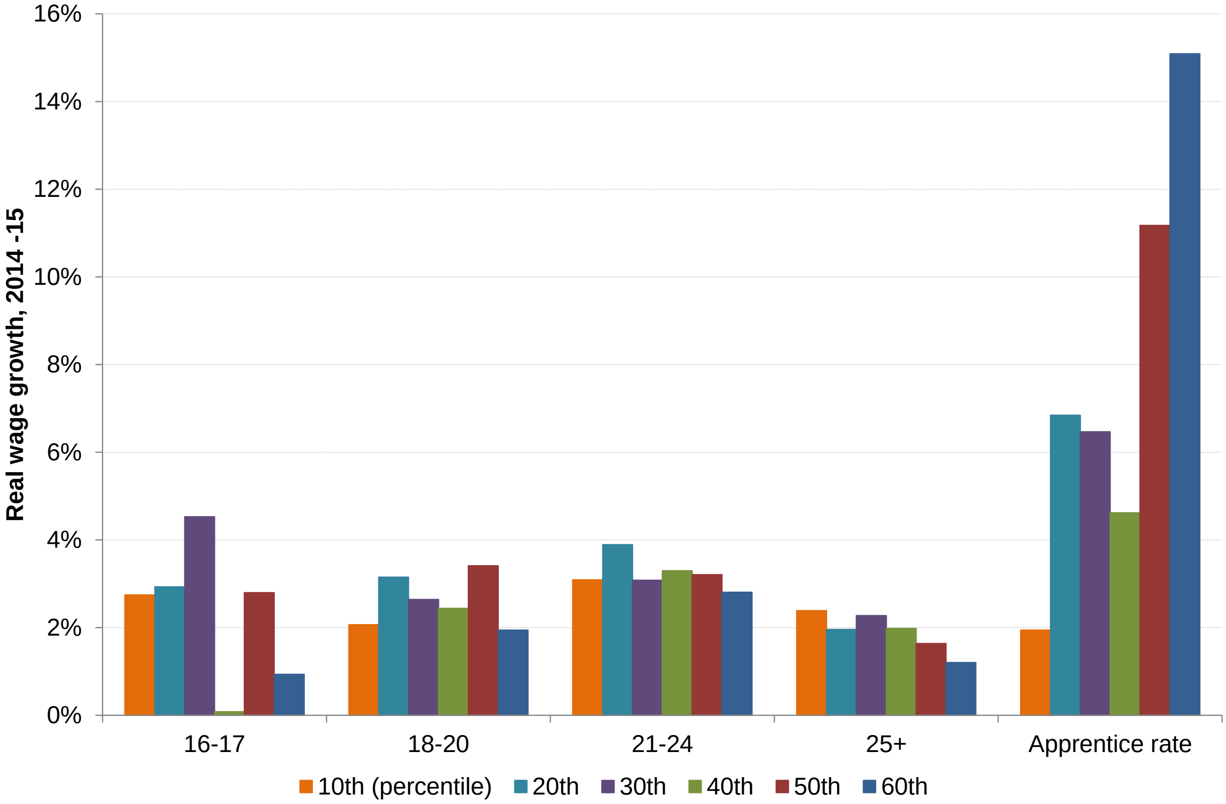
Source: BIS Analysis of ONS ASHE 2015 and 2014; Real growth is derived by deflating by CPI D7BT April 2014 to April 2015
* Apprentice data should be treated with caution as part of the growth is likely due to a compositional change in apprentices.

Recent data for mean weekly earnings gives further evidence that wage growth may have picked up. Nominal average weekly earnings (including bonuses) increased by 3% annually in the three months to September 2015, growing faster in the private sector (3.4%) and sectors such as Construction (6%) and Wholesale, Retail, Hotels and Restaurants (4.4%). In real terms, total pay increased by 2.9% and regular pay (excluding bonuses) increased by 2.5% on the year.

The growth in the median wages masks significant variation in wage growth at different points on the earnings distribution. According to the published ASHE release, weekly earnings grew fastest for those on lower wages. The nominal weekly earnings of the lowest paid 10% and the highest paid 10% of employees were £297 (up 3.1%) and £1,035 (up 0.9%) respectively. However, the ONS notes that the ratio between these figures has remained approximately 3.5 since the ASHE began in 1997.

Chart 6 illustrates real growth in the hourly wages at the lowest 10th through to 60th percentiles of the earnings distribution for each NMW rate group between the years 2014 and 2015. The NMW rate for 16-17 year olds reaches approximately the lowest 8th percentile of the hourly pay distribution (i.e. around 8% of 16-17 year olds earn precisely the NMW rate or less), while for 18-20 year olds the rate is around the lowest 10th-12th percentiles, for the 21-24 year olds it is around the lowest 11th-12th percentiles and for those aged 25 and above it is around the lowest 3rd or 4th percentile. For apprentices, the apprentice NMW reached the lowest 19th percentile in 2014, but this has fallen to the 14th percentile in 2015.

Chart 6: Real wage growth at different points of the hourly earnings distribution, 2014-15



Source: BIS analysis of ONS Annual Survey of Hours and Earnings. CPI (D7BT) for April 2014 and April 2015 used for real growth. A compositional effect between ASHE in 2014 and 2015 may account for part of the growth in apprentice rate wages.
The results for apprentices need to be treated with caution because a compositional change between the 2014 and 2015 ASHE may account for part of the growth in wages.

Excluding workers aged 25 and above, hourly wages have grown faster at the lowest 20th percentile than at the lowest 10th percentile. Given where the various NMW rates fit in to the distributions, this might suggest that wage growth has been slightly higher just above the NMW for these groups. The particularly stark difference for those eligible for the apprentice rate - the lowest 10th percentile grew 2% in real terms whereas the lowest 20th percentile grew by 6.8% - may in part be due to compositional change in the ASHE between 2014 and 2015. For workers aged 25 and over, growth at the lowest 10th percentile of the real hourly wage distribution was slightly faster (2.4%) than the percentiles above.

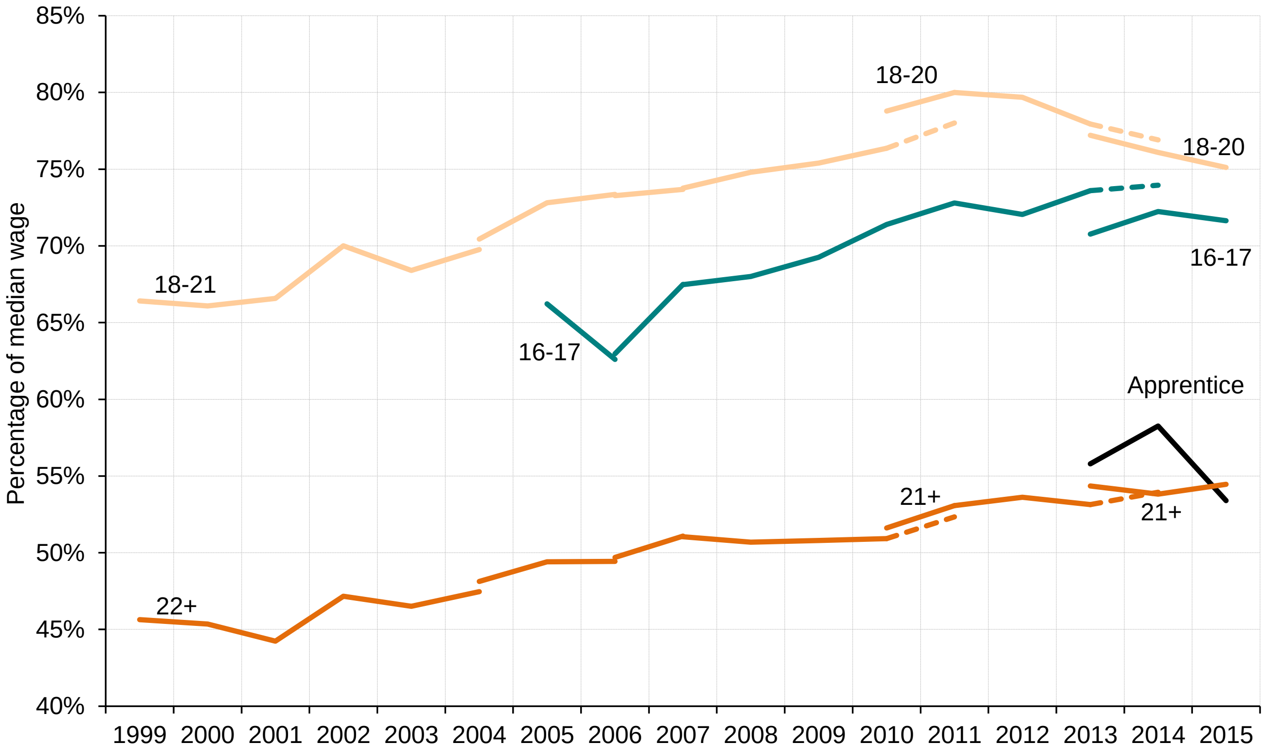
The 'bite' of the NMW

The bite is the NMW rate relative to median earnings for the population eligible for that particular NMW rate. It is used as a measure for how high up the earnings distribution the NMW rate cuts in and the proportion of employees likely to be affected.

Chart 7 plots the bite for each rate in the April of each year since 1999. This does not include the most recent October 2015 uprating. The bites of the youth rates fell slightly over the year and the bite of the apprentice rate fell significantly. The bite of the adult rate increased slightly.

As mentioned above, evidence on the impact of the NMW suggests that negative effects on employment have been limited even during periods where the 'bite' has been increasing.

Chart 7: Bite of different NMW rates, April of each year from 1999 to 2015



Source: ONS Annual Survey of Hours and Earnings. Breaks in series stem from redefinition of rates and changes in ASHE methodology.

Note that the methodology used for estimating the bites changes in 2013 as the introduction of apprentice variables to ASHE allows for a better definition of each NMW rate group. This explains the break in the series.

The introduction of the National Living Wage and the implications for the rate structure

The LPC has been asked to make recommendations for all the NMW rates and the National Living Wage (NLW).

The introduction of the NLW creates a further differentiation in the NMW rate structure according to age. The NLW will be introduced as a premium for workers aged 25 and over, this will be over and above the NMW rates which will remain in place.

Consequently, this evidence report compares the labour market conditions and dynamics for the new selection of age groups and highlights the conditions specific to the 21 to 24 population in contrast to those aged 25 and above.

The NLW applies to those aged 25 and above partly because of the importance of protecting the employment prospects of younger workers. With lower average wages compared to older workers, the bite of the NMW tends to be higher for those aged 21 to

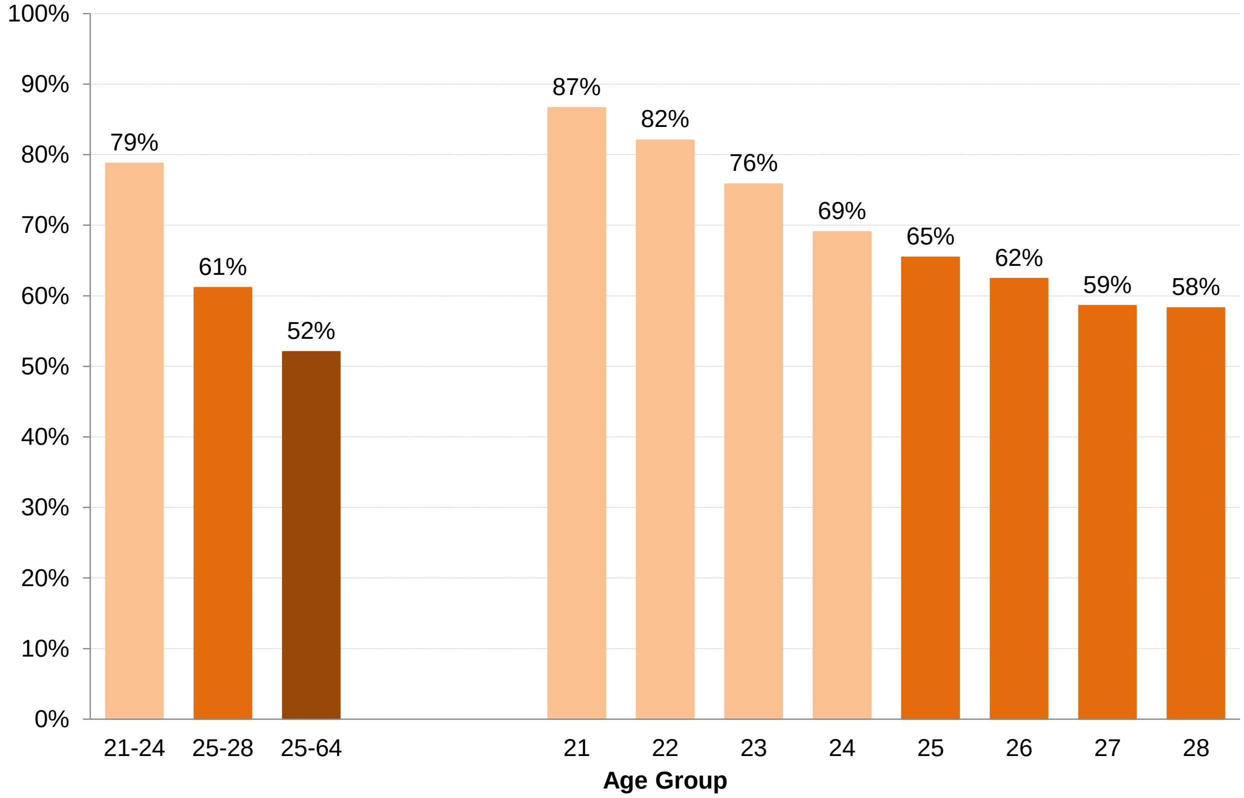
24, although there is little evidence that this has impacted on the employment prospects of this group to date. In addition, and as outlined in the following chapter, the labour market conditions of workers aged under 25 are not generally as robust as for those aged 25, particularly during cyclical downturns.

Investigating the bite of the adult rate for those aged 21 and above

Chart 8 shows that the bite for those aged 21 to 24 was 79% compared to a bite of 52% for those aged 25 to 64. The bite drops by around 5 percentage points for every additional year of age up to 24 before reducing more gradually.

This will partly be because wage progression tends to be faster at younger ages. Analysis from the ONS looked at median hourly earnings for employee cohorts aged 21 in 1975, 1985 and 1995. For all cohorts, median wage growth was highest as they aged from 21 to 25 years old. As the employee cohorts got older, real median wage growth tended to slow. For example, for the cohort aged 21 in 1995, real median hourly wages was almost 45% higher when the cohort was 25. In contrast, between the ages of 26 and 30, growth was just over 26% and 7.5% between the ages of 31 and 35[5].

Chart 8: Adult NMW bite for different age groups, 2015



Source: ONS Annual Survey of Hours and Earnings 2015

[5] UK Wages Over the Past Four Decades – 2014, ONS: http://www.ons.gov.uk/ons/rel/lmac/uk-wages-over-the-past-four-decades/2014/rep---uk-wages-over-the-past-four-decades.html

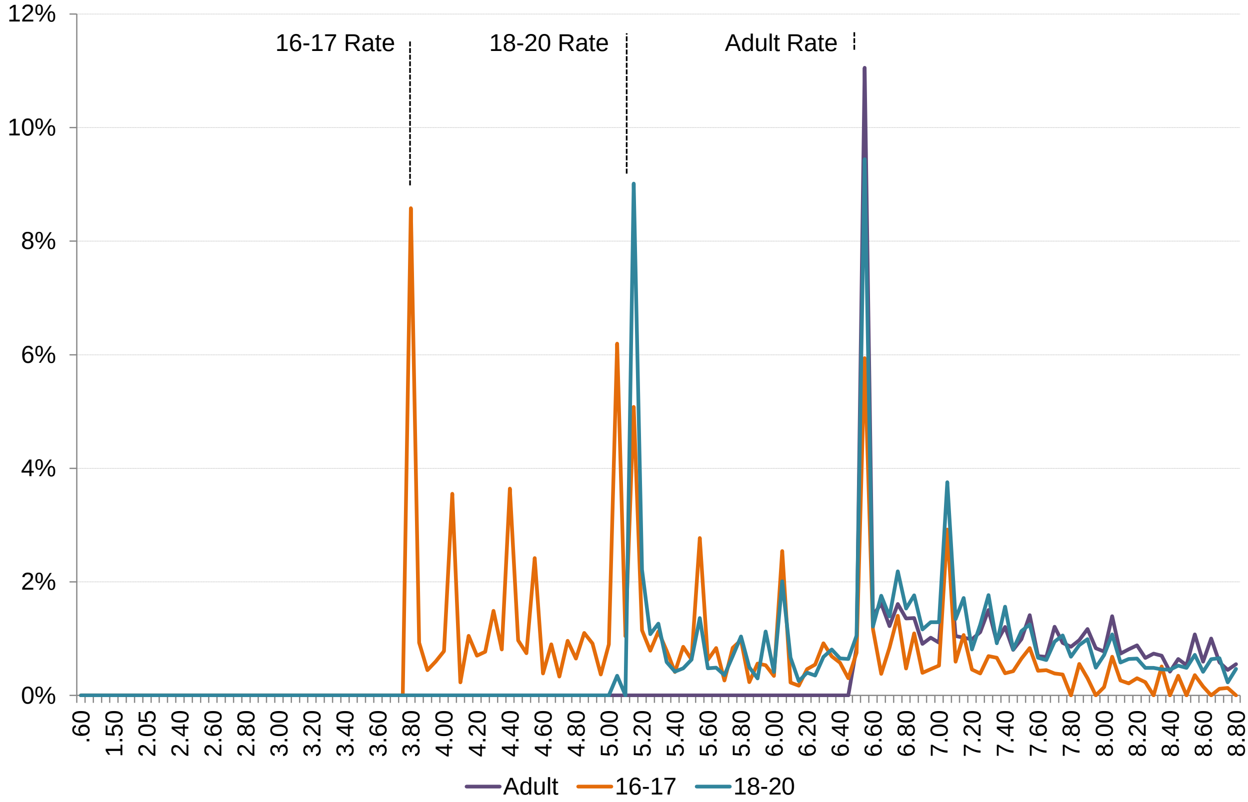
Earnings distributions for those aged under 25

A key distinction between those aged 21 to 24 and those aged 25 and above is the higher growth in the real value of the median wage between 2014 and 2015 – 3.2% for 21-24 year olds compared to 1.6% for the 25 and above age group as outlined in Table 3 above – and of the wages at lower percentiles (as shown in Chart 6). This is in keeping with the wider trend of faster median earnings growth for younger workers over the past year.

Chart 9 illustrates the lower end of the earnings distribution for each of the different age groups for which distinct NMW rates are applicable, under the age of 25. This illustrates a key interrelationship between the different NMW rates whereby the pay floors for older workers act as focal points for wages, creating clusters of people paid beyond the statutory minimum.

There is a significant cluster in the 16-17 distribution at the 18-20 rate and there are also clusters for both 16-17 and 18-20 earnings at the adult rate. In April 2015, proportionally more workers aged 18 to 20 were paid within 5p of the adult rate than the 18-20 rate – 11% compared to 9%. This is corroborated by anecdotal evidence from a number of employers who say they do not differentiate between older and younger workers in pay terms. A similar cluster in the earnings distributions of younger workers may also form around the new NLW rate.

Chart 9: Earnings distributions of those aged under 25 (2015)

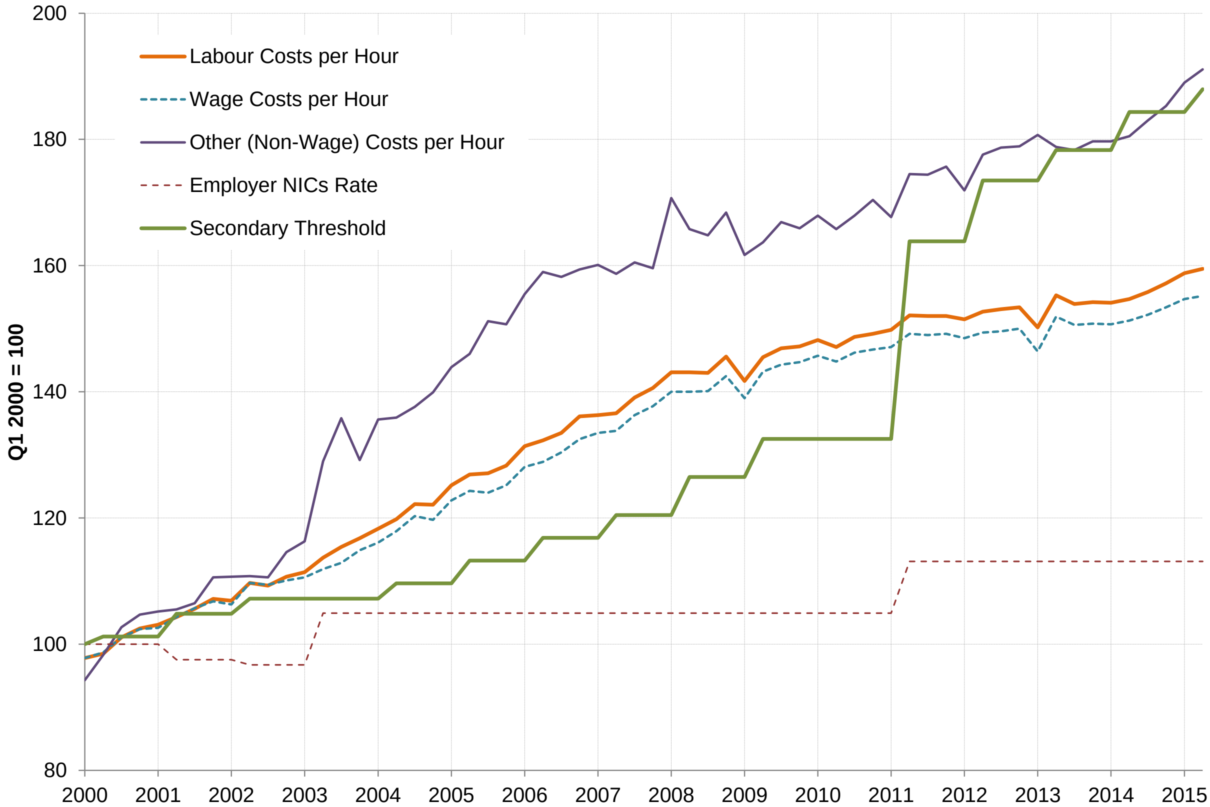


Source: BIS analysis of ONS Annual Survey of Hours and Earnings 2015. Distributions broken down by age: 16-17, 18-20, 21-24.

Employer costs

According to experimental statistics from the ONS, the average cost of employing an hour's labour has increased significantly since 2000, as illustrated in Chart 10. Since 2003, the non-wage labour costs have increased faster than wage costs, coinciding with increases in the National Insurance Contributions rate. This long-term trend continued into 2015. The chart shows that non-wage labour costs have continued to diverge from wage costs despite the increases in the NICs threshold.

Chart 10: Index of labour costs per hour and employer NICs



Source: ONS ILC Quarterly Data. The secondary threshold is the point at which employers start to pay NICs (primary threshold is the point at which employees start paying NICs)

Wages remain the largest single component of hourly labour costs. Table 4 provides a more specific breakdown of hourly labour costs and shows that NICs and pension contributions are the most significant non-wage labour costs faced by employers.

Table 4: Percentage breakdown of employer labour costs

	Wages and salaries	Sickness, maternity and paternity pay	Benefits in kind	Employer pension contributions	Employer national insurance contributions
2009	85.02%	0.55%	1.15%	5.84%	7.44%
2012	84.72%	0.44%	0.83%	6.02%	8.00%
2015	84.47%	0.65%	0.83%	6.10%	7.95%

Source: ONS Q2 quarterly disaggregated ILCH statistics

While labour costs may have increased on aggregate, this is not necessarily the case across the earnings distribution. For example, increases to the threshold at which employers must pay National Insurance Contributions will mean that fewer low paid workers will incur this additional non-wage labour cost. In addition, policies such as NICs relief for under 21s and increases to the employment allowance will impact on the distribution of non-wage labour costs.

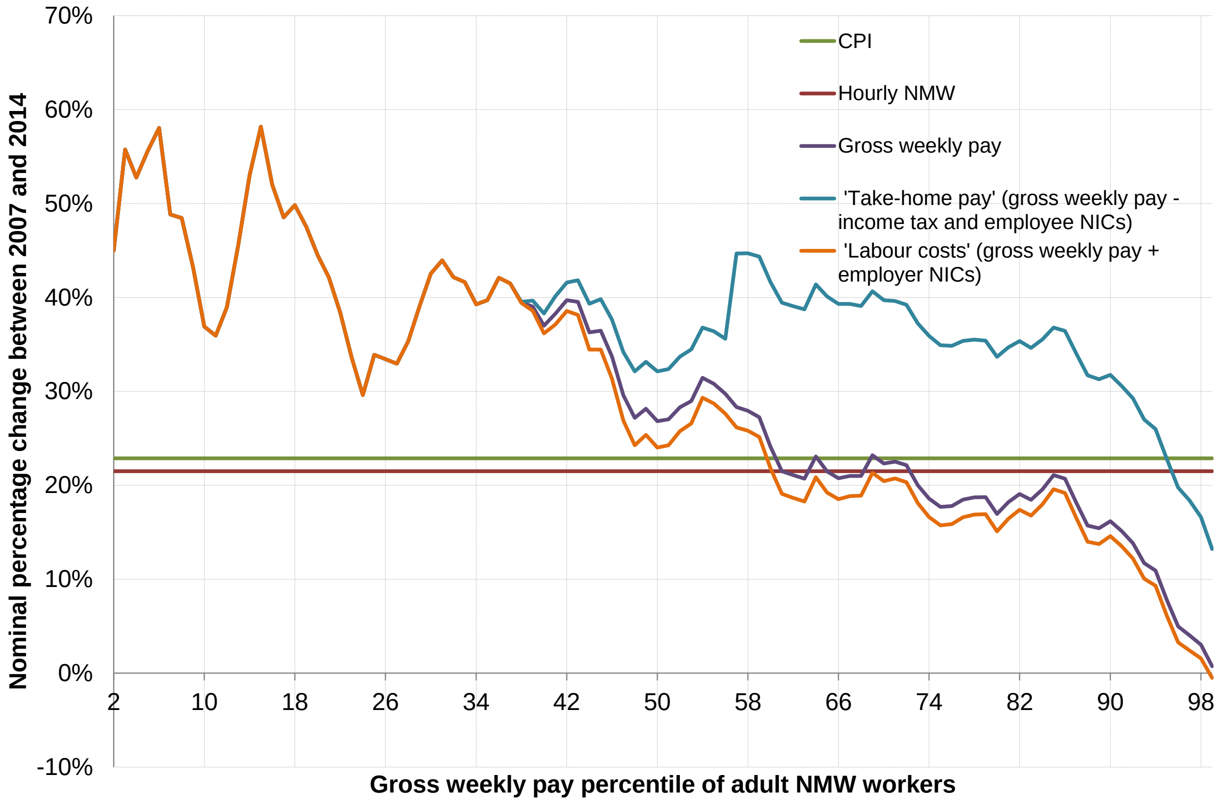
Indicative analysis suggests that around 50% of NMW workers on the adult rate would have not incurred any employer NICs in April 2015. In addition, our analysis suggests that for adult NMW workers, labour costs[6] grew more slowly than gross weekly wages for those that incurred employer NICs between 2007 and 2015 (see chart 11). For employees that paid income tax and NICs, take-home pay increased faster than gross weekly wages over the same period.

The Government announced details of the apprenticeship levy in the Autumn Statement, to be introduced in April 2017. This levy on larger employers will put employers at the heart of paying for and choosing apprenticeship training. The rate will be set at 0.5% of the employer pay bill and will be collected by PAYE. There will be a pay bill allowance of £15,000 which means that employers with a pay bill less than £3m will not have to pay. This means that less than 2% of employers will pay the levy.

In England, employers who are committed to training will be able get back more than they put in, through a top-up to their digital account and control of the funding will be put in the hands of employers via the Digital Apprenticeship Service to ensure that it delivers the training that they need. To make sure employers get what they want from the apprenticeships system, we are establishing a new body, independent of Government and supported by employers, to regulate the quality of apprenticeships within the context of achieving three million starts by 2020.

[6] Gross weekly wages with employer NICs subtracted

Chart 11: Percentage increase in gross weekly earnings, take-home pay and labour costs between 2007 and 2015 for 21+ NMW workers



Source: BIS analysis of Annual Survey of Hours and Earnings

Apprentice pay

The apprentice NMW rate recognises that there are particular costs for employers and benefits for the employee in providing and undertaking an apprenticeship. There is a cost to the employer of providing the training and lower productivity during training. For instance, this can be due to off the job training and the cost of managing the apprentice at the workplace. However, the employer will also reap some of the gains of increased productivity of the apprentice, particularly if they remain with the employer after training.

The apprentice rate is designed to recognise these additional costs alongside the need to ensure sufficient volume, quality and sectoral variety of apprenticeship places to meet employer needs. It currently applies to apprentices under 19, or those over 19 and in the first year of their apprenticeship – all other apprentices qualify for the relevant age-related NMW rate.

The latest Apprentice Pay Survey was undertaken in 2014 and analysed in the Government's final evidence report last year. The survey has not been updated in 2015. However, new data on apprentice pay is available from the Annual Survey of Hours and Earnings. As noted above, the ASHE results for wage growth should be treated with caution. A compositional change in apprentices in the 2014 and 2015 ASHE may account for part of the increase in wages.

Table 5 divides apprentices according to which rate they are eligible for and then presents the corresponding median wages and bite.

Table 5: Median wage and bite for apprentices eligible for different NMW rates

NMW Rate Apprentice is due	Proportion of apprentices eligible for rate	Median wage 2015	Growth in median wage, 2014-2015	Bite 2015
Apprentice rate	57.4%	£5.11	11.1%	53.4%
18-20 rate	16.8%	£6.75	10.3%	76.0%
Adult rate	25.7%	£9.28	2.5%	70.0%

Source: BIS Analysis of ONS ASHE 2014 and 2015. Growth rates should be treated with caution as compositional change in apprentices between the 2014 and 2015 ASHE may account for part of the strong growth.

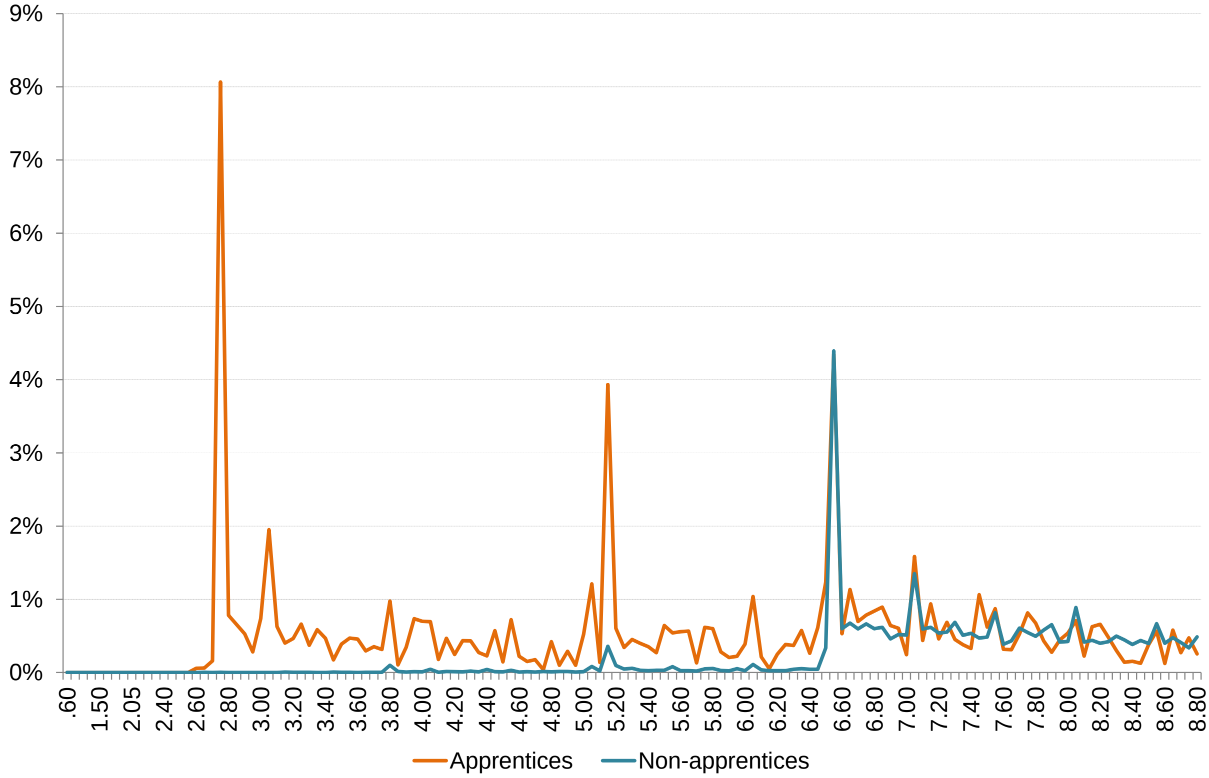
The bite for apprentices eligible for the 18-20 and adult rates is in line with the bites of the youth NMW rates and significantly higher than the bite of the apprentice rate.

As discussed above and in chart 6, the wage growth was strong for apprentices aged 16-18 or in the first year of their apprenticeship, with median growth of 11% and above 4% growth for each decile from the 2nd lowest to the 6th lowest, although these results need to be treated with caution.

Chart 12 compares the earnings distributions for apprentices and non-apprentices from April 2015 while Chart 13 compares the earnings distributions for those who are eligible for the apprentice rate – i.e. apprentices aged 16 to 18 or in the first year of their apprenticeship - and those who are not. This illustrates a similar focal point effect at other NMW rates with 5% of those eligible for the apprentice rate receiving within 5p of the adult rate and 4% receiving the 18-20 rate. The cluster at the apprentice rate is 14% of those eligible for the apprentice rate.

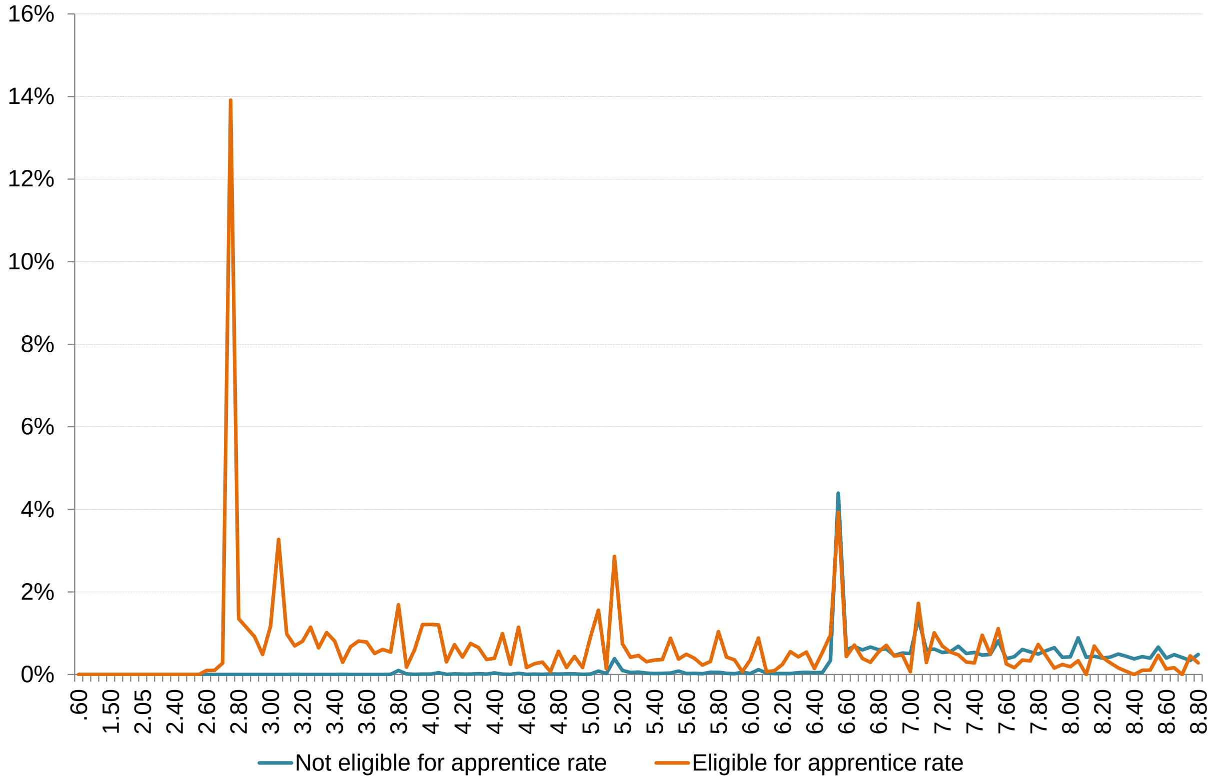
Note that the clusters on the non-apprentice and 'not apprentice rate eligible' distributions around the youth rates are significantly smaller than illustrated in Chart 9 above. This is because the clusters are compared to the earnings of workers of all ages, not just those of the relevant 16-17 or 18-20 age groups. The 18-20 population, for example, is significantly smaller than the entire 16 and above population. This means that the clusters are proportionally smaller.

Chart 12: Hourly earnings distributions for apprentices and non-apprentices, 2015



Source: BIS analysis of ONS Annual Survey of Hours and Earnings 2015

Chart 13: Earnings distributions for the apprentice rate-eligible and all other workers 2015



Source: BIS analysis of ONS Annual Survey of Hours and Earnings 2015

Trends in Employment

Summary

This chapter examines the trends in employment and considers low-pay sectors specifically.

- The headline employment conditions for those aged 25 and above performed strongly post-recession.

- While the employment conditions for younger workers were particularly hit during the recession, there are recent signs of promising improvement:
    - for those not in full-time education, the unemployment rates are currently around 10% lower for workers aged 16-17 and 18-20 compared to their respective 2011 peaks, while the unemployment rate for those aged 21-24 is approximately 5% lower than its 2013 peak.
    - The employment rate for young workers not in full-time education has increased for the past two years.
    - The number of workless under 25s has decreased since 2012 both for those who have and who have not previously had a job.
    - The 16-24 year old NEET rate (not in education, employment or training) is at its lowest since the series began in 2001.

- There is further evidence of strength in the labour market from job flows. Job inflows continue to increase while job outflows continue to fall and job-to-job flows show strong recovery post-recession.

- Employment and total hours worked in low pay sectors continue to perform well against the backdrop of significant increases in the NMW rates.

- The unemployment rates for those aged 21-24 are around 5% higher than for those aged 25 and over. This difference has fallen in recent years.

- Across the UK, apprenticeship starts have performed well over recent years. In particular, higher level apprenticeship starts have grown significantly - although from a small base – and advanced level apprenticeship starts increased by a quarter in England between 2013/14 and 2014/15.

Post-recession recovery

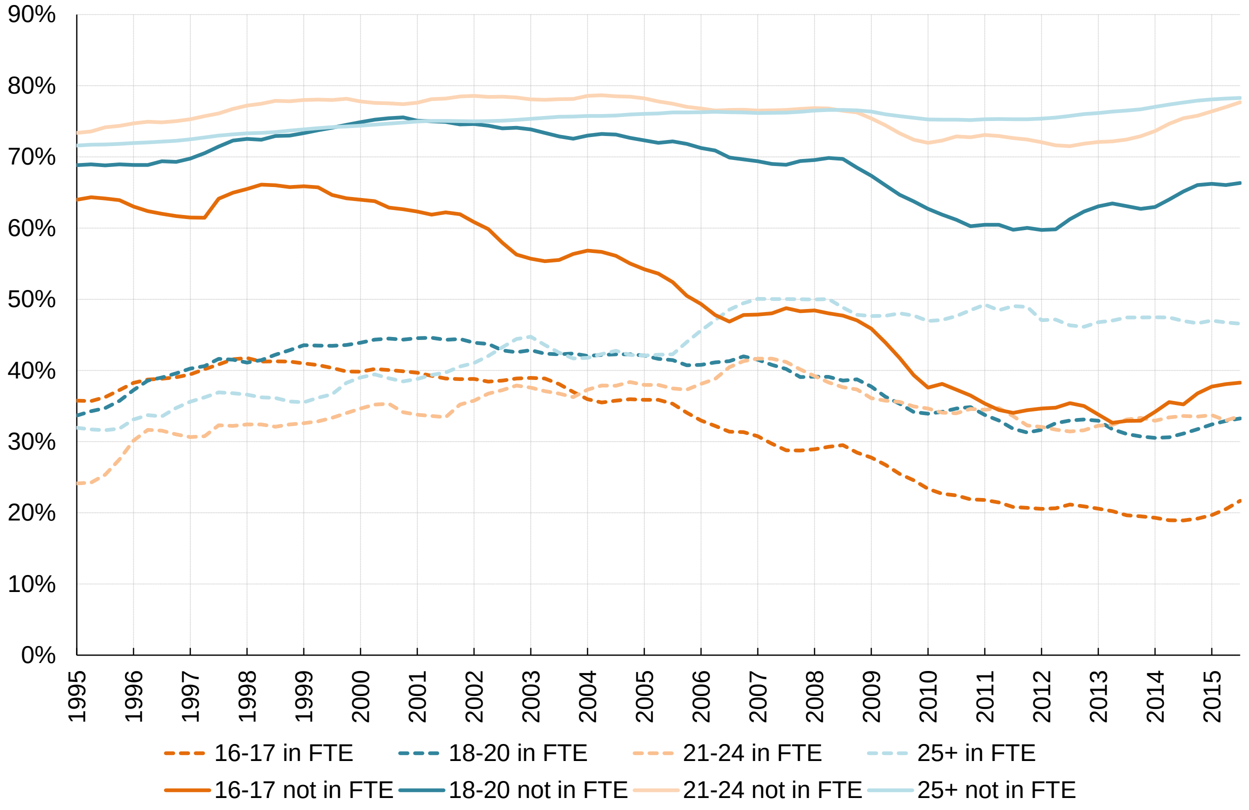
The overall performance of the labour market has been robust as the economic recovery takes hold. Chapter 1 outlined the aggregate picture: the employment rate has continued to grow and it was at a record high 73.9% in the three months to October 2015. Unemployment rates have followed a similar trend, falling to 5.2% in the three months to October 2015, the lowest rate since January 2006.

Naturally, labour market trends vary between groups, and different age groups have had different experiences during and since the recession. For example, a long term trend in increasing participation in education for young workers has affected the size of the labour force for this group, particularly for 16-17 year olds where almost 90% of 16-17 year olds are now in full-time education. This proportion has risen from around 70% in 1995. For 18-24 year olds this increase has not been as stark, but has risen from just over 20% in 1995 to just over 30% today.

Chart 14 shows employment rates for different age groups, and broken down by participation in full-time education. This reinforces the picture of steady performance for those aged 25 and above. While the recession obviously had an impact on the employment rates of young people not in full-time education, it is clear that for both 16-17 year olds and 18-20 year olds there was a structural downwards trend that pre-dated the recession – beginning in the early 2000s. More recently, there are signs that there may have been a reversal in this long-term trend, with employment rates of both 16-17 year olds and 18-20 year olds not in full-time education increasing (although the size of the 16-17 year old labour force that is not in full-time education is relatively small today).

The employment rate for 21-24 year olds not in full-time education was not as affected by the recession and is now above its pre-recession level.

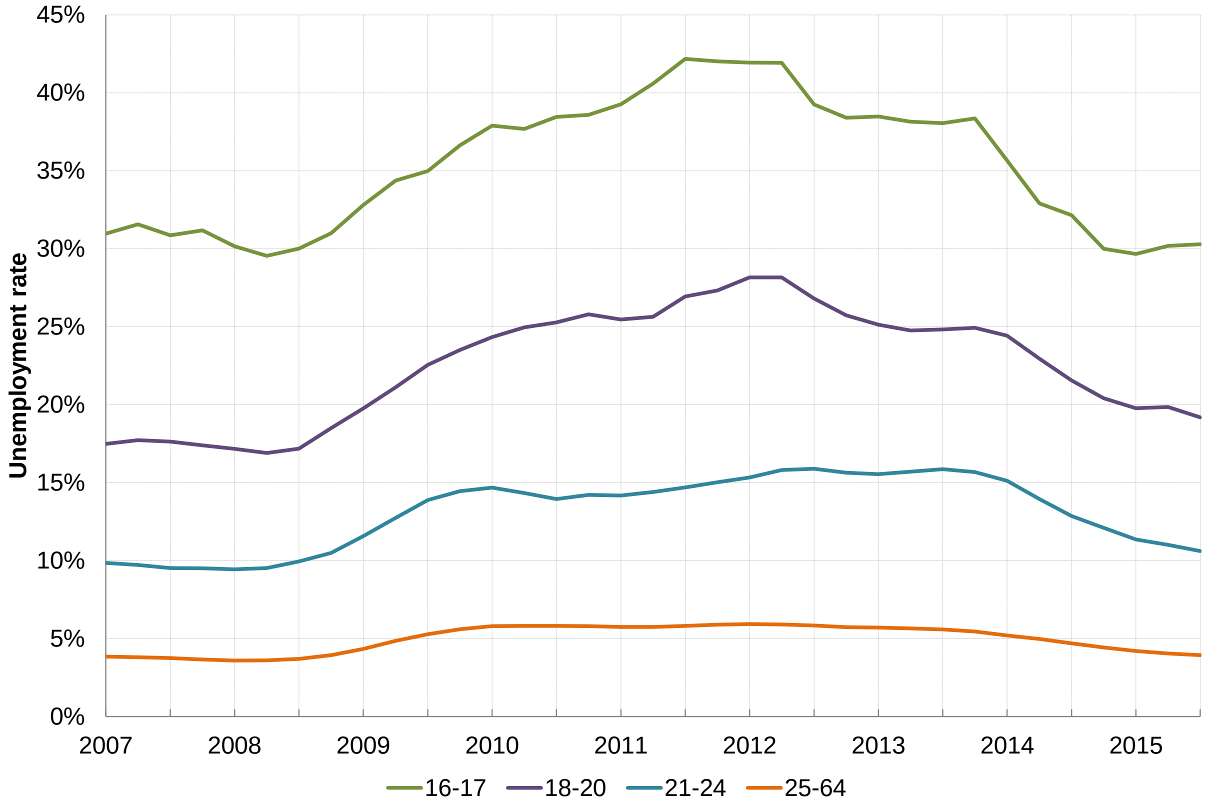
Chart 14: Employment rates for different age groups, in full-time education and not in full-time education, 1994 to 2015



Source: BIS analysis of ONS Labour Market Survey (up to 2015 Q3)

The unemployment rate for workers aged 25 and over has remained low at around 5% throughout the economic crisis and recovery, as shown by Chart 15. For younger workers, the recession saw significant increases in unemployment rates, but recent years have shown recovery: the unemployment rates are currently around 10% lower for workers aged 16-17 and 18-20 than their respective 2011 peaks, while the unemployment rate for those aged 21-24 is approximately 5% lower than its 2013 peak.

Chart 15: Unemployment rate for those not in full-time education, 2006 to 2015

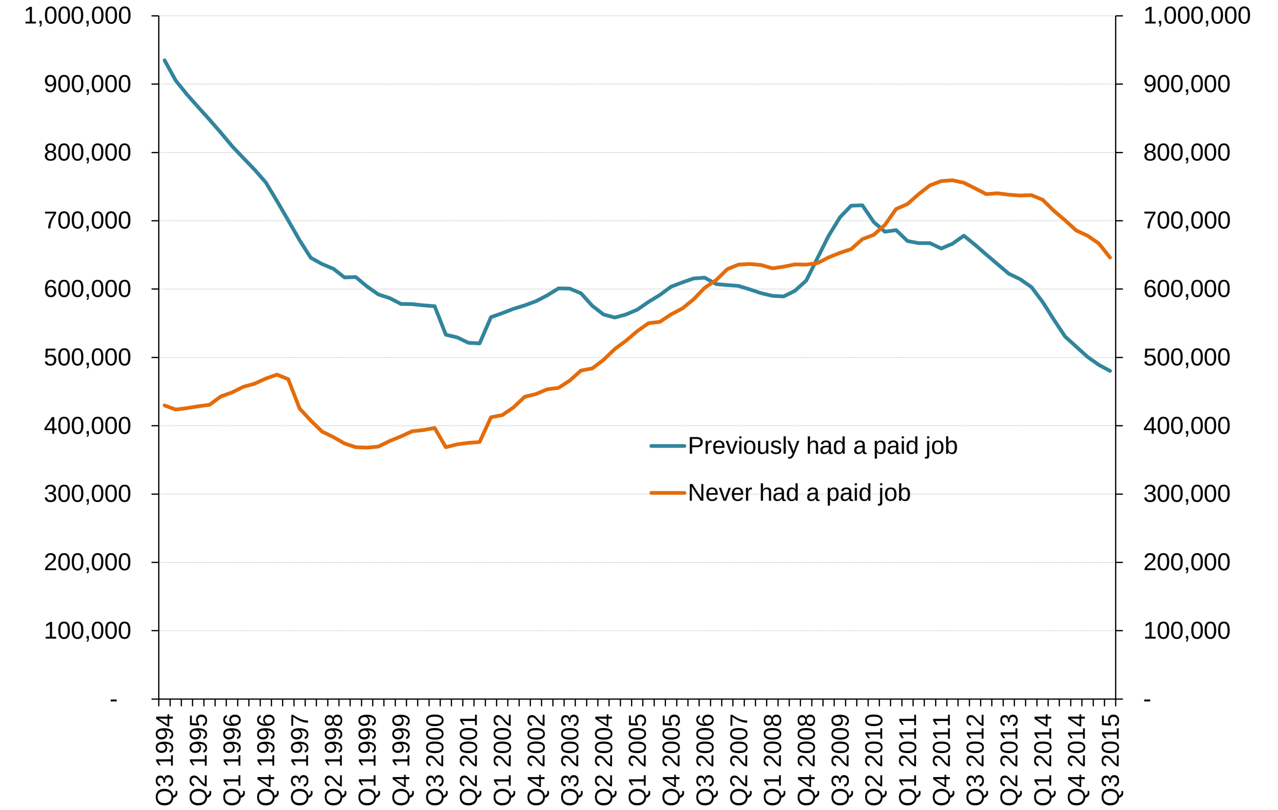


Source: BIS analysis of ONS Labour Force Survey Q1 2006- Q3 2015; four quarter rolling averages.

Chart 16 illustrates that there was an increase in the number of workless under 25 year olds who have not previously had a job between 1999 and 2011/12. This structural increase was a potential indication that the transition between education and work may have been taking longer for young people to undertake. In line with a reversal in the long term decrease in the employment rates among young people not in full-time education mentioned above, this trend may have begun reversing more recently with significant falls since 2011 reflecting improvements in the labour market.

Chart 16 also illustrates how the number of workless under 25s who have previously had a job continues to fall. This is a welcome trend in the reduction of workless young people.

Chart 16: Workless under 25s who have or have not previously had a job



Source: BIS analysis of ONS Labour Market Survey up to 2015 Q3

These improvements are reflected in the proportion of young people that are not in education, employment or training (NEETs). The NEET rate for 16 to 24 year olds is at its lowest level since the series began in 2001[7].

Job flows

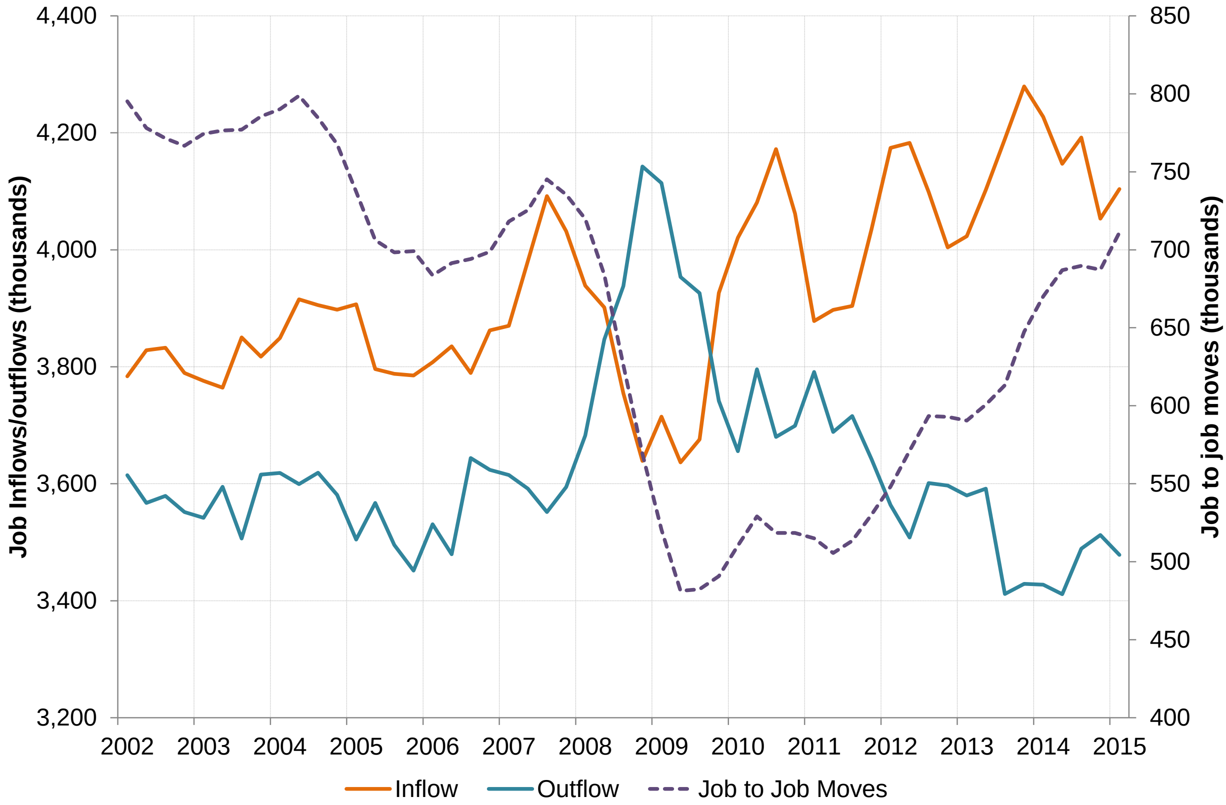
Flows in the labour market between employment and worklessness (unemployed and inactive) are an indicator of dynamic labour market activity. In any given year millions of people move between these groups and millions more move between jobs in employment. As shown in Chart 17, between 3m and 4.5m people move in and out of employment every year.

During the recession, job outflows overtook job inflows, coinciding with an increase in redundancies and a reduction in employment. Since mid-2012, outflows have fallen below pre-recession levels while inflows have increased significantly. This suggests that strong labour market performance is due to the hiring of new workers.

Evidence on job to job flows also suggests that this is close to having recovered to pre-recession levels, which could have implications for future wage growth.

[7] ONS, Young People not in Education, Employment, or Training (NEETs)

Chart 17: Flows in and out of employment, and job-to-job flows, 2002-2015

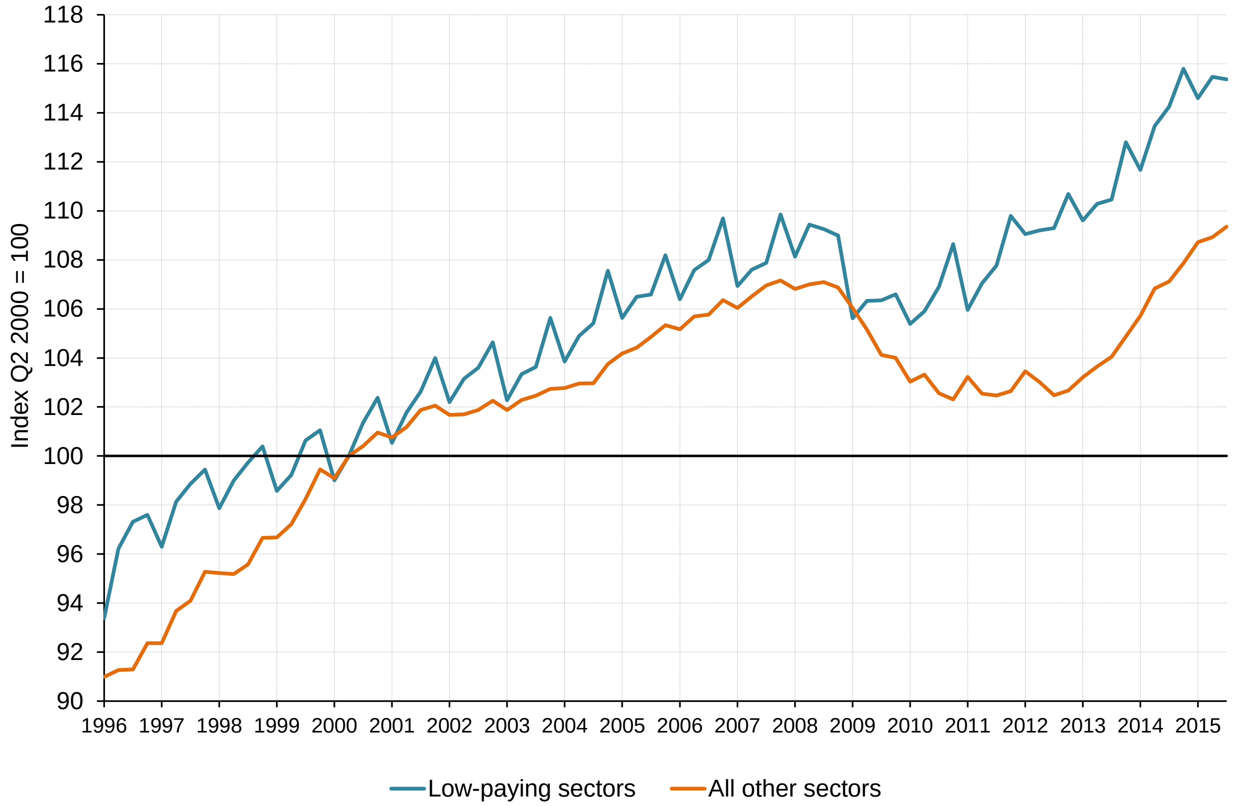


Source: ONS Labour Market Flows November 2015, experimental statistics, four quarter average. Job-to-Job flows from ONS Longitudinal Labour Force Survey

Low pay sectors

Low pay sectors are defined by the LPC in its latest report as those with a large number or high proportion of minimum wage workers. These are the specific sectors that may be considered to be most likely to be impacted by changes in the national minimum wage. Employment growth in sectors with a large proportion of minimum wage workers continues to grow strongly despite real increases in NMW rates over recent years.

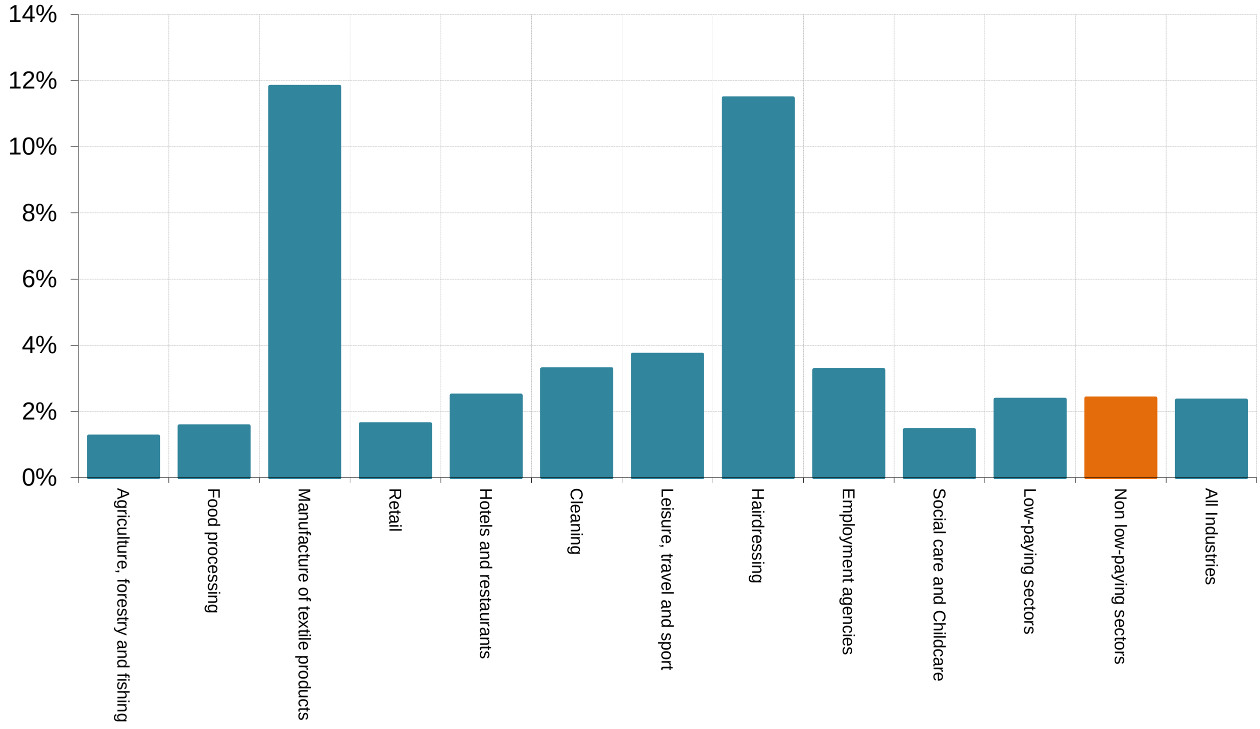
Chart 18: Growth in employment in sectors with a high proportion of minimum wage workers compared to all other sectors, 1996-2015



Source: ONS Employee Jobs, GB data, LPC definition of low pay sectors from 2015 report

Not only has employment grown steadily since 2011, but there was also been the same level of growth in total hours worked between 2014 and 2015 for low pay sectors and other sectors, as illustrated in Chart 19. Again, this is despite rises in the NMW rates. Total hours worked captures changes both in employment and in average hours worked.

Chart 19: Growth in total hours worked across sectors, 2014 to 2015



Source: ONS ASHE 2014, 2015; combined with ONS Employee Jobs. Employee jobs data taken from Q2 of the respective years.

There was significant variation in performance across low pay sectors with stronger growth in total hours for hairdressing and textiles.

The bite in low pay sectors tends to be higher for the adult rate than for the youth and apprentice rates, as shown in Table 6. This is in contrast to the aggregates for the whole economy outlined in Chart 7 above and for non-low pay sectors specifically. There is also significant variation between low pay sectors in terms of which rates might have particular impacts. While the bite of the adult rate is largest for most low pay sectors, the bite of the 18-20 rate is in fact the largest for food processing, leisure, and employment agencies, while the apprentice rate has the highest bite – of 91% and 82% respectively - for hairdressing and social care & child care. In spite of this, growth in employment and hours worked in these sectors has been strong.

Table 6: Bite of different NMW rates by sector, April 2015

	NMW Group			
	21+	16-17	18-20	Apprentices
Agriculture	73.4%	*	*	*
Food processing	72.5%	*	75.8%	*
Textiles	73.3%	*	*	*
Retail	80.0%	67.4%	75.1%	60.7%
Hospitality	89.0%	75.8%	82.1%	*
Cleaning	92.5%	*	78.7%	*
Social care and Childcare	81.1%	*	75.7%	82.2%
Leisure	72.4%	68.9%	77.7%	*
Hairdressing	87.0%	*	89.2%	90.1%
Employment agencies	70.7%	*	73.3%	40.7%
Low-paying sectors	80.9%	73.9%	78.0%	60.7%
Non low-paying sectors	47.3%	59.3%	66.6%	52.9%
All sectors	54.5%	71.6%	75.1%	53.4%

Source: BIS analysis of the ONS Annual Survey of Hours and Earnings; values excluded where sample size is less than 50.

Apprentice employment

The UKCES Employer Perspectives Survey 2014 illustrates the continued employer demand for apprentices. In 2014, 15% of all employers in the UK offered formal apprenticeships, the vast majority of these planned to continue offering apprenticeship (88%), while almost a quarter of employers who did not offer apprenticeships had a desire to offer them in future. The survey found that overall a third of employers in the UK planned to offer apprenticeships in the future, suggesting significant future growth from the 16% level[8]. Across the UK, apprenticeships starts have performed well over recent years. In particular, higher level apprenticeship starts have grown significantly - doubling between 2013/14 and 2014/15 in England and increasing by 45% in Wales between 2012/13 and 2013/14, although from a low base. Overall growth across all apprenticeship starts in England was 13.5% across the period.

England

In England, apprenticeship starts and apprenticeship participation increased across the board from 2013/14 to 2014/15 according to the Further Education and Skills First Statistical Release, with particular strength in starts for higher apprenticeships of over 100%.

[8] UKCES (2014) Employer Perspectives Survey

Table 7: Apprenticeship Programme Starts, England

Apprenticeship Programme Starts	2013/14 Aug 2013 - July 2014	2014/15 Aug 2014 - July 2015	% change 13/14 to 14/15
Total	**440,400**	**499,900**	**13.5%**
Intermediate	286,500	298,300	**4.1%**
Advanced	144,700	181,800	**25.6%**
Higher	9,200	19,800	**114.5%**
Under 19	119,800	125,900	**5.1%**
19-24	159,100	160,200	**0.7%**
25+	161,600	213,900	**32.4%**
19+	320,700	374,000	**16.6%**

Source: Further Education and Skills First Statistical Release 2014/15

Apprenticeships participation (the number of individuals on apprenticeships) is up by 2.4% on 2013/14 and is the highest figure on record. Higher apprenticeships and under 19s participation saw the largest increases.

Table 8: Apprenticeship participation, England

Apprenticeship Participation	2013/14 Aug 2013 - July 2014	2014/15 Aug 2014 - July 2015	% change 13/14 to 14/15
Total	**851,500**	**871,800**	**2.4%**
Intermediate	503,500	517,400	**2.8%**
Advanced	351,900	349,100	**-0.8%**
Higher	18,100	29,700	**64.1%**
Under 19	185,800	194,100	**4.5%**
19-24	308,900	315,000	**2.0%**
25+	356,900	362,600	**1.6%**
19+	665,700	677,700	**1.8%**

There has also been a steady increase in the number of workplaces offering apprenticeships. Table 9 provides the number of workplaces offering apprenticeships broken down according to age groupings. These do not correspond exactly with the different NMW groups because they do not identify whether the apprentice is in their first year and therefore eligible for the apprentice rate.

Table 9: Workplaces employing apprentices by age - participation (2012/13-14/15)

	2012/13	2013/14	2014/15	Growth in workplaces across period	Growth in NMW rates across period
18 and under	115,700	123,700	131,800	13.9%	3.02% (apprentice rate)
19-20	85,000	94,600	99,000	16.5%	3.01% (18-20 rate)
21-24	75,500	80,400	84,100	11.4%	5.01% (adult rate)
25+	97,100	93,400	96,000	-1.1%	
Total	228,700	240,900	252,300	10.32%	

Source: Individualised learner record. Figures are not directly comparable with SFR supplementary tables as some workplaces deliver apprenticeships in more than one age band. The time period is academic year September to August, so the NMW rate use for comparison is the rate introduced in the October of the relevant year (i.e. October 2012, 2013, 2014 rates).

Table 9 also reveals that the number of workplaces offering apprenticeships to those aged 25 and above has remained relatively constant in recent years, whereas there has been steady and strong growth for younger age groups. This also reveals a distinction in the dynamics for those aged 21-24 and 25+ that is relevant for setting NMW rates given the introduction of the NLW.

The steady number of employers offering apprenticeships to those aged 25 and above is in contrast to the strong growth in 25+ apprenticeship starts of 32% between 2013/14 and 2014/15. This is consistent with individual workplaces expanding the number of apprenticeships they offer.

Northern Ireland

Table 10 breaks down apprenticeship starts for Northern Ireland by apprenticeship level. While the number of starts declined overall between 2012/13 and 2013/14, this masks growth in level 3 apprenticeships relative to level 2.

Table 10: Apprenticeship starts in Northern Ireland

	2012/13	2013/14	Growth
Level 2	3,675	2,715	-26.1%
Level 3	2,565	2,635	2.7%
Level not assigned	92	62	-32.6%
Total	6,332	5,412	-14.5%

Source: ApprenticeshipsNI Statistical Bulletin from September 2007 to January 2015.

Scotland

Table 11 breaks down apprenticeship data for 1st April 2015 to 25th September 2015 in Scotland by age.

Table 11: Modern Apprenticeships summary information

	16-19	20-24	25+	All ages
Starts	6,368	3,435	2,670	12,473
Leavers	6,284	3,342	2,279	11,905
In training	22,532	8,266	5,334	36,132
Achievements	4,740	2,555	1,850	9,145
Achievement %	75.4%	76.5%	81.2%	76.8%

Source: Skills Development Scotland, published 3rd November 2015.

The headline number of apprentice starts was down 3 percentage points compared to the previous year[9].

Wales

Table 12 breaks down apprenticeship starts for Wales by apprenticeship level. While the number of starts declined overall between 2012/13 and 2013/14, this masks significant growth in higher apprenticeships.

[9] https://www.skillsdevelopmentscotland.co.uk/media/40507/modern-apprenticeship-statistics-quarter-2-2015-16.pdf

Table 12: Apprenticeship starts in Wales

	2012/13	2013/14	Growth
Foundation apprenticeship (level 2)	15,255	14,000	-8.2%
Apprenticeship (level 3)	10,500	10,185	-3.0%
Higher apprenticeship (level 4+)	2,275	3,300	45.1%
Total	28,030	27,485	-1.9%

Source: Welsh Government, Learning programme starts in work-based learning in Wales. June 2015.

Annex A: Compliance and Enforcement

Summary

The Government is committed to increasing compliance with the NMW through the provision of guidance and support to employers and workers. We are also tough on employers who fail to comply and have strengthened enforcement of the NMW. This annex presents key data on the level of compliance from before the Government's announcement of new measures which will allow us to go even further in tackling non-compliance (as outlined in the Government's interim evidence report).

- Our estimates for non-compliance derive primarily from the Annual Survey of Hours and Earnings (ASHE). However, ASHE is not a direct measure of non-compliance and includes jobs paid below the NMW for legitimate reasons, so estimates need to be treated with caution.
- HMRC enforcement activity for 2014/15 shows an increase in investigations from 1,455 investigations to 2,204.
- ASHE indicates that the number of employee jobs paid below the NMW has decreased from 222,000 in April 2014 to 209,000 jobs in April 2015.
- The proportion of jobs paid below the NMW remains at 0.8% of all 16+ employee jobs.
- To date 398 employers have been named for NMW underpayment.

Data accuracy

Non-compliance can be estimated through the Annual Survey of Hours and Earnings (ASHE). ASHE is a survey of employees completed by employers which can be used to identify jobs paid below the NMW rate. However, <u>it is does not offer a direct measure of non-compliance</u> in the population as there are legitimate reasons for a job to be paid below the NMW, for example where accommodation is provided by the employer. In addition, as results from ASHE are based on a sample of employee jobs in Pay-As-You-Earn income tax schemes, it does not include <u>all</u> workers who earn below the Lower Earnings Limit. ASHE is considered an accurate measure of pay information in the formal economy; however an evidence gap remains in reliable earnings data in the grey economy.

Therefore, our estimates of non-compliance based on ASHE need to be treated with caution and are not necessarily evidence of wrongdoing.

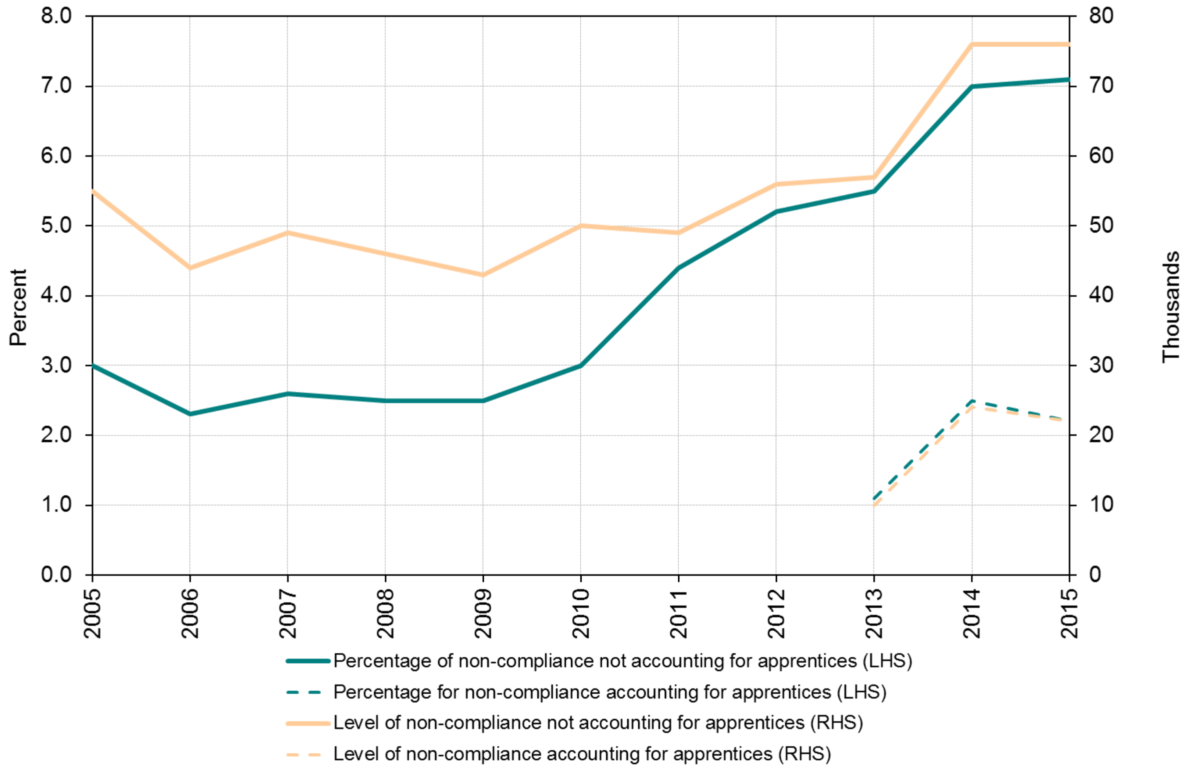
Estimated extent of non-compliance

Apprentices aged under 19 and those 19 and above but in the first year of study are entitled to the Apprentice rate of £2.73 (at the time of survey in April 2014). Taking apprentices into account provides more accurate estimates of those earning below the NMW, especially for those aged 16-17 and 18-20.

ASHE 2015 estimates there were 209,000 employee jobs held by those aged 16 and over with hourly pay below the NMW in April 2015, this is down from 220,000 in April 2014. The proportion of those paid below the NMW has remained broadly stable over time and is relatively low at 0.8% of all 16+ employee jobs. We have presented the number of jobs and percentage (as a proportion of total jobs for each age group) paid below the NMW in charts 20 - 21 by age group, using the old and more recent methodology which accounts for apprentices.

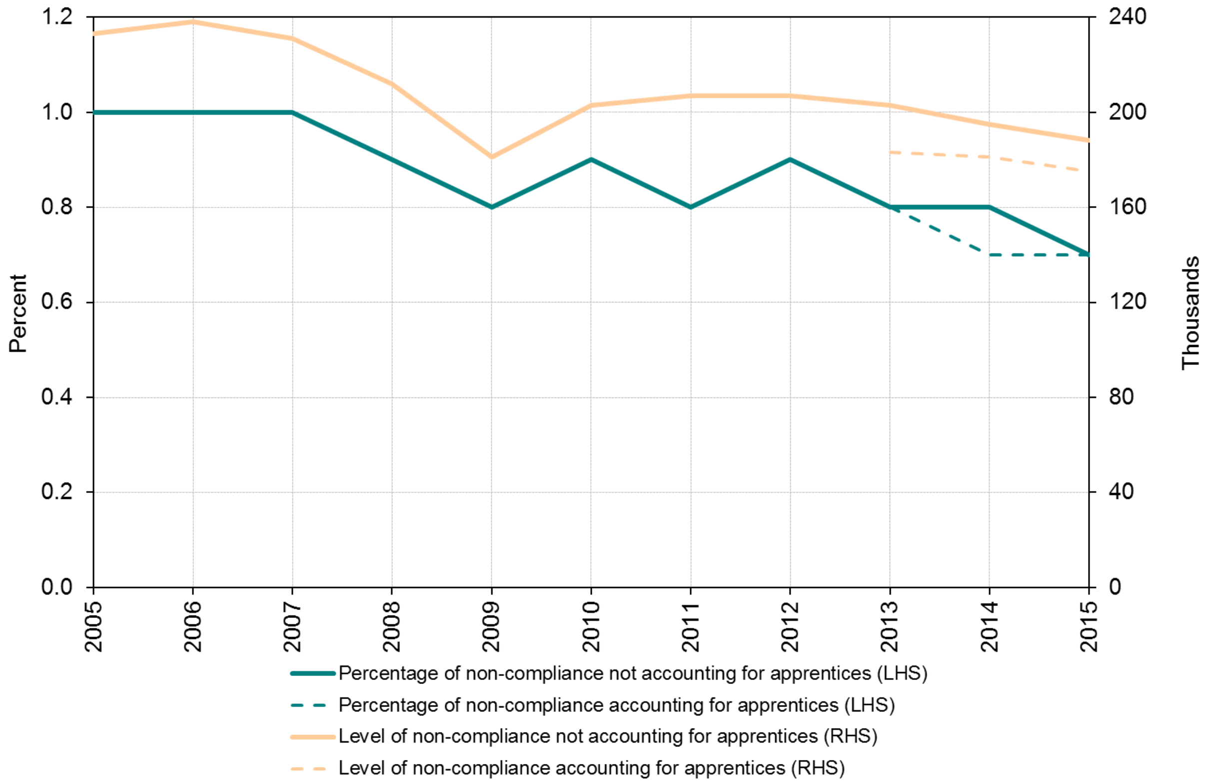
Accounting for apprentices, 2.2% of total jobs held by those aged 18-20 were paid below the NMW compared to 0.7% of those aged 21 and over. Data for those aged 16-17 are based on a sample size too small to be considered reliable. Overall, these data show little change compared to last year.

Chart 20: Non-compliance for 18-20 year olds, old methodology and new



Source: Annual Survey of Household Earnings

Chart 21: Non-compliance for over 21 year olds, old methodology and new



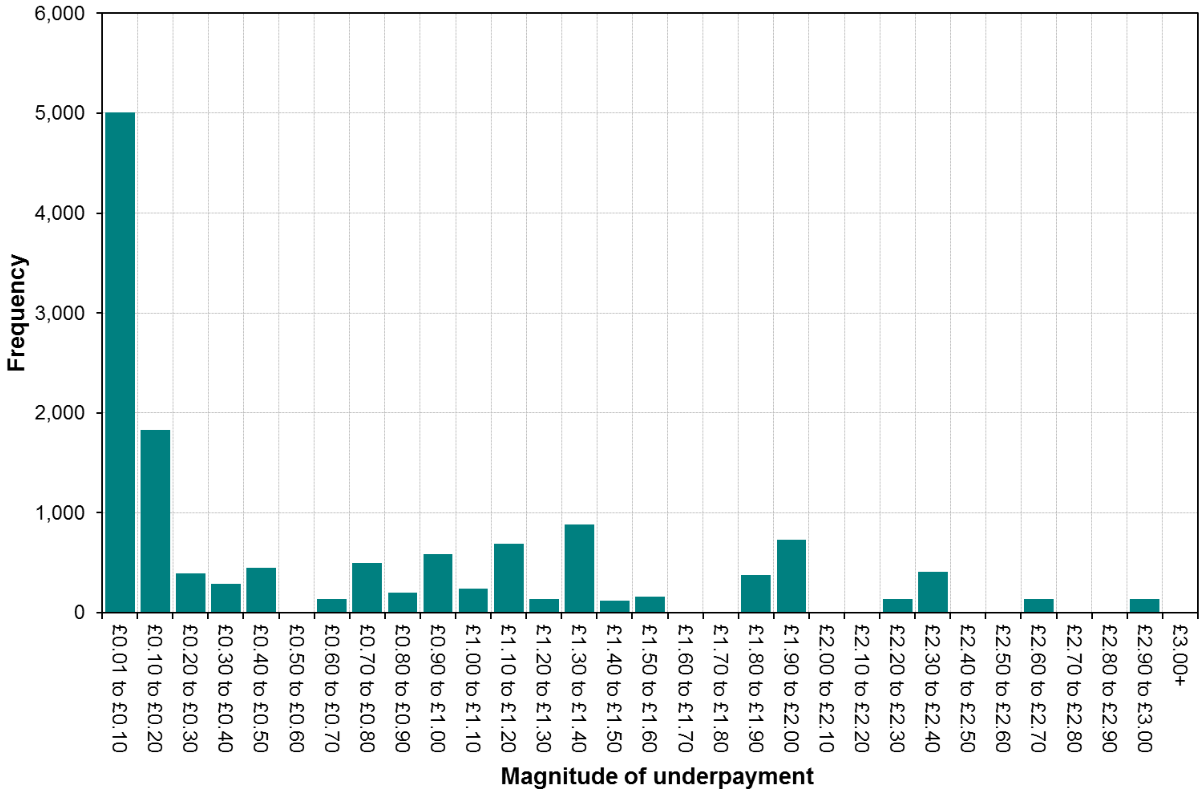
Source: Annual Survey of Household Earnings
Note: these data differ from the ONS low pay report due to technical differences in counting first year apprentices.

Looking at the level of NMW underpayment, the ASHE data suggests the magnitude of pay below the NMW hourly rate was small for all age-groups and previous research indicates that underpayment is due to error rather than deliberate non-compliance. Of those non-compliant with the 18-20 rate, 50% were within 20p of the NMW and of those non-compliant with the 21+ rate, 48% were within 20p of the NMW.

Data for those aged 16-17 is based on a small sample so has not been presented in the charts below and analysis is indicative. However, the limited data does indicate that approximately 40% of underpaid jobs were within 20p of the NMW. Around 17% of underpaid workers due the 16-17 rate (£3.79) were underpaid by £1.10, which corresponds to wages at or around the Apprentice NMW (£2.73), a further 11% were underpaid by between £0.70 and £0.80 corresponding to a wage rate of around £3.00). It is plausible that in both these cases individuals were underpaid due to a misunderstanding over NMW rates and the draw of focal points.

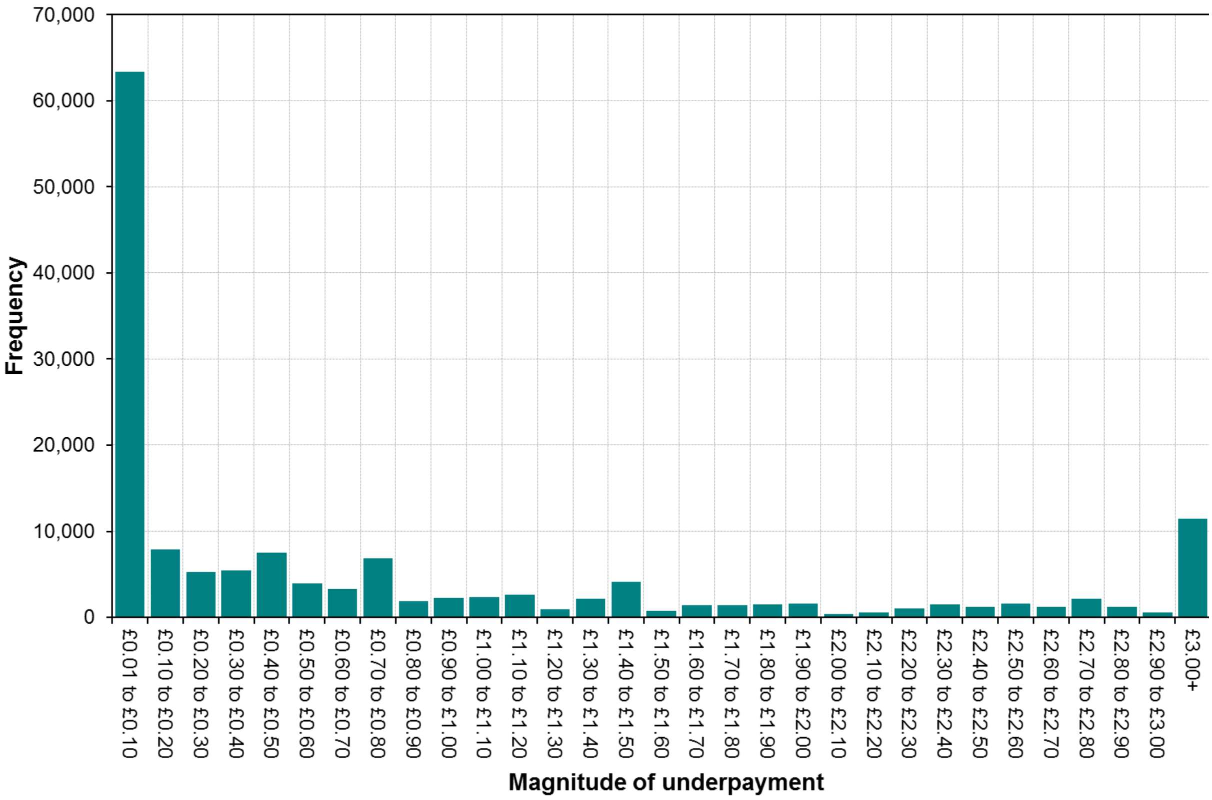
Around 13% of underpaid workers due the 16-17 rate were underpaid by between £2.70 and £2.80; this corresponds to an hourly rate of only £1 per hour. The Government is clear that no level of non-compliance is acceptable and has taken action to raise awareness and increase enforcement of the NMW particularly among Apprentices; these actions were set out in the interim evidence.

Chart 22: Underpayment of the 18-20 NMW rate (£5.03) for those due the 18-20 rate



Source: Annual Survey of Household Earnings

Chart 23: Underpayment of the Adult NMW (6.50) for those due the 21+ rate



Source: Annual Survey of Household Earnings

Enforcement

Enforcement Operations

Since the Government began enforcing the minimum wage in April 1999, it has identified £57.7m in arrears for over 255,000 workers during more than 67,000 employer interventions.

Table 13 shows that in 2014/15, the Government recovered almost £3.3 million in arrears for 26,300 workers. The number of workers helped is up from over 22,600 in 2013/14 (16% increase). This reflects both the introduction of new types of intervention, and a new focus on improving the investigation process – through both the prioritisation of completing older cases, and the prevention of newer work from ageing, meaning more cases can be tackled.

Provisional data for 2015/16 so far (up to October 2015), shows almost £3 million in arrears have been identified for over 32,100 workers.

HMRC investigations

HMRC increased the number of cases investigated in 2014/15 - a reflection of both the extra resources invested in NMW enforcement, as well as the Government's increased focus on improving the experience of workers who raise NMW complaints. Over the course of 2014/15, the front-end process was improved so that new complaints are now investigated faster.

Table 13: NMW investigations, 2009/10 to 2014/15 (financial year)

	Closed cases	Closed cases with arrears	Strike rate	Arrears recovered	Workers covered	Average Arrears per worker	Penalties
2009/10	3,643	1,256	34%	£4.39m	19,245	£228	£111,183
2010/11	2,901	1,140	39%	£3.82m	22,919	£167	£520,568
2011/12	2,534	968	38%	£3.58m	17,371	£206	£766,807
2012/13	1,696	736	43%	£3.97m	26,519	£150	£776,517
2013/14	1,455	680	47%	£4.65m	22,610	£205	£815,269
2014/15	2,204	735	33%	£3.29m	26,318	£125	£934,660

Source: BIS/HMRC

Naming Scheme

The naming scheme is now firmly established as part of the civil sanctions used to deter employers from breaking NMW rules. Table 14 shows that since the introduction of the scheme, BIS has named 398 employers, who between them owed over £1.1 million in arrears and paid penalties of over £511,000.

BIS names all employers who owe their workers over £100, and are not exempted by the published criteria (that naming carries a risk of personal harm to an individual or their family, that there would be a national security risk because of naming, or that naming would be against the public interest).

Table 14: Employers named for NMW underpayment, 2014 to 2015

Date of Naming	Employers named	Arrears Recovered in Naming Round	Workers covered	Average Arrears per worker
Feb-2014	5	£6,866	6	£1,144
Jun-2014	25	£43,907	78	£563
Nov-2014	25	£89,601	80	£1,120
Jan-2015	37	£177,114	806	£220
Feb-2015	70	£157,674	405	£389
Mar-2015	48	£162,791	4,026	£40
Jul-2015	75	£154,964	293	£525
Nov-2015	113	£387,504	1,693	£229
To date	**398**	**£1,179,423**	**7,387**	**£160**

Source: BIS/HMRC

NMW Enforcement Case Study: Social Care

ASHE is based on employer reported hours and pay information. In some sectors, the information reported by employers is considered less accurate. For example, domiciliary care often involves irregular and fragmented work patterns, including travel to and from visits and 'on-call' hours, which make the calculation of 'working-time' more complex. Other research[1] has suggested that when this is factored in non-compliance is much higher than what is shown by official data.

Due to concerns with NMW underpayment in the social care sector, the Government has prioritised complaints from workers in this sector and undertaken targeted enforcement to ensure that workers are paid what they are legally owed.

Table 15 shows the results of HMRC investigations over the period from 1st April 2011 to date (as at September 2015). The strike rate (the percentage of cases where NMW underpayment is found) seen in the initial two year period, of 52%, is only slightly higher than the strike rate of 47% for all sectors in 2013/14 (Table 1).

Since 31 March 2013, HMRC have opened 397 cases in the social care sector and closed 242 of these. For this period, the strike rate was 31%, comparable to the overall strike rate of 33% (Table 1) in 2014/15.The average underpayment amount in proven NMW cases has remained at a similar level (around £231 per worker) but the proportion of cases where underpayment has been identified has fallen in the cases closed so far.

Of the 242 cases opened and closed since April 2013, the majority of closed cases were initiated by a worker-complaint. Targeted enforcement cases tend to take longer to complete as investigations have a greater scope than a single worker. Over 66% of complaint-led cases opened in this period have been closed compared to 38% of targeted enforcement. The overall outcome from enforcement action taken in this period will change as remaining cases are closed.

The Government continues its enforcement action in the care sector in response to both ongoing complaints received from care workers and proactive risk-based targeted enforcement. Since 1st April 2015, complaints from care workers have been fast tracked for investigation with progress and outcomes carefully monitored.

1 For example, http://www.resolutionfoundation.org/publications/the-scale-of-minimum-wage-underpayment-in-social-care/

Table 15: Summary of investigations in the social care sector, 2011/12 to 2015/16 (as at 31/10/15)

	11/12 - 12/13	13/14 - 15/16 (to 31/10/15)	13/14 - 15/16 (to 31/10/15)	
			Complaint-led	Targeted enforcement
Closed cases	224	242	216	26
Closed cases with arrears	116	75	71	4
Strike rate	52%	31%	33%	15%
Arrears recovered	£1,347,150	£402,825	£400,324	£2,501
Workers affected	6,959	1,739	1,679	60
Average arrears per worker	£194	£231	£238	£42
Penalties	£158,239	£91,511	£90,544	£967

Source: BIS/HMRC

Annex B: Statistics on NMW Enforcement 2014/15

Table 16: Closed cases : Reason for Non-Compliance

Reason for Non-Compliance	Proportion of cases with arrears
Accommodation	6%
Apprentices	26%
Payment on commission basis	1%
Failure to implement annual rate rise	1%
Fair Piece Rates	-
Limited or no time records	3%
Missed birthdays	-
Non-allowable bonus or payment	1%
Non-allowable deductions	7%
Other	42%
Rates below NMW	11%
Young worker – under 18	-

Source: BIS/HMRC

Notes:

1. A single NMW case may incorporate more than one reason for non-compliance
2. '-' indicates a value less than 1%.
3. 'Other' includes travel time, set pay regardless of hours, interns and withheld wages.

Table 17: Closed cases: by Standard Industry Sector

Standard Industry Sector	Complaint-led	Targeted enforcement	Total
Agriculture, Forestry And Fishing	1%	-	1%
Mining And Quarrying	-	-	-
Manufacturing	4%	3%	4%
Electricity, Gas, Steam And Air Conditioning Supply	-	-	-
Water Supply; Sewerage, Waste Management And Remediation Activities	1%	-	-
Construction	5%	-	5%
Wholesale And Retail Trade; Repair Of Motor Vehicles And Motorcycles	16%	22%	16%
Transportation And Storage	3%	1%	3%
Accommodation And Food Service Activities	24%	17%	24%
Information And Communication	2%	7%	2%
Financial And Insurance Activities	1%	3%	1%
Real Estate Activities	2%	3%	2%
Professional, Scientific And Technical Activities	2%	5%	2%
Administrative And Support Service Activities	10%	24%	11%
Public Administration And Defence; Compulsory Social Security	-	-	-
Education	3%	5%	3%
Human Health And Social Work Activities	9%	8%	9%
Arts, Entertainment And Recreation	3%	-	3%
Other Service Activities	13%	5%	13%
Activities Of Households As Employers; Undifferentiated Goods and Services - Producing Activities Of Households For Own Use	-	-	-
Activities Of Extraterritorial Organisations And Bodies	-	-	-
Total	**2,098**	**106**	**2,204**

Source: BIS/HMRC

Notes:

1. '-' indicates a value less than 1%.

Annex C: ASHE methodology note

In 2013, the Government changed the criteria that determine how businesses are obliged to report employees' earnings via their PAYE schemes. Until this change, businesses were only required to operate PAYE for employees whose earnings were above the Lower Earnings Limit (LEL) for National Insurance contributions, currently £112 per week, and they did not report all new jobs until the end of the tax year. The new rules require employers to report the details of all of their employee jobs via their PAYE schemes, whatever their earnings, provided that they have at least one employee earning above the LEL. In addition, employers must report for all jobs in 'real-time', meaning that they cannot wait until the end of the tax year. This new system is known as 'Real-Time Information' (RTI). In theory, it is possible that the move to RTI resulted in a coverage change for the ASHE sample.

However, 2015 is not the first year in which the ASHE sample includes jobs affected by RTI. Many employers, particularly large businesses, chose to report many or all such jobs in previous years. As a consequence, ONS judge that the impact of the move to RTI on low pay estimates continues to be negligible.

ASHE 2015 continues to take into account employees who are apprentices and, if so, whether they are in their first year. Apprentices aged under 19 and those 19 and above but in the first year of study are entitled to the Apprentice rate of £2.73 (at the time of survey in April 2014). Taking apprentices into account provides more accurate estimates of those earning below the NMW, especially for those aged 16-17 and 18-20.

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