Department for Business Innovation & Skills

NATIONAL MINIMUM WAGE

Interim Government Evidence for the Low Pay Commission's 2014 Report

OCTOBER 2013

Ministerial Foreword

The Coalition Government is fully committed to the National Minimum Wage. We believe that the protection the minimum wage gives to low paid workers continues to be of great importance. This is especially true in the current economic climate.

We greatly value the work of the Low Pay Commission and welcome its ongoing focus in helping as many low paid workers as possible, without adversely impacting employment prospects. We again encourage the Commission to retain this focus for its next report.

The Government carefully considered the Low Pay Commission's recommendations in its 2013 report and we recognise the challenges that the Commission has faced in the current difficult economic climate.

We were pleased to accept the overall structure of the Low Pay Commission's rate recommendations and its underlying analysis of the labour market. It strikes the right balance between employment, wages and fairness. We accept in full the Commission's recommendations on the adult and youth rates – which cover the vast majority of those on the minimum wage.

We share its concern about non-compliance with the apprentice minimum wage and are clear that employers must pay their staff at least the minimum wage. However, we judged that it is important to maintain the relative position of the apprentice rate compared to benefits and the youth rates to preserve the attractiveness of apprenticeships for young people.

The Government concluded therefore that, rather than the recommended freeze, a 1% increase in the apprentice rate would be appropriate. In conjunction with this we are putting in place a package of measures to improve compliance, including communications and targeted enforcement by HMRC.

Going against a Low Pay Commission rate recommendation is not a step which we have taken lightly. We do not question the Commission's analysis of the labour market which is detailed and compelling – as it has been in previous years.

As we concluded in our Triennial Review of the Commission, published in March this year, the Commission has played a vital role in achieving the success of the minimum wage and is highly valued by stakeholders.

To demonstrate this Government's continuing commitment to toughening up enforcement of the NMW and increase compliance, I was pleased to announce in August that from October this year, employers who fail to pay the National Minimum Wage (NMW) will be publicly named and shamed under revamped plans. The revised scheme will make it simpler for Government to name rogue employers who break the law.

The revised NMW naming scheme will come into effect in October 2013.

We look forward to receiving the Commission's 2014 report.

Jo Swinson MP
Minister for Employment Relations and Consumer Affairs

Contents

Executive Summary

This report is divided into four main chapters plus wider issues of interest to the Low Pay Commission at Annex. It sets out what the Government would like the Low Pay Commission to consider on National Minimum Wage. Updated Government evidence will be provided in December, following release of further economic and earnings data.

The Government's evidence does not set out any new policy – it brings together the economic issues and policies that affect the National Minimum Wage. The evidence therefore provides updates on remit issues as well as policy updates for areas that the Low Pay Commission have previously shown an interest in.

The main messages from each of the chapters are:

- **Macro-economy**

  The UK economy is recovering from the most damaging financial crisis in generations after a decade of growth built on unsustainable levels of debt. Recent data suggests signs of increasing momentum in the UK economy but conditions are still uncertain and risks remain. Pre-recession trend growth is not expected until 2015.

  Government would therefore want the LPC in their 2014 report to consider concentrating their attention on the effect of the NMW on employment.

- **Evidence on pay**

  As the NMW has increased faster than median earnings between April 2011 and April 2012, the adult minimum wage as a proportion of median earnings (the bite) has increased further and is at its highest ever level.

  The NMW bite for young people is much higher than it is for adults. It peaked in 2011 due to the fact that the youth NMW rates have increased faster than median hourly earnings of young people. In 2012, the bite of both youth rates has fallen back slightly.

  This increase in the Apprentice rate is higher than the increase in the adult NMW and the increase in average earnings over the same period.

  In summary, the adult National Minimum Wage rate is at a historically high level compared to average earnings. If the NMW rates are set too high there is the risk of adverse employment effects.

  Between 2007/08 and 2012/13, take-home pay increased by more than gross weekly earnings for most adult -NMW workers due in large part to increases in the income tax personal allowance.

  Over the same period, it is worth noting that the 'labour costs' associated with employing adult NMW workers[1] increased less than the gross weekly pay of most adult NMW workers. This was driven by increases in the employer National Insurance

[1] Their gross weekly wages plus employer National Insurance contributions

contributions (NICs) threshold offsetting the effect of increases in the employer NICs rate between 2007/08 and 2012/13.

- **Labour market**

  Average real wages increased sharply during the recession, reaching their highest ever level in January 2009. They have since been falling. There was a reduction in employment resulting in a sharp fall in employment rates at the start of the recession. The employment rate has since improved but remains below the pre-recession peak.

  The growth in employment in low paying sectors has been positive but has slowed. Growth in hours worked in low paying sectors has also been positive.

- **Youth labour market**

  The labour market for young people remains in a worse position than before the recession as well as worsening in comparison to adults - the youth unemployment rate remains over seven percentage points higher, and the youth employment rate over eight percentage points lower than before the recession. In terms of levels, after breaching a million in mid-2011, total youth unemployment dropped back to below a million in the three months to August 2012. Since then, it has fluctuated at just below a million.

  As highlighted in the LPCs 2013 report, it is important to consider that the labour market performance of younger workers tends to be hit hard during and after economic recessions, and labour market outcomes tend to be more sensitive to economic cycles than adults.

  However, there also appears to be a structural issue in the youth labour market relating to the transition between education and employment – the number of young workless people that have never had a paid job has been increasing since the early 2000s.

  The bites of both youth rates reached historic highs in April 2011 and have fallen back slightly but remain much higher than for adults. As for adults, if the NMW rates are set too high there is the risk of adverse employment effects.

  By 2015, the Government will require all 16 and 17 year olds in England to continue in education or training. From this September, students must continue in education or training up to the end of the academic year that they turn 17. While the vast majority of 16 and 17 year olds already continue in some form of education or training and there will be no new costs to employers as a result of raising the participation age, to accommodate these changes there will need to be an increase in jobs with training, otherwise all of any participation increases will need to come from more people staying on in education.

  Having a trained and qualified workforce has clear benefits for a business, particularly in terms of productivity, so employers may wish to consider how training could support their business needs

- **Naming non-compliant employers**

  As we announced in August, from October this year, we will be toughening up our enforcement of the NMW by revising the criteria for naming and shaming employers who fail to pay employees the appropriate NMW.

  Under the original scheme, non-compliant employers were assessed against seven criteria before they could be named and there were thresholds of under-payment below which employers would not be considered for naming. These criteria meant that we only named one employer since 2011 – this demonstrates we hadn't got it right.

  The revised scheme will remove these restrictions so that any employer who breaks minimum wage law can be named.

- **Workplace Pension Reforms**

  An ageing population, combined with millions of people under-saving, is one of the biggest long-term challenges the UK faces.

  Automatic enrolment places new duties on employers to automatically enrol their eligible workers into a workplace pension scheme.

  We estimate that between six and nine million people will be newly saving in a workplace pension scheme as a result of the reforms with more than a million workers have been automatically enrolled since October 2012. Opt out is lower than expected so far.

REMIT ISSUES – NMW RATES

Section 1: Remit issues - Macroeconomic conditions and outlook

Summary

The UK economy is recovering from the most damaging financial crisis in generations. This followed a decade of growth built on unsustainable levels of debt. **Economic recovery has been more uneven than expected.** ***The OBR's March forecast revised down expected GDP growth to 0.6 per cent in 2013 and 1.8 per cent in 2014. The pre-recession trend growth is not expected until 2015.***

GDP growth was stronger than forecast by the OBR in the first half of 2013 suggesting signs of increasing momentum in the UK economy and stronger growth than the 0.6 per cent forecast for the year.

Although the employment level is at record levels, the employment rate remains 1.4 percentage points below the pre-recession peak.

Given the nature of the recovery so far has been uneven, the forward path of the economy remains uncertain.

Economic background

Economic outlook, forecasts and revisions

Our last evidence, submitted to the LPC in December 2012, contained HMT's average of independent forecasts from November 2012 and Office for Budget Responsibility (OBR) forecasts from December 2012. In September 2013, the HMT average of independent forecasts for GDP growth was 1.3 per cent for 2013 and 2.1 per cent for 2014. The OBR forecast[2] that annual GDP growth will be 0.6 per cent in 2013[3] (0.7 percentage points below the independent consensus) and 1.8 per cent in 2014 (0.3 percentage points below the average of independent forecasts).

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[2] Economic and Fiscal Outlook, March 2013
[3] Preliminary GDP estimates up to Q2 2013 suggest that GDP has grown by 0.9 per cent so far in 2013.

Table 1.1 updates these forecasts for GDP and consumer price inflation (CPI) up to 2015.

Table 1.1: Forecasts for GDP growth 2013 to 2015

Forecasts for GDP growth (per cent)	**2013**	**2014**	**2015**
OBR (March 2013 Budget)	0.6	1.8	2.3
Bank of England mode projection* (August 2013)	1.5	2.7	2.5
Avg. of independent forecasters (September 2013)**	1.3	2.1	2.0
Forecasts for consumer price inflation (CPI) (per cent)			
OBR (March 2013 Budget)	2.8	2.4	2.1
Bank of England mode projection (August 2013)	2.9	2.2	1.9
Avg. of independent forecasters (September 2013)	2.5	2.4	-

Notes:

*Assuming market interest rate expectations and £375bn asset purchases

**Forecasts for the UK economy: A comparison of independent forecasts, August 2013, compiled by HM Treasury.

In the August 2013 Inflation Report, the Monetary Policy Committee (MPC) concluded that the outlook for near-term growth is stronger than was reported in May, due to unexpectedly strong domestic data and improvements in business and consumer sentiment. Further, they concluded that a sustained recovery in supply and demand is likely. The MPC judge that although the recovery is underway, prospects for the UK economy continue to be affected by past developments - the sustained period of weak demand, above target inflation and low productivity observed in the UK economy. The MPC forecasts that the recovery is likely to gather pace. However, they judge that the legacy of adjustments left over from the financial crisis suggests that the recovery may remain weak by historical standards.

The August Inflation Report also set out the MPC's decision to adopt forward guidance which aims to provide clarity and transparency about the conditions under which the bank's current policy stance will be maintained. The MPC intend to maintain the current stance of accommodative monetary policy at least until unemployment reaches a threshold of seven per cent, subject to conditions intended to maintain price and financial stability. In the Bank's view, the chance of the unemployment rate reaching this threshold before their forecast horizon (up to 2016 Q3) is equally likely as it reaching the threshold afterwards.

The UK economy is recovering from the most damaging financial crisis in generations after a decade of growth built on unsustainable levels of debt. Three key factors first highlighted by the OBR in November 2011[4] contributed towards a more subdued and uneven recovery than expected: The lasting effect of the financial crisis on GDP and productivity; the euro area crisis and global uncertainty; and, unexpected commodity price rises since

[4] OBR: Economic and Fiscal Outlook, November 2011

2011 which have reduced real incomes and raised business costs. These factors continued to be a burden on the UK economy through 2012.

Reflecting the lower-than-expected momentum in the final quarter of 2012, the March 2013 Economic and fiscal outlook revised down the OBR's previous forecast for UK GDP growth by 0.6 percentage points in 2013, to 0.6 per cent. 2014 GDP growth was revised down by 0.3 percentage points, to 1.8 per cent to reflect smaller contributions to growth from net trade and consumption. The OBR's GDP growth forecasts for 2015 and beyond remain unchanged.

Across the world, recovery over the past four to five years has also been slower than forecast. The most recent International Monetary Fund (IMF) forecasts[5] suggest that global growth will remain relatively subdued at around three per cent in 2013, a downwards revision from the April 2013 forecasts. The IMF forecast the euro area and the EU to contract by 0.6 per cent and 0.1 per cent respectively in 2013, and both return to growth in 2014. However, more recent quarterly outturn data from Eurostat[6] estimates suggest that euro area and EU27 GDP both increased by 0.3 per cent on the quarter in 2013 Q2, signalling the end of an 18 month recession for the euro area. Based on currently available data, four euro area countries remain in recession.

Economic growth: economy showing signs of momentum but conditions still uncertain and risks remain

Since the December 2012 Government Evidence to the Low Pay Commission report, the ONS GDP data has been revised. Now the statistics show that the UK economy did not re-enter recession for three quarters in 2012 Q1 as was previously thought. However, according to the data revisions, the 2008/09 recession was deeper than previously thought with output falling by 7.2 per cent, confirming the view that the UK economy experienced one of the deepest recessions of any major economy.

The ONS's second estimates of 2013 Q2 GDP show quarter-on-quarter growth of 0.7 per cent and growth of 1.5 per cent compared with 2012 Q2[7]. Following 0.2 per cent GDP growth over 2012, these estimates suggest that output has grown by 0.9 per cent over the first half of 2013 compared to the first half of 2012. Despite signs of momentum, short-term growth prospects remain subdued, and risks still remain in the economy; with output in real terms roughly 3.2 per cent below its pre crisis peak.

In the near term, the OBR expects GDP to grow less quickly than potential GDP, with the output gap widening to -3.8 per cent by the end of 2013. Growth is not expected to return to above trend rates of growth until 2015 when credit conditions are expected to begin to normalise and productivity to recover, supporting a growth in consumption. However, the damage of the 2008/09 financial crisis on GDP and underlying productivity is still expected

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[5] IMF: World Economic Outlook, July 2013 update
[6] Eurostat 2013 Q2 GDP Flash Estimates
[7] However, caution should be used when comparing annual growth due to 2012 Q2 containing an extra bank holiday.

to be felt, as the output gap is only expected to narrow gradually and not close over the forecast horizon.

The Bank of England's August Inflation Report suggests that the economic recovery in the UK may have taken hold, with positive GDP growth and reports from the Bank's agents pointing to a stronger than expected near-term outlook. However, risks to the recovery still remain. The OBR also regards there to be some grounds for optimism as regards financial markets, with relative calm in the euro area and the Funding for Lending (FLS) scheme helping to improve bank funding conditions, although there is little evidence that this is yet increasing lending to the real economy.

Despite recent developments, the OBR judge the situation in the euro area remains a major risk to the UK economy, with the underlying situation still fragile and the completion of long-term structural and institutional reforms in the euro area a long way off.

The employment level has performed relatively well since the recession with strong employment growth at the end of 2012. Employment growth continued in 2013 albeit at a slower pace. Population growth has also remained robust over the course of the downturn so that while the employment level has increased, the employment rate of 71.6 per cent in the three months to July 2013 remains 1.4 percentage points below the pre-recession peak of 73 per cent in 2008 Q1. The unemployment rate was 7.9 per cent in the three months to July 2013, 2.5 percentage points above the pre-recession rate. The performance in employment has been greater than for unemployment because labour force participation has remained robust.

Section 2: Remit issues - Evidence on pay

Summary

The last seven annual upratings of the adult National Minimum Wage (2007 to 2013) have been broadly in-line with forecasts of average earnings growth. The upratings of the youth rates have been smaller.

Between its introduction in October 2010 and October 2013, the apprentice rate will have increased by 7 per cent. This increase is higher than the increase in the adult NMW and the increase in average earnings over the same period.

As the NMW has increased faster than median earnings between April 2011 and April 2012, the minimum wage as a proportion of median earnings or 'the bite', has increased further and is at its highest ever level. Between April 1999 and April 2012, the 'adult bite' has increased by eight percentage points.

Before April 2007, the adult bite of the NMW, based on Annual Survey of Hours and Earnings (ASHE) data, increased as NMW increases were larger than increases in median earning. Between April 2007 and April 2010, the bite has been relatively stable. This is because ASHE hourly median earnings grew at a similar rate to average earnings' growth over this period. Since April 2010, the adult bite has increased by 2 percentage points to 53.7 per cent.

The NMW bite for young people is much higher than it is for adults. It peaked in 2011 due to the fact that the youth NMW rates have increased faster than median hourly earnings of young people. In 2012, the bite of both youth rates has fallen back slightly.

The adult NMW, deflated by RPI reached its real peak in 2009. The October 2012 adult NMW rate is around six per cent lower than this.

Median gross weekly pay for NMW workers as a proportion of median gross weekly pay for all workers is lower than the bite of the NMW on median hourly earnings, has increased since the introduction of the NMW and reached around 34 per cent of the median in April 2012.

Between 2007/08 and 2012/13, labour costs associated with employing adult NMW workers increased less than the gross weekly pay of the majority of adult NMW workers. In addition, labour costs increased less

between 2007/08 and 2012/13 than between 2000/01 and 2007/08 due to larger increases in the NICs secondary threshold.

Between 2007/08 and 2012/13, take-home pay increased by more than gross weekly earnings for most adult NMW workers due in large part to increases in the income tax personal allowance.

Economic background

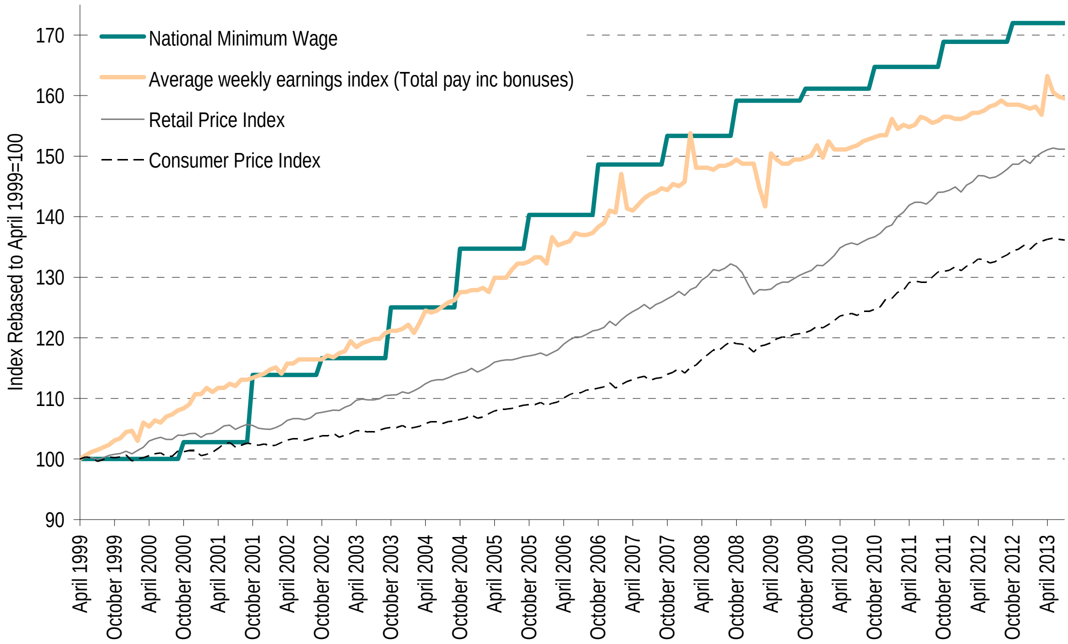
Growth in the adult National Minimum Wage rate

The last seven annual adult upratings (2007 to 2013) have been in line with average earnings' growth. This followed increases in the adult NMW in 2001, 2003, and 2004 that were substantially above average earnings' growth.

Since it was introduced, the NMW rate has increased substantially faster than both average earnings and prices. The October 2013 NMW rate will be 75 per cent higher than the original April 1999 level. In comparison, between April 1999 and April 2013 the rise in Average Weekly Earnings (total pay, including bonuses) is estimated to be around 63 per cent (see Chart 2.1), the increase in the Retail Price Index (RPI) is estimated to be around 51 per cent, and the Consumer Price Index (CPI) around 36 per cent between April 1999 and April 2013.

Chart 2.1: Adult NMW rate increases compared to earnings growth and inflation

Index rebased to April 1999=100

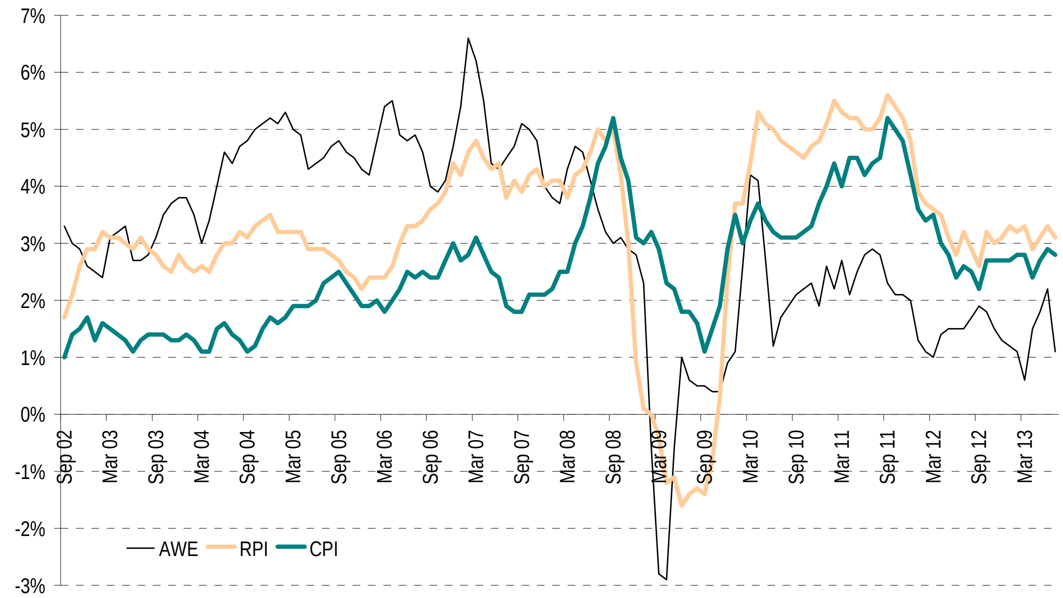


Source: Office for National Statistics; Retail Price Index, Consumer Price Index and Average Weekly Earnings; Low Pay Commission. Between April 1999 and December 1999 Average Weekly Earnings was extrapolated using the Average Earnings' Index.

The NMW in real terms has been decreasing since 2009 because increases in consumer prices have been higher than increases in the NMW. Deflating the NMW by RPI, the adult NMW in October 2012 was at a similar level to in 2003. Deflating by CPI, it was at a similar level to in 2004. However, deflating by average earnings[8], the adult NMW was at its highest level in October 2012. This suggests that high inflation has reduced real pay throughout the distribution, not just for NMW workers. Chart 2.2 below shows average weekly earnings, RPI and CPI inflation. Increases in average prices have been larger than increases in average wages since around mid-2008.

[8] Average weekly earnings, total pay including bonuses

Chart 2.2: Annual change in average weekly earnings, consumer and retail prices

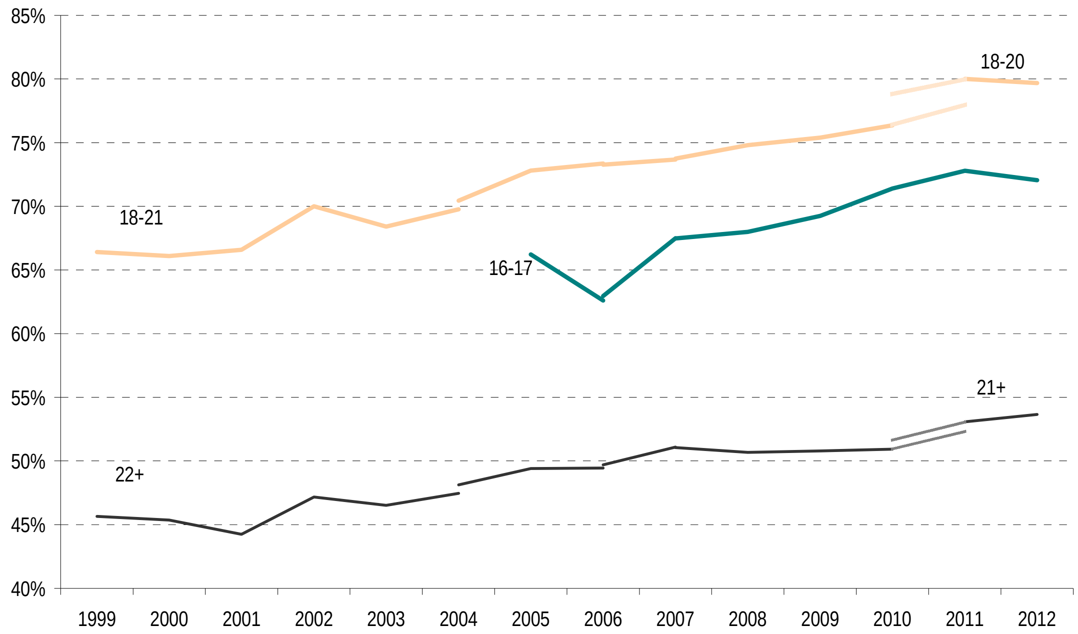


Source: Office for National Statistics. Average weekly total pay growth on a year ago 3 month average (KAC3). RPI, percentage change over 12 months (CZBH). CPI annual growth rate (D7G7).

The bite of the National Minimum Wage rate

The NMW rate as a proportion of median earnings is often termed the 'bite' and is a measure of how high up the earnings distribution the NMW rate cuts in. Usually, median earnings is preferred as a benchmark over average (mean) earnings as it is less sensitive to changes among very high earners.

Chart 2.3: The bite of the NMW rates



Source: Office for National Statistics, Annual Survey of Hours and Earnings. 1999-2004 ASHE data - excluding supplementary information 2004-2006 ASHE data - old methodology. 2006-2012 ASHE data - new methodology.

Between April 2011 and April 2012, the adult bite increased by 0.6 percentage points to reach its highest level since the introduction of the NMW in April 1999. Since its introduction, the bite of the adult NMW rate has increased from 45.6 per cent of the median wage to 53.7 per cent in April 2012 (see Chart 2.3)[9]. From October 2010, 21 year olds were included in the scope of the adult rate. This could partly explain the increase in the adult bite between April 2010 and April 2011 due to a reduction in the median earnings by including this group. However, as is demonstrated by the dotted black line in chart 2.3, the bite for both age groups, 21+ and 22+ increased over this period.

The 'adult bite' has increased by around 8 percentage points since the NMW was introduced in 1999. However, it remained broadly stable between April 2007 and April 2010. Since then, the 21+ bite has increased from 51.6 per cent in 2010 to 53.7 per cent in April 2012[10]. Our most recent bite estimate does not measure the impact of the October 2012 uprating in the NMW rate, as median earnings' data for this period is not yet available.

The bite for 18-20 year olds fell slightly between April 2011 and April 2012 to 79.7 per cent of the median in 2012. However, this is still close to a historic high. 21 year olds moving

[9] In this report we use earnings' data from the 2012 Annual Survey of Hours and Earnings and calculate bites based on the appropriate NMW rates for April 2012.
[10] The 'adult NMW' in April 2010 applied to workers aged 22+. The 22+ bite in April 2010 was 50.9 per cent and the difference between this bite and the 21+ bite in April 2012 was 2.7 percentage points. The related adult NMW upratings were 2.2 per cent in October 2010 and 2.5 per cent in October 2011.

out of scope of the development rate is likely to have contributed to the relatively large jump in the associated bite between April 2010 and April 2011. The impact of this change was greater for this age group than for adults.

The bite for 16-17 year olds also decreased slightly in 2012 to 72 per cent, perhaps reflecting the relatively moderate increase in the 16-17 year olds rate from £3.64 to £3.68 over this period. These estimates do not reflect the October 2012 freeze of the 16-17 year old and development rate and we will not know the effects of these until the release of new data. Further discussion on youth earnings is presented in section four.

Gross weekly earnings of adult NMW workers

The following analysis includes only adult NMW workers[11] and examines the characteristics of the weekly pay received by this group of individuals in 2000, 2007 and 2012. The reason these years have been chosen is because April 2000 is a year after the NMW was introduced, which gives some time for the policy to have impacted upon pay; the period up to 2007 was a period of relatively large increases in the NMW; finally, April 2012 was the last update for this data source.

Chart 2.4 shows the gross weekly pay distribution for adult NMW workers in April of 2000, 2007 and 2012. In nominal terms, weekly pay for this group has generally increased across the distribution, with larger increases occurring in 2000 – 2007 than in 2007 - 2012[12]. Cash increases have been larger for those at the upper end of the distribution than for those at the bottom, whereas in percentage terms, increases have been larger at the bottom end of the distribution. Apart from increases to the hourly NMW (which are the same across this distribution), the two elements that can change a NMW workers gross weekly pay are the number of hours that they work or the amount of non-basic pay that they receive.

Median gross weekly pay for adult NMW workers was around 34 per cent of the median for all adult workers in April 2012. This has increased from around 29 per cent in April 2000 and 32 per cent in April 2007. The bite of the adult NMW on median hourly earnings is much higher. In April 2012 it reached its highest ever level at over 53 per cent (see above).

The data also suggests that a large proportion of adult NMW workers do not receive any non-basic pay[13]. The proportion of adult NMW workers that received any non-basic pay increased from 14 per cent in April 2000 to 20 per cent in April 2007. However, in April 2012 this proportion had fallen back to 14 per cent. Similarly the mean value of non-basic pay increased between 2000 and 2007 but decreased between 2007 and 2012.

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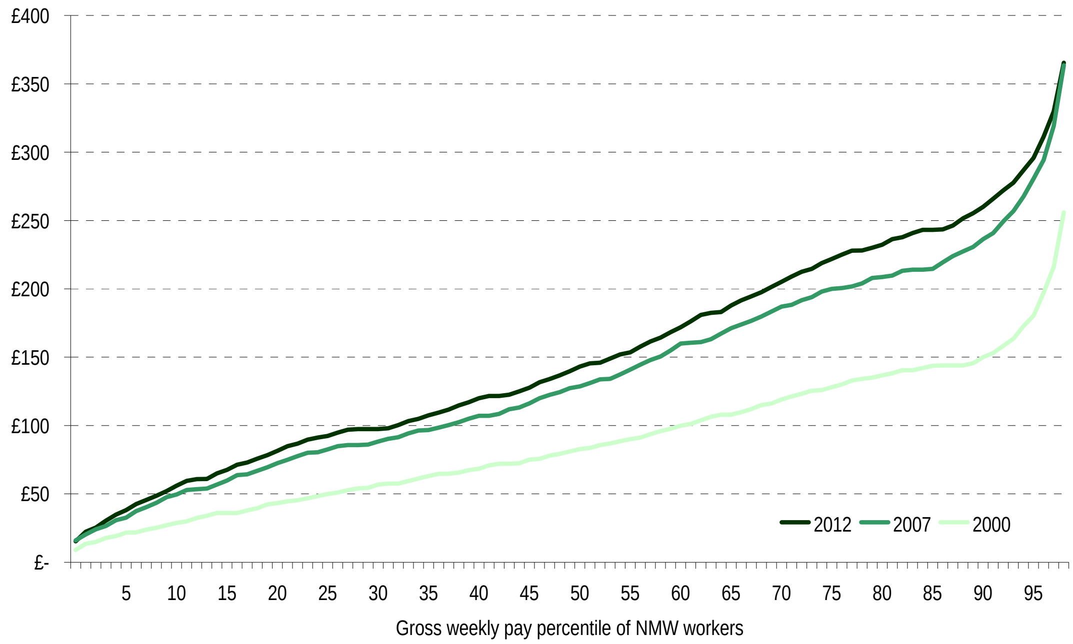
[11] Individuals aged 21+ (22+ in 2000 and 2007) earning at or below, or up to 5 pence above the minimum wage at the time of data collection (April)
[12] In real terms, gross weekly pay increased across the distribution between 2000 and 2007 but fell between 2007 and 2012.
[13] Any pay above basic hourly pay.

Chart 2.4: Gross weekly pay distribution of adult NMW workers only* (current prices)



*Individuals aged 21+ (22+ in 2000 and 2007) earning at or below, or up to 5 pence above the minimum wage at the time of data collection (April)

Source: BIS analysis of the Annual Survey of Hours and Earnings micro data

Income tax and national Insurance contributions for adult NMW workers

Chart 2.5 below shows the percentage change in gross weekly pay, 'Take-home pay'[14] and 'Labour costs'[15],for each of the percentiles of the gross weekly pay distribution of adult NMW workers between April 2000 and April 2007[16]. The chart also shows the percentage increase in the hourly NMW rate and the RPI index over the period[17] for comparison[18].

[14] 'Take-home pay' in this context is gross weekly pay with employee National Insurance Contributions (NICs) and income tax subtracted. This assumes that all eligible adult NMW workers pay the main contribution rate (and if eligible the additional contribution rate) i.e. no contracted out rebates or reduced rates for married women and widow optants. It is important to note that these estimates do not represent the full value of take-home pay as individuals may also pay in to a pension or make other pre-tax payments out of their salary.

[15] 'Labour costs' in this context is gross weekly pay with employer NICs added. These estimates do not fully represent the full value of 'labour costs' as employers may, for example, make pensions contributions or provide uniforms to workers which would be considered additional non-wage labour costs.

[16] 2000/01 and 2007/08 tax years used for calculations

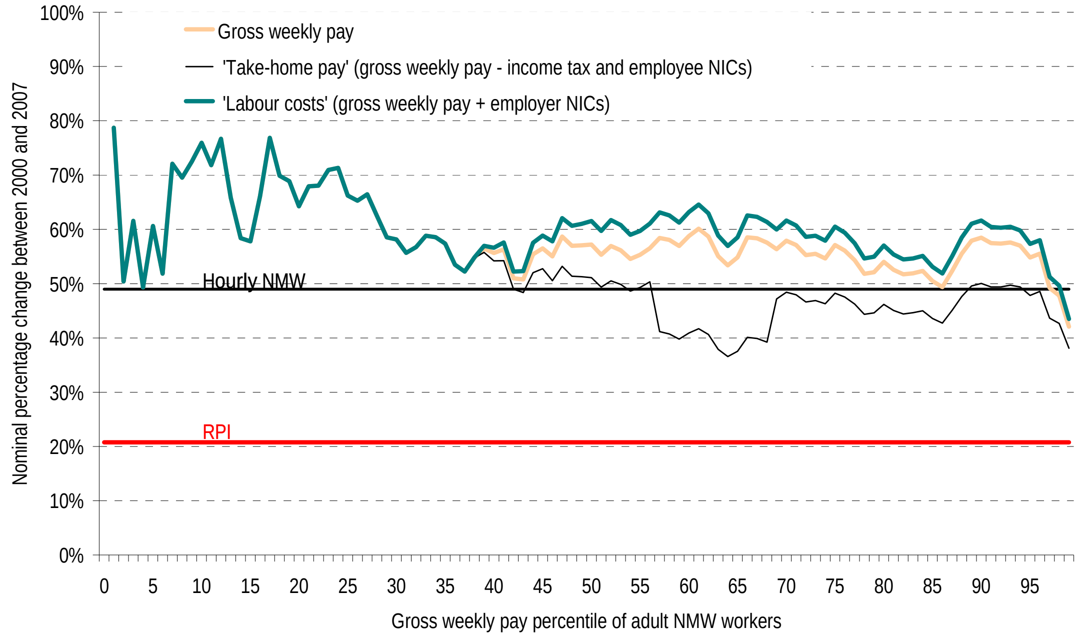
[17] It is important to note that RPI is no longer regarded as a national statistic by the Office for National Statistics. However, there are a number of reasons that we use it as a comparator for this analysis. Primarily, the RPI was used extensively for wage negotiations in the past due to a widely accepted view that it represented living costs more accurately than other measures. Secondly, the RPI includes housing costs in

Between 2000 and 2007, the three series follow the same path at the bottom of the distribution, diverging at the 38th percentile. This marks the point in the gross weekly pay distribution of NMW workers at which they enter the tax system. Workers up until this point pay no income tax or NICs.

For most adult NMW workers, gross weekly pay increased faster than both NMW and RPI over this period. 'Take-home pay' also increased faster than RPI for most NMW workers and faster than the NMW for most workers earning below median gross weekly pay.

For NMW workers in the tax system, 'labour costs' associated with employing them increased by more than their gross weekly earnings and 'take-home pay'. 'Take-home pay' increased the least for those around the sixth decile. This is due to the changes in basic and 10p tax thresholds and the rate of increase in weekly earnings between 2000/01 and 2007/8.

Chart 2.5: Percentage changes in gross weekly pay, 'take-home pay' and 'labour costs' at each gross weekly pay percentile for adult NMW workers, 2000 to 2007



Source: BIS analysis of the Annual Survey of Hours and Earnings micro data

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its basket of goods which can make up a significant proportion of an individuals' costs, especially for the low paid. Thirdly, the RPI is a base weighted average, whereas other measures (such as CPI and RPIJ) are current weighted. This means that the RPI measures changes in price of the basket of goods only; current weighted measures are affected by changes in quantities as well as price.

[18] Household incomes are also dependent on interactions with the tax credit and benefit system. Many of the individuals working at the minimum wage will be in receipt of tax credits and housing benefit, which have usually been linked to inflation over the period 2000-2012. Therefore, trends in take home pay are not necessarily identical to trends in real household income. In addition, in many cases, growth in net earnings will lead to a deduction in entitlements to working age benefits, meaning that the effect of an increase in the minimum wage on net household income is smaller than that shown in Chart [x].

Box 2.1: Changes to income tax, the personal allowance and NICs between 2000/01 and 2007/08

Between April 2000 and April 2007, there was a 1 percentage point increase in the NICs main contributions rate (from 10 per cent to 11 per cent). In addition to this, the primary threshold (the point at which employees start paying NICs) increased from £76 in 2000/01 to £100 in 2007/08; a 32 per cent increase – slightly faster than the increase in RPI over the same period.

Examining income tax over this period, the personal allowance and the threshold at which individuals paid the basic rate of tax increased by around 26 per cent. In contrast, the threshold for the '10 pence tax rate' increased by 19 per cent – less than the increase in the NMW.

Between 2000 and 2007, the threshold at which employers paid NICs increased from £84 to £100 per week; 19 per cent, and the rate increased by 0.6 percentage points[19] starting at 12.2 per cent in 2000/01 rising to 12.8 per cent in 2007/08.

Chart 2.6 below illustrates movements in the same variables as Chart 2.5 above but over the time period 2007 and 2012.

The chart shows that the point in the gross weekly pay distribution for adult NMW workers at which changes in gross weekly pay diverge from changes in 'take-home pay' and 'labour costs' is the 39th percentile, around the same point as for 2000 – 2007. This suggests that at this point in the gross weekly pay distribution of adult NMW workers, gross pay has increased at a similar rate to the growth in the thresholds for income tax and NICs.

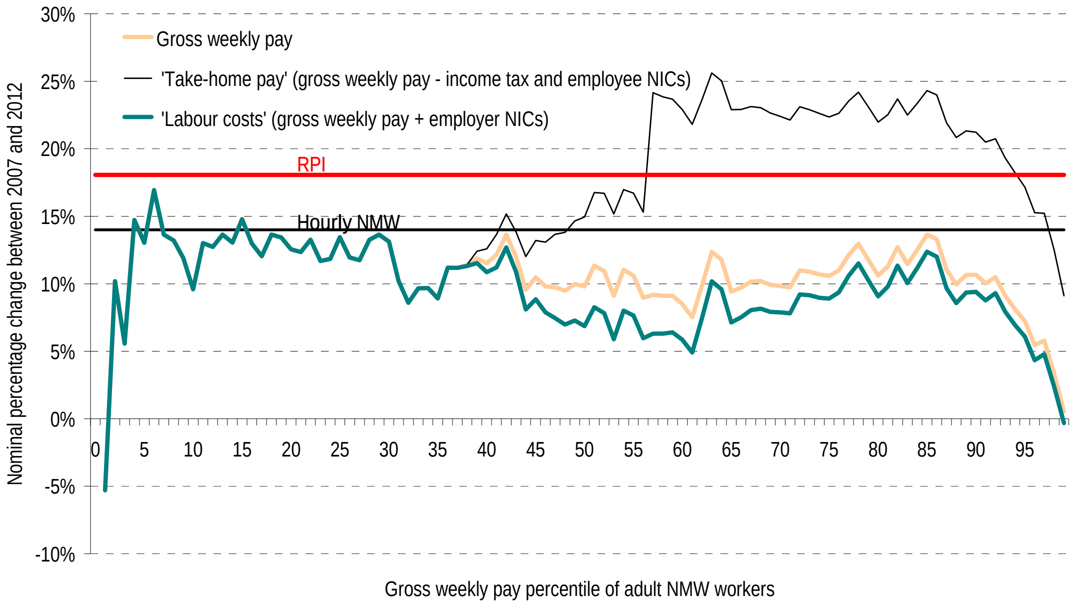
Between these years, the increase in 'take-home pay' was larger than the increase in gross weekly pay, which, in turn, was larger than the increase in 'labour costs'. This is a stark contrast with the period between 2000 and 2007, in which the pattern is the opposite. Between 2007 and 2012 the increase in the threshold at which employers started to pay NICs increased more, relative to the period 2000 - 2007 (44 per cent compared to 19 per cent). However, between 2007 and 2012, the employer NICs rate increased more than in the period 2000 - 2007 (1 ppt compared with 0.6 ppts). This rate change is likely to have driven the fact that 'labour costs' increased by less in 2007-2012 than 2000-2007.

For most adult NMW workers, gross weekly pay increased proportionately less than the NMW between 2007 and 2012. However, for most adult NMW workers above median gross weekly pay[20], 'take-home pay' increased proportionately more than the NMW. Furthermore, between the 56th and 94th percentile of the gross weekly pay distribution for

[19] Rate fell 0.4 percentage points between 2000/01 and 2002/03 to 11.8 per cent before rising to 12.8 by 2007/08
[20] Of NMW workers

NMW workers, increases in 'take-home pay' were above RPI. These increases in 'take-home pay' were driven by large increases in the personal allowance (55% between 2007 and 2012 compared to 19 per cent in 2000 - 2007) which have long since compensated any losers from the abolition of the 10p tax rate, making 25 million individuals better off, with more than 2.7 million individuals taken out of income tax altogether.

Chart 2.6: Percentage changes in gross weekly pay, 'take-home pay' and 'labour costs' at each gross weekly pay percentile for NMW workers, 2007 to 2012



Source: BIS analysis of the Annual Survey of Hours and Earnings micro data

Box 2.2: Changes to income tax, the personal allowance and NICs between 2007/08 and 2012/13

Between April 2007 and April 2012 the threshold for employee NICs increased 46 per cent, to reach £146 and the main NICs contribution rate for employees increased by 1 percentage point to 12 per cent.

The threshold for employer NICs increased by 44 per cent over the same period, and the rate also increased by 1 percentage point to reach 13.8 per cent.

Over this time period, the personal allowance increased from £5,225 in 2007/08 to £8,105 in 2012/13, an increase of 55 per cent. 2007/08 was the final year of the '10p tax rate' and 22 per cent basic rate, meaning that the change in structure of income taxation to a basic (20 per cent), higher (40 per cent) and additional (50 per cent) rate is also captured in this time period.

Apprentice pay

Between its introduction in October 2010 and October 2013, the Apprenticeship NMW rate will have increased by seven per cent. This increase is higher than the increase in the adult NMW over the same period.

Evidence shows that employers often pay more than the relevant minimum wage rate. Median hourly pay for all apprentices in 2012 was £6.09 in England, £6.29 in Wales and £6.15 in Northern Ireland. According to the 2011 Apprenticeship Pay Survey, median hourly pay in the UK as a whole was £5.62 in 2011.

Table 2.1 below shows the median hourly pay and the bite of the apprentice NMW on the median for certain groups of apprentices across the UK.

Table 2.1: Median hourly pay and the 'bite of the apprentice NMW for apprentices across the UK

		In first year of Apprenticeship, or under 19 years old	Under 19 years old		In first year of Apprenticeship	
		2012	2012	2011*	2012	2011*
England	Median hourly pay	£6.00	£3.00	£2.90	£6.22	£6.50
	Bite	44%	88%	86%	43%	38%
Wales	Median hourly pay	£6.25	£3.00	£2.89	£6.35	£6.35
	Bite	42%	88%	87%	42%	39%
Northern Ireland	Median hourly pay	£6.18	£3.49**	£3.35**	£6.21	£6.35
	Bite	43%	76%	75%	43%	39%
Scotland	Median hourly pay	-	-	£3.80	-	£4.90
	Bite	-	-	66%	-	51%

Fieldwork undertaken in June/July 2011, therefore the October 2010 ANMW applies (£2.50)

** Low base size for this group

Source: BIS calculations based on 2012 and 2011 Apprentice Pay Survey

Evidence from the 2012 Apprenticeships pay survey showed that the average (median) hourly pay for apprentices under 19, *or* in their first year of their Apprenticeship ranged from £6.00 in England to £6.25 in Wales. The bite of the Apprenticeship rate at the median for this group ranged from 42 per cent in Wales, to 44 per cent in England. This is lower than the bites of the adult and youth NMW rates on UK median hourly earnings.

We do not have data to show median hourly earnings for apprentices aged under 19 *or* in their first year of their Apprenticeship from the 2011 Apprenticeship Pay Survey However, the bite increased for both under 19 year olds and people in their first year of their Apprenticeship in England, Wales and Northern Ireland between 2011 and 2012.

Median hourly earning is lower for apprentices under 19 years old than for apprentices in their first year. Because of this, the bite of the Apprenticeship NMW is higher for apprentices under 19.

According to the initial findings from the first draft of the 2012 Apprentice Pay Survey, median hourly earnings of under 19 year old apprentices in England were £3.00. This means that the bite of the ANMW on this age group was 88.3 per cent. The bite varied considerably by sector and was found to be 98.1 per cent in hairdressing. However, caution is needed in interpreting information from the survey and the results should be seen as indicative.

For 18-20 year olds in England and Wales, the median gross hourly pay for apprentices was £4.50 – indicating than the apprentice rate bite at the median was 59 per cent. This is significantly lower than the bite of the minimum wage for their non-apprenticeship equivalents.

The median gross hourly pay for apprentices in England and Wales aged 21 or higher was estimated at £6.83. The apprentice NMW rate was 39 per cent of this figure - significantly lower than the bite for their non-apprenticeship equivalents.

For all ages, median gross pay varies widely between sectors from £10.43 in Management in Wales, to £2.70 for hairdressing in England and £2.74 for construction in Northern Ireland. Therefore, the bite in sectors such as hairdressing and construction is likely to be much higher than in sectors with a higher median wage[21].

[21] The bite of the ANMW on median pay for all apprentices was 98% in Hairdressing in England, 92% in Hairdressing in Wales, 97% in Construction in Northern Ireland.

Section 3: Remit issues - Impact of the NMW on the labour market

Summary

Real wages increased sharply during the recession, reaching their highest ever level in January 2009. They have since been falling. The employment rate fell sharply at the start of the recession and while it has since improved it still remains below the pre-recession peak.

In the three months to June 2013 employment reached approximately 540,000 above the pre-recessionary peak (June 2008) and this is due to hiring rather than labour hoarding.

The growth in employment in low paying sectors has been positive but has slowed from 4.4 per cent to 2.3 per cent since March 2012. Growth in hours worked in low paying sectors has also been positive.

The bite of the NMW is historically high. In addition, annual GDP growth remains low compared to before the recession and employment rates are below their pre-recession peaks. If NMW rates are set too high there is a risk of adverse employment effects.

Economic background

Impact of the recession on employment and real wages

The UK economy grew by 0.7 per cent in 2013 Q2 according to the ONS's second estimate of GDP[22]. This is consistent with the average of private sector forecasters' expectations. Revisions to the ONS Blue Book in July resulted in the path of GDP growth being revised in most years, including over the 2008/09 recession which is now reported to be deeper with the subsequent recovery now slower than previously reported. GDP may not reach pre-crisis levels until 2015 Q1, if future growth is in line with the latest OBR forecasts.

Real average wages[23] increased sharply over the recession, reaching their highest ever level in January 2009[24], while the economy was in recession. Since then, they have been

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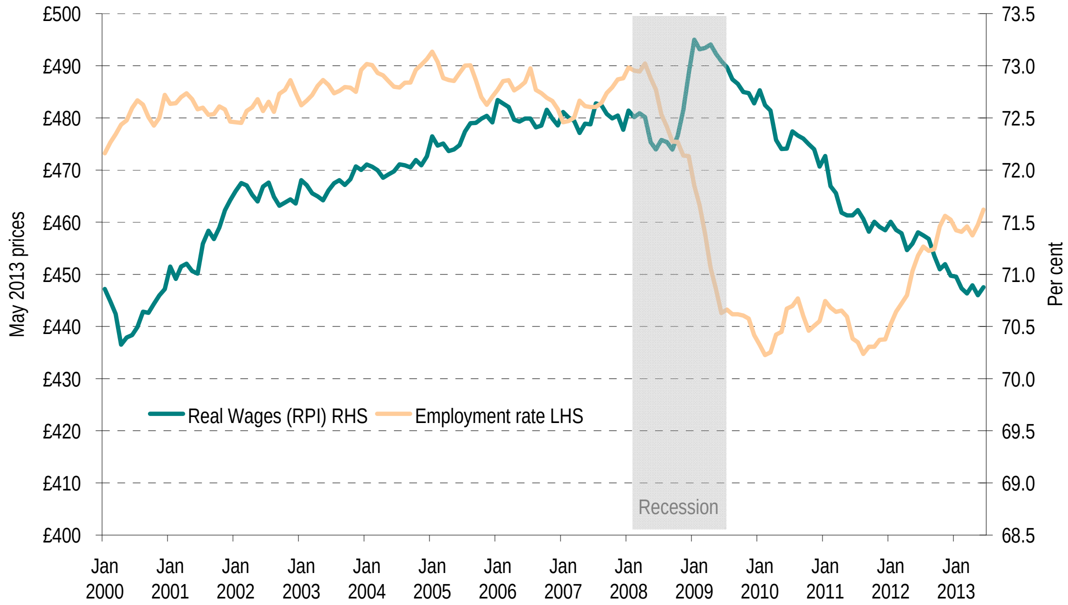
[22] Quarterly National Accounts, Q2 2013, ONS
[23] Average Weekly Earnings, total pay excluding bonuses, deflated by RPI
[24] It is important to note that RPI is no longer regarded as a national statistic by the Office for National Statistics. However, there are a number of reasons that we use it as a comparator for this analysis. Primarily,

declining and reached similar levels to 2001 in 2013 Q2. Chart 3.1 shows average weekly earnings deflated by RPI alongside the 16+ employment rate. The chart suggests that wages did not adjust from the fall in demand in the 2008/9 recession. From the start of the recession there was a quantity adjustment in employment demonstrated by the steep fall in the employment rate between the three months to May 2008 and the three months to April 2010. Since then, the employment rate has recovered slightly but has not yet returned to the pre-recession peak.

Chart 3.1: Real average weekly earnings and employment rate



Source: Office for National Statistics, Monthly Labour Market Statistics. Average Weekly Earnings regular pay (KAI7 series) deflated by RPI.

Resilient UK labour market during the recovery

The latest data from the Office of National Statistics (ONS) suggests that the UK's labour market continues to perform strongly and demonstrate both flexibility and resilience. The number of people in work is currently at its highest ever level, however the proportion people of working age in employment is still below the pre-recession peak of 73.0 per cent at 71.6 per cent. Both the unemployment level and rate are still a lot higher than pre-recession lows but have started to show signs of improvement.

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the RPI was used extensively for wage negotiations in the past due to a widely accepted view that it represented living costs more accurately than other measures. Secondly, the RPI includes housing costs in its basket of goods which can make up a significant proportion of an individuals' costs, especially for the low paid. Thirdly, the RPI is a base weighted average, whereas other measures (such as CPI and RPIJ) are current weighted. This means that the RPI measures changes in price of the basket of goods only; current weighted measures are affected by changes in quantities as well as price.

The Government's final evidence to the LPC in December 2012 included labour market data up to October 2012. Since this point, the employment rate has increased by 0.4 percentage points, from 71.2 per cent. The employment level is 235,000 higher. The unemployment rate was 7.8 per cent in the three months to October 2012 and has improved slightly since, reaching 7.7 per cent in the three months to July 2013.

The resilience of the labour market during the recovery mostly relates to people aged over 25. During the 2008-09 contraction, employment (seasonally adjusted) for the over 25s fell from its peak (three months to June 2008) to post-recession trough (three months to July 2009) by approximately 330,000 and returned to its peak by September 2010. In the three months to July 2013 it reached approximately 897,000 above the peak in the three months to June 2008.

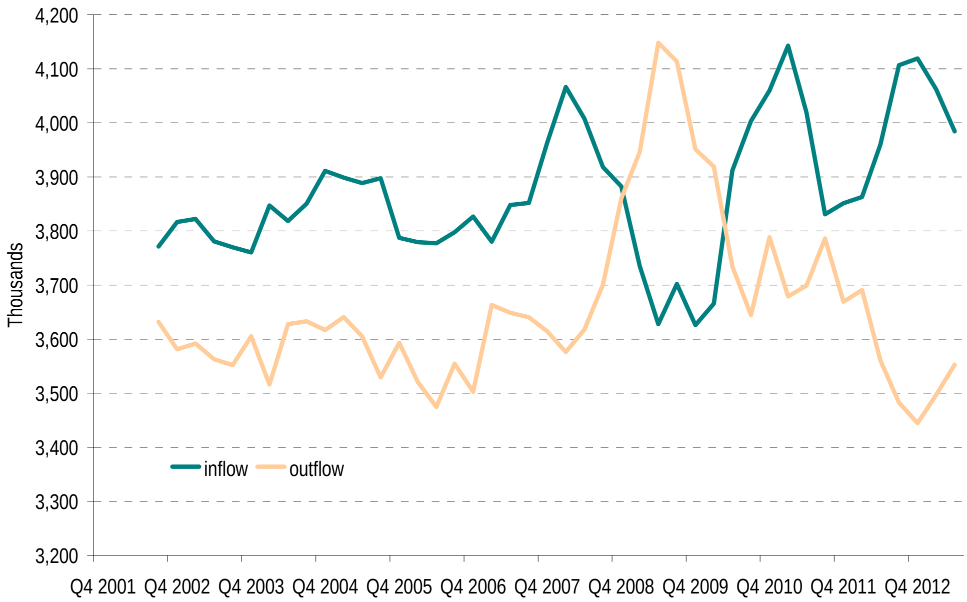
The pre-recession employment level peak for young people (aged 16-24) was a little earlier, in the three months to January 2008, and levels are currently 642,000 below this. While youth unemployment increased by 9,000 over the last quarter, it fell by 57,000 on the year to 960,000.

Flows in the labour market between employment and worklessness (unemployed and inactive) are an indicator of dynamic labour market activity and in any given year amount to millions of people moving between these groups and millions more moving between jobs in employment. Every year between 3.5 and 4m people move in and out of employment as shown below (four quarterly average data) in chart 3.2.

Job separations jumped when demand fell during the recession, with an increase in redundancies, which reached a peak comparable to the 1990s recession. Despite inflows to employment dropping below outflows (demonstrating a decrease in employment), gross flows in the labour market remained at a similar level.

Since the start of 2008, both the inflows and outflows have been more volatile than pre-recession. Outflows, since the end of 2010, have fallen back to levels similar to pre-recession while inflows have been high which indicates that the strong labour market performance is due to hiring rather than labour hoarding.

Chart 3.2: Flows in and out of employment



Source: Office for National Statistics, Labour Market Flows, experimental statistics. Four quarter average

Employment trends in the low paid sectors

The low-paying sectors are defined by the Low Pay Commission as those with a large number or high proportion of minimum wage workers[25].

This section reviews the most recent data on employment using ONS employee jobs and ASHE data for any emerging employment trends in the low-paid sectors. This includes analysis up to the third quarter of 2012[26]. It should be read in the context of prospects for the macroeconomy and labour market.

Research suggests that in aggregate, the NMW has not had a significant impact on employment. When the NMW began to rise more rapidly from 2001 to 2005 (with an average annual growth of 7 per cent), job growth in the low-paying sectors tended to at least match the annual growth rate in the rest of the economy. Chart 3.3 shows that jobs in the low paying sectors returned to its pre-recession peak at the beginning of 2012 after falling faster in the recession. Since 2010 the annual job growth for low-paid sectors has been higher than all other sectors although the most recent data shows stronger growth in the non-low paying sectors.

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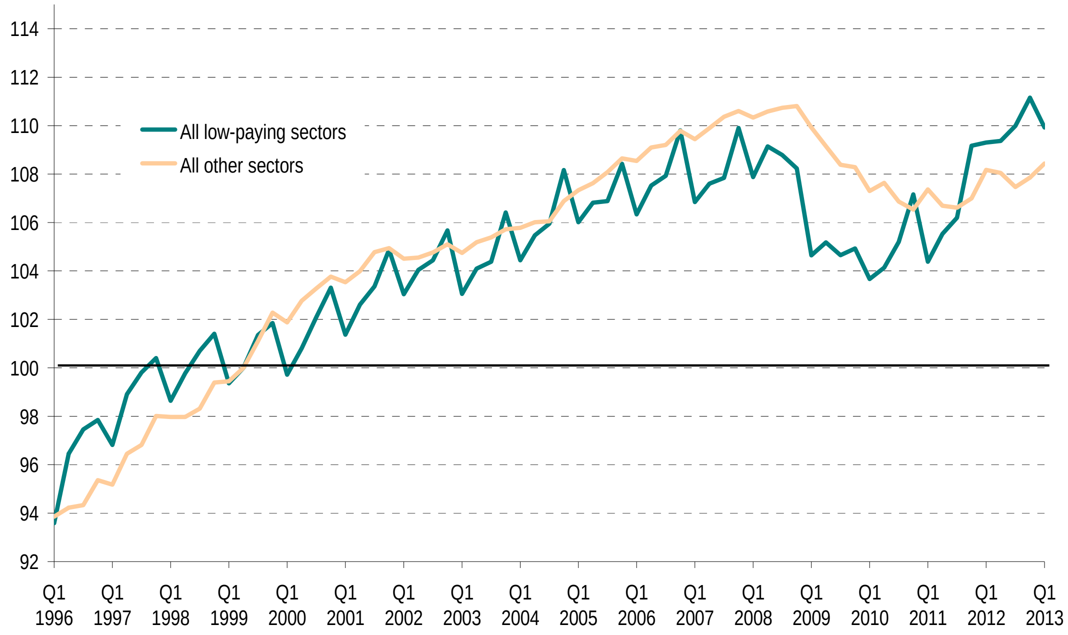
[25] http://www.lowpay.gov.uk/lowpay/report/pdf/9305-BIS-Low_Pay-Accessible6.pdf, table A6.1
[26] The latest ASHE data is released in November and will be included in the Final Evidence report

Chart 3.3: Growth in jobs for low paying sectors (indexed; Q2 1999 = 100)



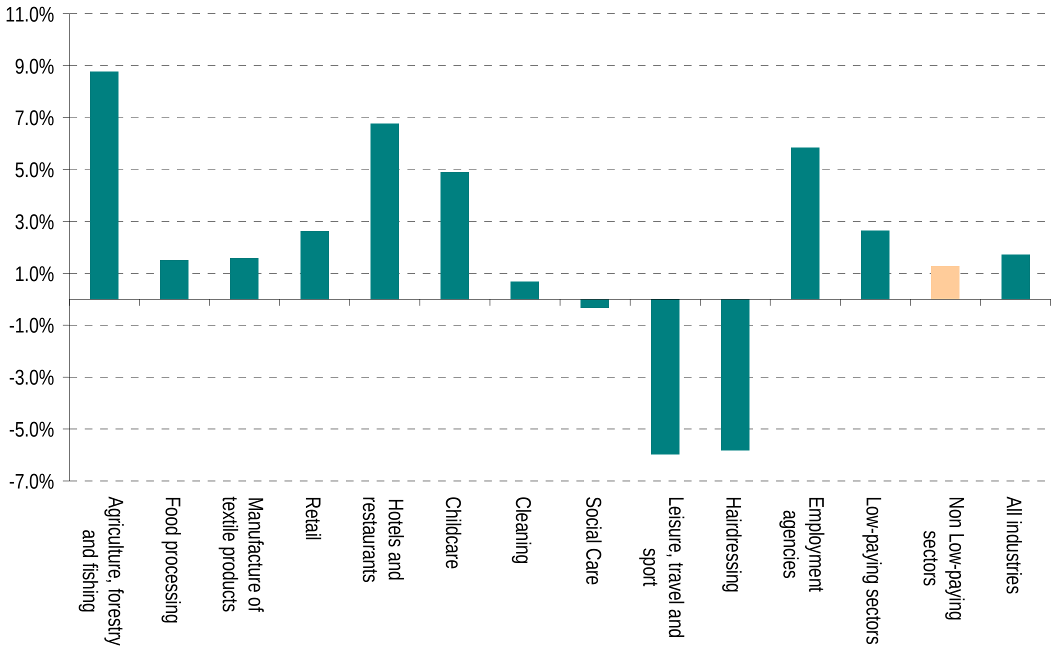
Source: Office for National Statistics, Employee jobs, GB data. Approximately 2013 definition of low paying sectors

Hours worked in the low-paying sectors

Over 2011-2012, total hours worked in the low-paying sectors increased by around 2.6 per cent, compared to a 1.3 per cent increase in non-low-paying sectors (see Chart 3.4). There has been significant variation in hours worked across the low-paid sectors. It is not possible to disentangle the impact of the NMW from the UK being exposed to lower cost international competition and other factors.

Chart 3.4: Changes in total hours worked for low pay sectors, 2011-2012

Per cent change



Source: Office for National Statistics, Annual Survey of Hours and Earnings. 2011 and 2012 - ASHE data - new methodology. 2013 definition of low paying sectors

Policy background

The government launched its Plan for Growth, alongside Budget 2011, and as part of Autumn Statement 2011. Details of this were included in the Government evidence to the LPC in 2011. It included a programme of structural reforms to remove barriers to growth for businesses and equip the UK to compete in the global race.

Delivery of these commitments remains a priority across government, and as part of Budget 2013, the government published an update of progress[27] on all measures announced through the Growth Review so far.

[27] https://www.gov.uk/government/publications/plan-for-growth-implementation-update-march-2013

Section 4: Remit issues – The Youth Labour Market

Summary

After sharp falls in employment, and increases in unemployment over the recession, the labour market situation of young people may have stopped declining.

However, the youth labour market remains in a worse position than before the recession - the youth employment rate is more than 8 percentage points lower than the pre-recession rate and the youth unemployment rate is over 7 percentage points higher than before the recession).

By contrast, employment of adults has shown signs of improvement since the recession. Consequently, the labour market position of young people relative to adults has continued to worsen.

As highlighted in the LPCs 2013 report, it is important to consider that the labour market performance of younger workers tends to be hit hard during and after economic recessions, and labour market outcomes tend to be more sensitive to economic cycles than adults.

However, there also appears to be a structural issue in the youth labour market perhaps relating to the transition between education and employment – the number of young workless people that have never had a paid job has been increasing since the early 2000s.

The NMW bite for young people much higher than it is for adults. It peaked in 2011 due to the fact that the youth NMW rates have increased faster than median hourly earnings of young people. In 2012, the bite of both youth rates has fallen back slightly.

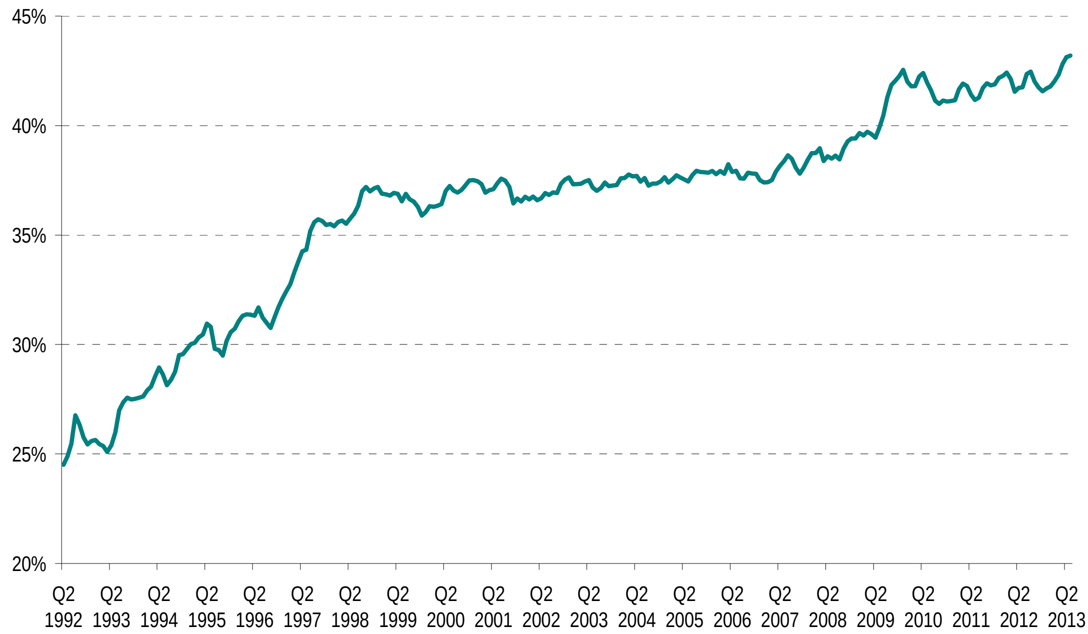
Also, it should be noted that it will be this age group that will be affected most by the raising of the participation age in England.

As for adults, if the NMW rates are set too high there is the risk of adverse employment effects. In addition, it is important to consider the contribution the NMW could make to improving the employment and training situation of young people.

Economic background

Chart 4.1 below shows the proportion of the UK population of 16-24 year olds in full-time education between 1992 Q2 and 2013 Q2 (derived from the Labour Force Survey). The proportion of young people in full-time education has been increasing over time. It increased substantially over the second half of the recession and has continued to increase since - reaching its highest ever level in 2013 Q2. Given that university applications have recovered in 2013 and the Government is increasing the age to which all young people in England must continue in education or training, this proportion may continue to increase.

Chart 4.1: Proportion of UK population aged 16-24 years in full-time education



Source: Office for National Statistics Labour Market statistics.

Labour market background for young people by participation in full-time education

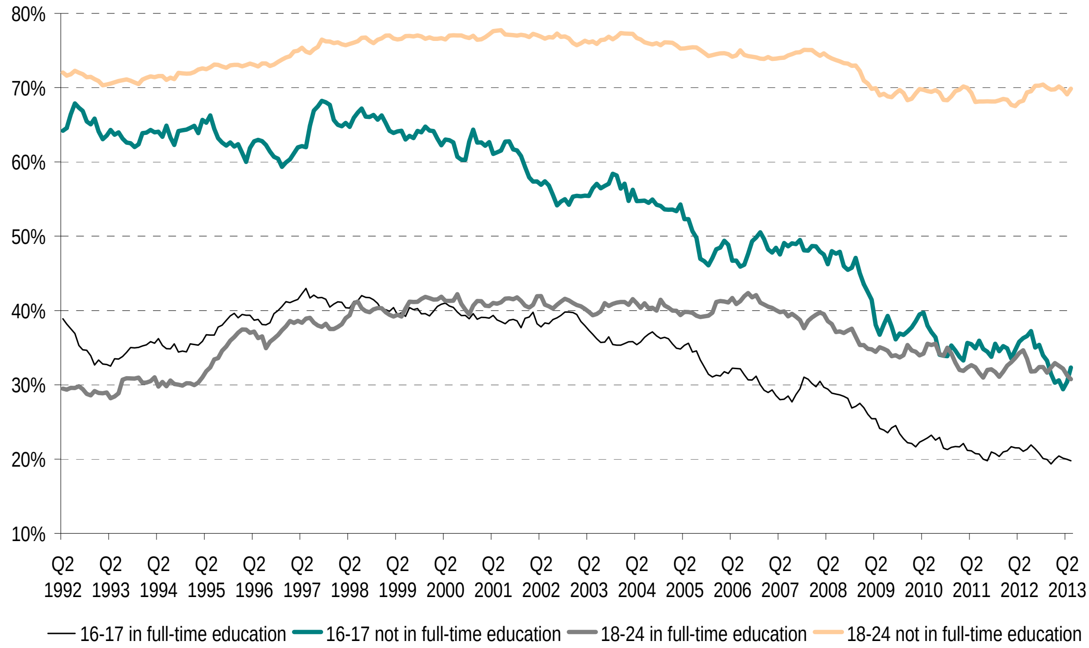
Chart 4.2 shows that the employment rates of 16-17 year olds have been on a long-term downward trend for both those in, and not in, full-time education. For 16-17 year olds in education, the employment rate has fallen by 23 percentage points since its peak in May to July 1997.

For 16-17 not in full-time education, the decline in the employment rate has been steeper than those in education; falling by 36 percentage points from its peak in the three months to November 1997. Although the downwards trend for this group precedes the recession by over ten years, the 2008/09 financial crisis still provided a significant shock to the employment rate of these individuals; with the employment rate falling from 48.6 per cent in 2008 Q1 to 39.3 per cent in 2009 Q3. Since we last reported to the LPC, the employment rate for this group has continued to fall, by almost 3 percentage points since August to October 2012.

After showing some growth up to around 1998, the employment rates for 18-24 year olds remained relatively stable for almost ten years; at around 40 per cent for those in full-time education and around 76 per cent for those not in full-time education. The employment rate for 18-24 year olds in full-time education started falling from early 2007, and may have flattened off at around 32 per cent since early 2011.

Chart 4.2: Employment rate of 16-17 and 18-24 by participation in full-time education

Per cent of age group



Source: Office for National Statistics Labour Market statistics. Not in Full time education includes people in part-time education and/or some form of training. Estimates of the number of young people who are not in employment, education or training ("NEET") cannot therefore be derived form this graph.

For 18-24 year olds not in full-time education, the employment rate fell over the course of the recession and appears to have stabilised, fluctuating around 69 per cent since then, slightly lower than the 16+ employment rate which is 71.6 per cent.

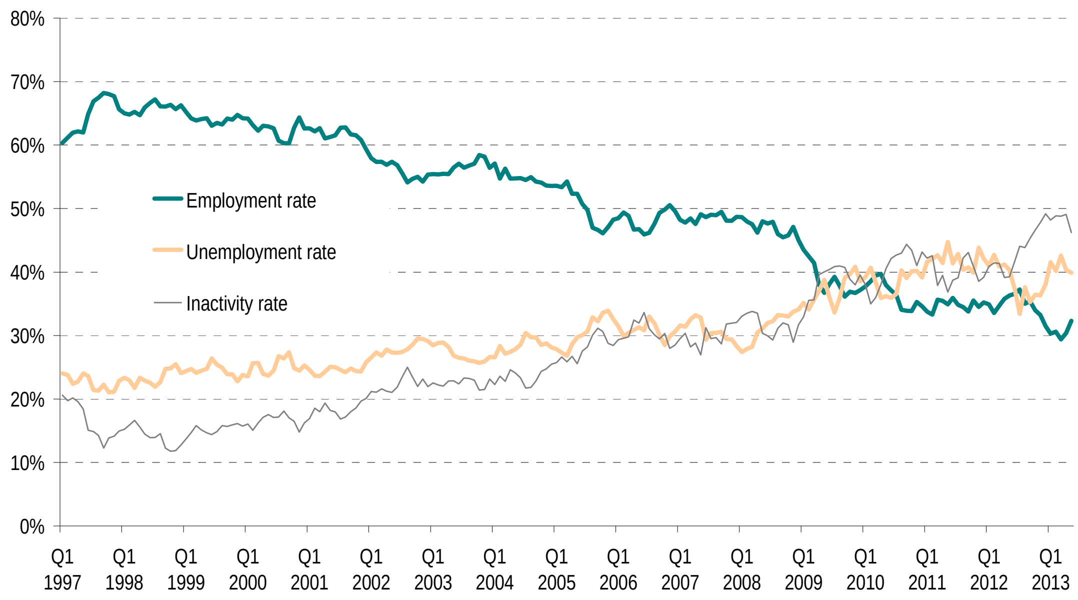
16-17 Age group

The NMW rate for 16-17 year olds was introduced in October 2004. It was initially set at the rate of £3.00. It has been increased every year except for October 2012, when the rate was frozen at £3.68. The Government accepted the LPC's recommendation that this rate should be increased by 4 pence to £3.72 from October 2013.

The unemployment and employment rates for 16-17 year olds were hit hard by the recession; the inactivity rate also increased. Chart 4.3 shows that for 16-17 year olds, the unemployment rate (excluding full-time students) increased from 27.4 per cent in 2008 Q1 (start of the 2008/09 recession) to a peak, in May to July 2011, of 44.7 per cent; a rise of 17.3 percentage points. Since this peak, the unemployment rate of 16-17 year olds excluding full-time students has decreased, reaching 39.9 per cent in the three months to July 2013 – still around 12 percentage points higher than at the start of the recession. In absolute terms, the number of unemployed 16-17 year olds is very small in relation to the working age population.

Chart 4.3: Employment, unemployment and inactivity rates of 16-17 year olds, excluding full time students

Per cent of age group



Source: Office for National Statistics, Monthly Labour Market Statistics. Seasonally adjusted.

Inactivity rates for 16-17 year olds (excluding full-time students) have also increased significantly over time. The inactivity rate has increased by around 16 percentage points since the start of the recession, up from 33.0 per cent in 2008 Q1 to 46.2 per cent in May to July 2013. The most recent inactivity rate for 16-17 year olds (excluding those in full-time education) is also 31.1 per cent higher than in 1999 Q2.

Although the recession had a significant impact on the employment prospects of 16-17 year olds, it is also clear that unemployment and inactivity rates were increasing, and employment falling since well before the 2008/09 recession.

18-20 age group

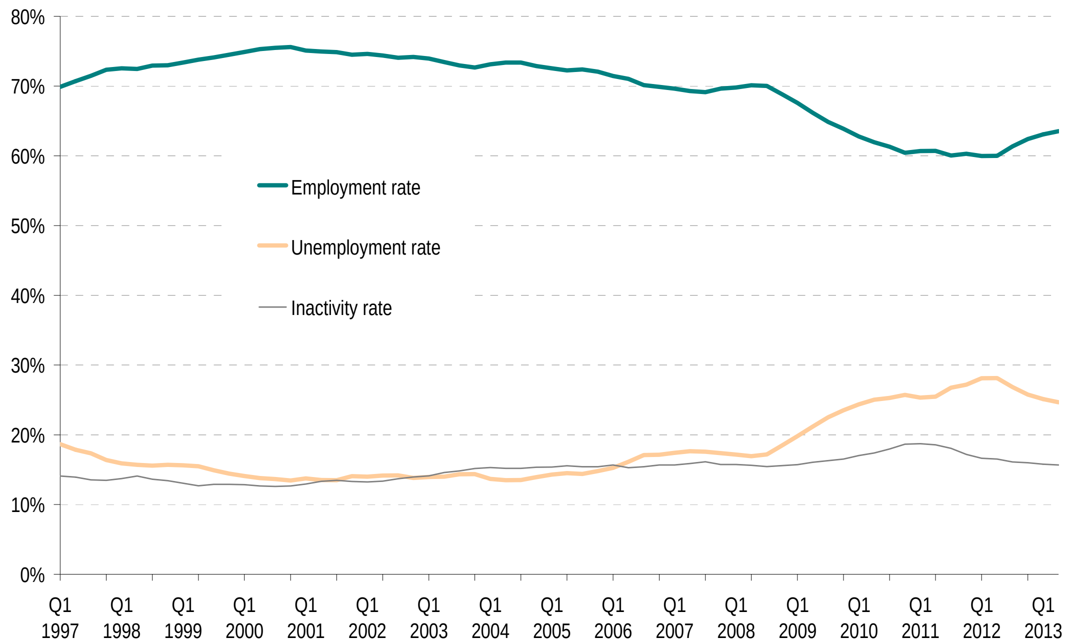
The NMW rate for 18-21 year olds was introduced in October 1999 alongside the adult rate. It was initially set at £3.00 and was increased each year except 2012 when it was frozen at £4.98. From October 2010, 21-year olds have been eligible for the adult NMW rate. The Government accepted the LPC's recommendation that the NMW rate should increase by 5 pence to £5.03 in October 2013.

Chart 4.4 shows the employment rate, unemployment rate and inactivity rate of 18-20 year olds, excluding full-time students and graduates. The unemployment rates for 18-20 year olds increased significantly during and since the recession; from 17.2 per cent in 2008 Q1 to 28.1 per cent in 2012 Q2. The unemployment rate in 2013 Q2 was 24.7 per cent, still around 7 percentage points higher than before the recession.

Inactivity rates, also presented in chart 4.4, have been slightly flatter, with an increase of 3.3 percentage points between 2008 Q3 and 2011 Q1 a decline of 3 percentage points since. The inactivity rate for 18-20 year olds excluding full-time students and graduates is now the same as in 2007 Q4.

Chart 4.4: Employment, unemployment and inactivity rates of 18-20 year olds, excluding full-time students and graduates

Per cent of age group, four quarter moving average



Source: BIS analysis of Office for National Statistics, Labour Force Survey. 4-quarter averages. Not seasonally adjusted.

After breaching a million in mid-2011, total youth unemployment (16-24, including students and graduates) dropped back to below a million in the three months to August 2012. However, since then it has fluctuated at just below a million. In the three months to July 2013, youth unemployment was 960,000 or 668,000 excluding those in full time education. There are currently about 300,000 young students who are unemployed.

The evidence above suggests that the labour market outcomes of 16-17 (excluding students and graduates) have generally fared worse than 18-20 year olds. The relative position of young people in the context of the wider labour market is still weak. It is important that the LPC consider the contribution the NMW could make to improving the employment and training situation of young people.

Young people, not in full-time education: workless who have never had a job and previously had a job

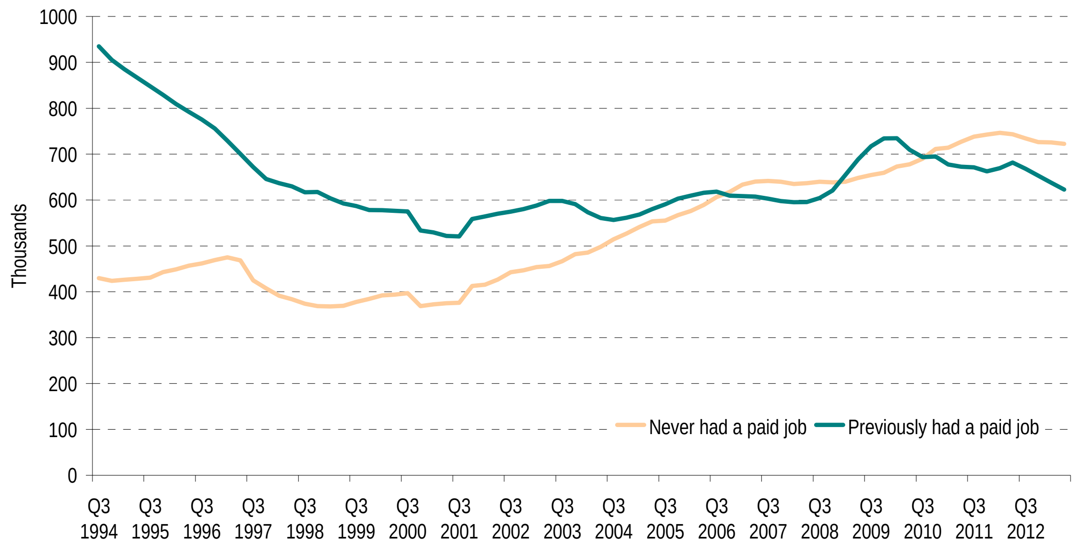
Chart 4.5 below plots under 25 year olds (excluding full-time education) not in employment (inactive or unemployed[28]) by whether they have never worked or have previously held a paid job. The number of young people in this group who have never worked has been rising since the beginning of 2001, reaching a peak in 2012 Q1 of 747,000. This suggests that young people are generally taking longer to move from education to employment.

In 2013 Q2, the level of under 25 year olds who have never held a paid job was 722,000, a fall of 25,000 on the year. Despite this recent improvement, there are still indications of growing structural worklessness problems for young people in this group in making the transition from education to work.

Chart 4.5 also shows young workless people who have previously had a paid job. The movements in this series seem more cyclical, given that there is a local peak at the end of 2009, coinciding with the end of the recession. Since then, the number of young workless people has decreased by 112,000 to reach 623,000 in 2013 Q2. However, the level is still 28,000 above the pre-recession level of 595,000.

[28] This group vary slightly from the group commonly referred to as NEETs

Chart 4.5: Under 25 year olds (excluding those in full-time education): workless who have never had a job and previously had a job

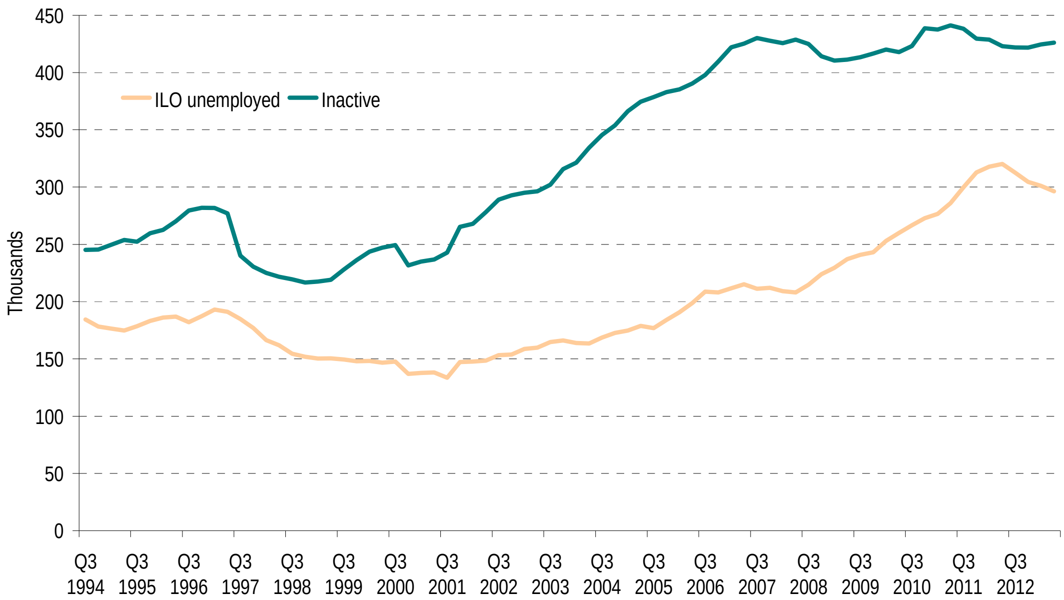


Source: BIS analysis of Labour force survey. 4 quarter moving average

Worklessness of young people by employment status

The majority of workless young people (excluding those in full-time education) who have never had a paid job are inactive rather than ILO unemployed. Chart 4.6 below shows that the number of inactive people under 25 years old not in full-time education who never had a job approximately doubled between 1998 and 2007. The number of ILO unemployed people under 25 years old that have never had a paid job has more than doubled from peak to trough, going from 134,000 in 2001 Q3 to 320,000 in 2012 Q2.

Chart 4.6: Under 25 year olds (excluding Full-time education): workless who have never had a job



Source: BIS analysis of Labour force survey. 4 quarter rolling average

The 'bite' of the NMW for young people

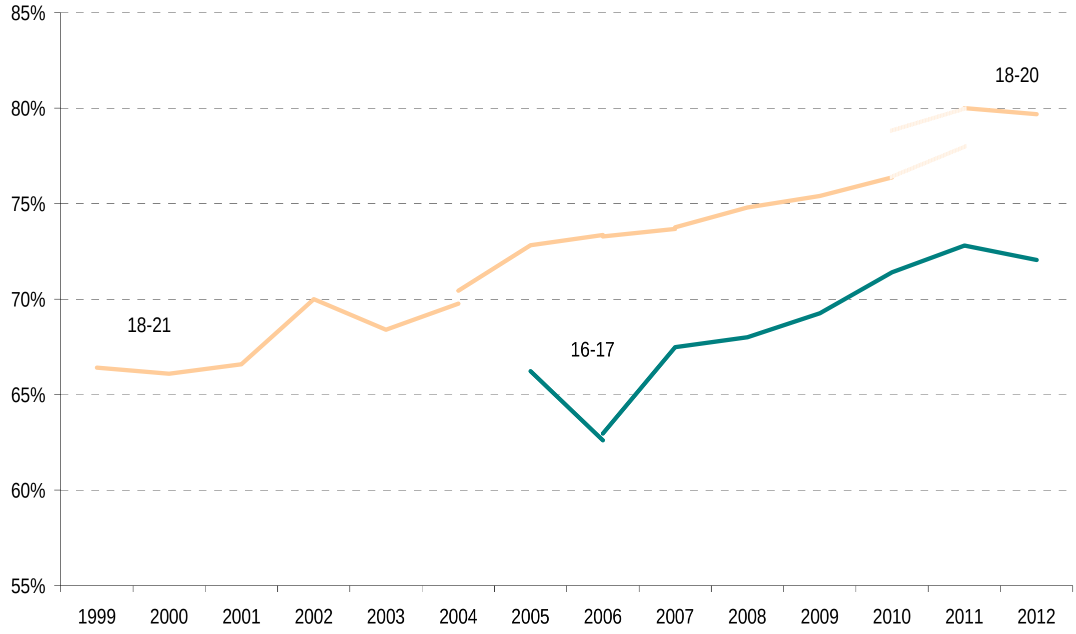
Chart 4.7 below shows the bite[29] of the youth NMW rates over time. Between 2011 and 2012, the 'bite' for individuals on the 16-17 year old and development rates has decreased slightly[30]. In 2011 the bites of the youth NMW rates were at their peak.

For those aged 21 and above, the bite has continued to increase, and rose from 53.1 per cent in 2011 to 53.7 per cent in 2012.

The bites corresponding to both youth NMW rates still remain significantly above the adult bite. Furthermore, for 21 year olds only, the bite in April 2012 reached 88.4 per cent, a rise of 1.4 percentage points on the previous year (not shown below).

[29] The minimum wage as a proportion of the median hourly wage for this age group

Chart 4.7: The bite of the youth NMW rates



Source: Office for National Statistics, Annual Survey of Hours and Earnings. 1999-2004 ASHE data - excluding supplementary information 2004-2006 ASHE data - old methodology. 2006-2012 ASHE data - new methodology.

The impact of the NMW on young people

It is important to consider that the labour market performance of younger workers tends to be hit hard during and after economic recessions and labour market outcomes tend to be more sensitive to economic cycles than adults[31]. Also, it should be noted that it will be this age group that will be affected most by the raising of the participation age in England.

Evidence suggests that labour market outcomes of younger workers are more at risk from increases in the NMW level (the evidence from the minimum wage in the USA in particular shows this and is summarised in Neumark and Wascher and 2007[32]). This is one of the reasons why there is a lower NMW rate for workers aged below 21.

Other recent evidence commissioned by the LPC suggests some negative effects of the NMW over specific time periods and on specific groups of young workers. For example Dolton and Rosazza-Bondibene (2011) concluded that the impact of the minimum wage was more detrimental for young people in the presence of an economic downturn. Fidrmuc and Tena (2013) found a negative employment effect for men, a year prior to their entitlement to the adult NMW rate[33]. Finally, Bryan, Salvatori and Taylor (2012) found

[31] See for example, National Minimum Wage report 2013, Low Pay Commission, p166
[32] Neumark D. and Wascher W. (2007) Minimum Wages and Employment, IZA Discussion Paper Series.
[33] Although the feasible implications of these results are slightly unclear

some evidence of a negative effect on hours worked of young people – this was found to be greater during the recession. However, work undertaken by the same authors (2013) found much weaker evidence of a reduction in hours. The final conclusion of the research implies that there was some weak evidence that the NMW reduced basic hours for young people during the recession relative to the pre-recession period.[34]

Policy background

Youth Contract 18-24

Launched in April 2012, the Youth Contract is worth almost £1 billion over three years.

£126million of this is reserved for 16 to 17 year olds in England. Further evidence on progress with this element is given later in this submission.

For 18 to 24 year olds, the Youth Contract builds on much of the support already available to young unemployed people, particularly through the Government's apprenticeships offer and the back to work support provided by Jobcentre Plus, the Get Britain Working measures and the Government flagship employment programme, the Work Programme. The additional money funded: additional advisers in Jobcentres; 20,000 additional Apprenticeship Grants for Employers (AGE 16-24); 250,000 additional work experience (and sector-based work academy) places; and 160,000 wage incentives for employers worth up to £2,275, which more than covers the cost of a year's national insurance contributions. Statistics released in February 2013 showed that between January 2011 and November 2012 85,540 18 to 24 year olds had started a work experience placement and 18,270 had started the pre-employment training element of a sector-based work academy.

Wage incentives were initially made available for hiring any young person attached to the Work Programme. Access to this additional support was extended in July 2012 to include young people reaching six months on benefit who live within 20 Local Authority Areas designated as 'youth unemployment hotspots'. This approach was extended nationally in December 2012.

Experimental statistics released on 22 July 2013 showed that between June 2012 and May 2013 payments were made to employers in relation to 4,690 18 to 24 year olds. Management information released at the same time showed between April 2012 and May 2013 there have been 21,460 'job starts' – which is the number of a wage incentive forms issued to employers when young people are recruited.

[34] The LPC's recent commissioned research on young people also found no evidence that the NMW had a systematic effect on the evolution of relative employment between young and old workers. The evidence suggested that younger workers (aged 18-21) were substantial complements for older workers (over 55). In addition to this, the research found some weak evidence that as the NMW increased, low-paying sector employers tended to substitute away from 16-17 year olds in favour of older workers (Lanot and Sousounis (2013)).

The wage incentive scheme has an ambitious target and Ministers have stated their intention to support further programmes that help young people. For example, the Deputy Prime Minister announced on 30 July that England's eight largest cities will be able to bid for a share of £50 million to help young people into work.

Wage incentives are only one element of the Youth Contract and the Youth Contract is only one element of support we offer to young people - it complements what is already available through the Jobcentres and the Work Programme. The latter achieved c.45k job outcomes for young people last year and c.75k young people used work experience.

There are still too many young people unemployed but we've had 14 consecutive monthly falls in the youth claimant count.

Employers using the scheme like it and do not perceive it as administratively burdensome or bureaucratic.

A wage incentive scheme is also available to employers who recruit a young disabled person from Work Choice in England, Scotland and Wales – a specialist disability employment programme that provides tailored support to help disabled people who have the most complex support needs.

Further information on the Youth Contract is available online.[35]

[35] http://www.dwp.gov.uk/youth-contract/key-initiatives/

Annex A: Government Response to LPC's 2013 recommendations

The main recommendations put forward by the Low Pay Commission concern the rates of the National Minimum Wage.

The Commission has recommended that the adult hourly rate of the National Minimum Wage should increase from £6.19 to £6.31. The Commission has recommended increasing the development rate which covers workers aged 18-20 years old from £4.98 to £5.03 and increasing the rate for 16-17 year olds from £3.68 to £3.72. It recommends that the apprentice rate should remain at £2.65. It is recommended that these changes take place in October 2013.

The Commission has also recommended that the accommodation offset increases from the current £4.82 to £4.91 in October 2013.

The Government accepts the recommendations on the adult and youth rates and on the accommodation offset, but has concluded that the apprentice rate should be increased by 3p from 1 October 2013.

National Minimum Wage Rates

We recommend that the adult rate of the National Minimum Wage be increased by 1.9 per cent, or 12 pence, to £6.31 an hour, from 1 October 2013.

We recommend an increase of 1 per cent in the Youth Development Rate to £5.03 an hour and in the 16-17 Year Old Rate to £3.72 an hour from 1 October 2013.

We recommend that the accommodation offset be increased by 1.9 per cent, to £4.91 a day, from 1 October 2013.

ACCEPT

We recommend that the Apprentice Rate should remain at £2.65 an hour from 1 October 2013.

REJECT

The Government shares the LPC's concern about non-compliance with the apprentice minimum wage and we are clear that employers must pay their staff at least the minimum wage. However, we believe that it is important to maintain the relative position of the apprentice rate compared to benefits and the youth rates to preserve the attractiveness of Apprenticeships for young people. The Government has concluded therefore that a 1 per cent increase in the apprentice rate would be appropriate. This is in line with the recommended increases in the youth rates; evidence in the LPC's report shows that the majority of apprentices paid on and just above the apprentice rate are young people. It is also in line with the planned level of public sector pay and benefit increases. We consider that the modest level of this increase would not have significant adverse effects on employment or training for apprentices. In conjunction with this we are putting in place a package of measures to improve compliance, including focused communications and targeted enforcement by HMRC.

Accommodation Offset

We recommend that the accommodation offset should remain the only permitted benefit-in-kind that can count towards payment of the National Minimum Wage and there should be only one rate. It should apply irrespective of whether the worker has a choice over taking the accommodation.

ACCEPT

Salaried-hours Workers

We recommend that the regulations for salaried-hours workers continue to be required in all their essentials. In order to make it as simple and easy as possible to achieve National Minimum Wage compliance the Government should adapt its guidance to include examples and an on-line means of determining what payment is required.

ACCEPT

Compliance

We recommend that the Government should combine a communications campaign and a targeted enforcement initiative to ensure that the Apprentice Rate is known to employers and apprentices, and that infringers are caught, punished, and wherever appropriate, named.

ACCEPT

The Government believes that this recommendation should be viewed alongside the apprentice rate recommendation. We share the concerns raised by the LPC regarding compliance with the apprentice rate. The Government accepts this recommendation and in fact goes further than is proposed. There will be a multi-faceted push on non-compliance in this area.

We recommend that contracts issued by public bodies which commission the provision of social care should contain a clause requiring at least the National Minimum Wage to be paid, just as they may require compliance with other aspects of the law, such as health and safety legislation. The Government should take responsibility for bringing this about.

NOTE

The Government fully agrees with the LPC's aim of reducing non-compliance in this sector. However, we believe there are more effective ways to achieve this. The Department of Health and the Department for Communities and Local Government are working together to develop tougher measures to deter non-compliance as well as support to improve compliance.

Annex B: Remit for the Low Pay Commission 2014 Report

The Government's aim is to have NMW rates that help as many low-paid workers as possible, while making sure that we do not damage their employment prospects.

The Low Pay Commission (LPC) is asked to:

- Monitor, evaluate and review the levels of each of the different NMW rates and make recommendations on the levels it believes should apply from October 2014 and;

- Review the contribution the NMW could make to the employment prospects of young people.

In making recommendations in the areas set out above, the Low Pay Commission is asked to take account of the state of the economy, and employment and unemployment levels.

TIMING

In addition, the LPC is asked to report to the Prime Minister, Deputy Prime Minister, and the Secretary of State for Business, Innovation and Skills by end February 2014.

Annex C: Update on non-remit issues

Section C1: Non-remit issues – Updates to National Minimum Wage policy

Agricultural Wages Board

Following completion of the passage of the Enterprise and Regulatory Reform Act 2013 through Parliament, the Agricultural Wages Board for England and Wales was abolished on 25 June 2013. From 1 October 2013 agricultural and horticultural workers in England will be protected by the National Minimum Wage Act and wider employment legislation.

Arrangements have been made to provide for agricultural and horticultural workers in Wales to continue to be entitled to the terms and conditions of the Agricultural Wages Order 2012 after 1 October 2013, pending a ruling by the Supreme Court on whether the National Assembly for Wales has legislative competence under the devolution settlement to establish a separate agricultural minimum wage regime in Wales.

Consolidation of National Minimum Wage Regulations and associated guidance

The National Minimum Wage Regulations 1999 have been amended each year to increase the minimum wage rates; at the same time numerous changes have been made to the detailed rules which are contained in the regulations. We have been carrying out an exercise to consolidate the 18 regulations into a single set, so that all the regulations are in one place, and to update the drafting so that it complies with current drafting conventions, which have changed considerably since 1999. We are also taking the opportunity to improve the regulations to ensure that the minimum wage rules are as clear as possible. We aim to go out to public consultation on the draft consolidated regulations later this year with a final set of regulations in place by October 2014 at the earliest.

In parallel to the work to consolidate the regulations, we will be improving the minimum wage guidance on Gov.uk so that employers and workers can easily understand their rights and responsibilities. As a first step, we are putting the more detailed guidance that was previously on the Business Link website back onto Gov.uk.

Compliance & Enforcement

The Government's vision is clear - anyone entitled to the minimum wage should receive it.

That is why every single complaint from a worker is investigated. We also actively target employers who flout their responsibilities and investigate any complaints made against them, taking civil and criminal proceedings as necessary.

NMW Compliance Strategy

A key aspect of our strategy is that HMRC will follow up every single complaint from a worker made through the free Pay and Work Rights helpline. This commitment has been – and will continue to be – at the core of NMW enforcement.

We are in the middle of delivering a five year compliance strategy. It takes a multi-faceted approach to compliance and enforcement and includes targeted communications to raise awareness; helping employers comply; as well as targeted enforcement action in sectors or areas, where there is a higher risk of workers not getting paid the legal minimum wage.

Because we know how vital NMW is for low-paid workers, we actively keep our compliance and enforcement strategy under review – to ensure that it is working well. Our approach will continue to be informed by intelligence and data, where we ensure that we make best use of all the tools and resources at our disposal.

We are also ensuring that we have the most effective balance of civil and criminal enforcement activities.

HMRC National Minimum Wage Enforcement Activity

BIS are responsible for the policy on NMW compliance and enforcement and HMRC enforce the NMW Act on BIS's behalf.

Since HMRC began enforcing the minimum wage in April 1999, HMRC has identified £50m in arrears for over 200,000 workers during more than 65,000 employer interventions. In 2012/13 HMRC identified £3.9m in arrears of wages for over 26,000 workers. This represents a 33 per cent increase in the number of workers that HMRC were able to help in 2012/13 and a 26 per cent increase in arrears identified compared to 2009/10.

Since 2010 enforcement has improved in a number of ways:

- The number of penalties charged, the amount of such penalties and the average per case has increased.
- We identified 33 per cent more workers in 12/13 than we did in 09/10

- The average workers per case has increased by 220 per cent and the arrears per case by 99 per cent
- We're doing our work faster than we did in 09/10, [by 6 per cent]
- We're 26 per cent more successful now at finding arrears than we were in 09/10
- We've introduced a suite of compliance interventions to target our enforcement more intelligently after undertaking customer research
- The work of our Dynamic Response Team, taking a 'total enforcement' approach across government has generated extensive media interest enhancing awareness of National Minimum Wage.
- And we're doing it with around £300k less than we spent in 09/10

All of which reflects:

- Improved focus on risk & risk governance
- Improved targeted enforcement
- Improved depth and scope of investigations
- Improved internal processes (pacesetter)

Suite of interventions

We have continued to evolve our suite of interventions to help achieve our vision.

Education, advice & leverage

We aim to work with trusted third party intermediaries who can help us to provide upfront education and advice so that employers are compliant.

During the year we have worked with the British Fashion Council [BFC] to educate employers around the use of interns and volunteers. This has resulted in the BFC beginning to design a selection of products, including apprenticeships, to provide an alternative to the use of interns. HMRC wrote to 100 fashion houses and designers offering guidance on the payment of and entitlement to NMW. BFC also wrote to approximately 400 UK fashion related companies, enclosing HMRC approved guidance on entitlement to NMW.

Correspondence

Letters are a cost-effective method of generating compliance and can be used to 'nudge' employers into compliant behaviours.

HMRC wrote to 20 agencies that were advertising online, for interns, highlighting that they needed to let employers know of their obligations under the NMW Act. This generated further Interns Aware activity and they provided HMRC with the names of 100 employers.[36] This information was fed into our risking processes. We have, subsequently, identified 11,000 employers advertising online for interns and HMRC intend to issue letters to all those employers to let them know directly what their obligations are, following up the letter with enforcement activity in 14/15.

Phone

We continue to use the telephone to conduct our enquiries where it makes sense to do so, as a more cost-effective, work-life and environmentally beneficial intervention technique. This year our telephone work was centred in 3 teams; Northern Ireland, Scotland and Wales & South West.

A national fashion retailer required workers to commence work 15 minutes prior to the shops opening without pay. HMRC carried out a series of telephone interventions and served a Notice of Underpayment identifying arrears of £114,000 for 1796 workers.

A national chain of franchised fast food restaurants deducted a £50 deposit for uniforms, bringing workers' pay below national minimum wage. HMRC carried out a telephone intervention and served a Notice of Underpayment identifying arrears of £27,400 for 658 workers.

In both cases above, the Belfast team adopted a more cost effective intervention type, using telephone interviews and tele-conferencing to produce more focused cases. The team made the best use of limited resources, and widened the geographical area of the enquiries, resulting in more arrears identified for a greater number of workers.

Health Checks

HMRC carry out checks on business with a view to understanding how the business operates and consider the potential risks arising in business not complying with NMW legislation. As a result of these checks we tell businesses what they need to do to 'put things right' and then check later that they have complied.

HMRC conducted health checks on a sample of 20 businesses participating in London Fashion Week 2012. NMW initiated discussions with the British Fashion Council and

[36] http://www.bbc.co.uk/news/uk-politics-22120467

agreed that NMW would trial NMW Health Checks. Additionally, NMW officers offered guidance on payroll, record keeping and NMW related issues. NMW officers indicated they intended revisiting the company before LFW 2013 with a view to testing continued compliance or otherwise with NMW, which they did. The outcome was that 13 of 16 employers visited introduced some change to payroll, record keeping and use of interns following the initial Health Check visit.

Face to face

Most of our interventions work still involves a face to face meeting with the employer and with workers. Our larger cases may involve a number of such meetings and occasionally we will need to speak to the Head office of the employer or the Chief Executive of the Company.

Street Sweeps

These are two or three day operations which involve 'saturating' an area where one sector dominates. To date we have focussed on the employment agency sector working with colleagues from the Employment Agency Inspectorate (EAS).

A street sweep in Corby generated extensive media interest. There were 34 visits undertaken and 25 formal inspections of agencies undertaken. Of these, 12 agencies were found to have failed NMW legislation in some form and required further investigation. Additionally there were 72 breaches of agency regulations; 14 warning letters were issued by EAS following the operation and there was 1 instance of an agency admitting to preparing and presenting false records. HMRC have uncovered 2 large agencies deducting sums from their workers in respect of work boots and uniforms; and an agency paying their workers for 35 hour weeks instead of the actual working week of 40 hours. Both cases should result in an estimated £100k for 3000 workers. For the compliant customer these short, sharp interventions reduce the burden of two separate visits and provide them with a clean bill of health.

Taskforces

These are larger operations where we join with colleagues from the wider HMRC, for example the Hidden Economy Group or CITEX[37], as well as external Government enforcement agencies e.g. Trading Standards, Police, DWP and UKBA. We leverage the bigger size of these groups to enable us to target 'no-go' areas and to generate publicity for the enforcement work that we do alongside others.

In Glasgow two HMRC DRT officers were invited to work with the Police, Scottish Power and Trading Standards. In total 4 premises were visited, NMW issues identified in two

[37] Customs, International Trade & Excise

visits to Car Washes, in one instance workers were paid at £5.00 per hour. Further NMW investigations will continue. We understand that the Police had some drugs and licensing issues.

Similarly in Croydon we were invited by the Met Police to participate in a street sweep which generated four NMW enquiries and a whole host of other issues including; 20 immigration checks resulting in four Arrests for immigration offences, 50 vehicles stopped and driver details checked for non payment of parking fines. This resulted in approximately £3,500 being recovered. There were 16 shops checked by the HMRC. Every premises highlighted suspected offences relating to tax evasion, VAT and Benefit Fraud. All of these are going to be investigated further by HMRC and followed up at a later date.

Operation Ramson took place with joint partners Security Industry Authority (SIA), and the Met Police. Four clubs were visited. There were two arrests for immigration offences; over 20 door staff were spoken to. One door staff was working without a licence and dealt with by the SIA. HMRC found lots of individuals who had tax issues and intend to follow up on their investigations which may lead to prosecutions and NMW identified issues in three out of the four premises.

Responding to the LPC's recommendations

Apprentices

"We recommend that the Government should combine a communications campaign and a targeted enforcement imitative to ensure that the Apprentice Rate is known to employers and apprentices, and that infringers are caught, punished and wherever appropriate, named".

Apprenticeships continue to be identified as a risk in around 25 per cent of HMRC's cases. Due to our concern about the apparent level of non-compliance for apprentices with the NMW rules, we are ensuring that complaints from apprentices are investigated more speedily. We continue to follow up every single complaint made to the Pay and Work Rights helpline and from July, calls from apprentices are being prioritised for HMRC's consideration.

We are also stepping up our communication activity to increase the level of awareness of the minimum wage rules across the board, including apprentices. We want to help employers avoid falling foul of minimum wage rules unwittingly, and ensure that individuals are well-informed about their minimum wage eligibility. We have already issued NMW posters to relevant organisations asking them to display them where employers and workers might see them, to raise awareness of the National Minimum Wage rules. The poster highlights the new NMW rates that come into effect on 1 October 2013 and the contact details for the Pay and Work Rights Helpline.

In addition, in England, we are taking steps to ensure all training providers deliver on existing obligations to inform employers and apprentices of NMW requirements. We will be including information on the NMW rules in the employer's information packs that National Apprenticeship Service (NAS) issues to prospective Apprenticeship employers, and in the information given to apprentices by providers. In Northern Ireland, HMRC officers have already engaged with employer, training provider and Department of Employment and Learning (DEL), offering guidance on compliance with NMW. DEL have taken this forward cascading to all training providers in Northern Ireland.

Finally, we are improving guidance on gov.uk and information more generally, to ensure we have clear, comprehensive and consistent information on the minimum wage rules.

Interns

"The evidence we have gathered …. Suggests that there continue to be areas of non-compliance, in particular in relation to: apprentices; interns, those on work experience or volunteers; social care (especially domiciliary care); and among hotel cleaners and home workers."

In addition to the fast-track process above we have a similar process for intern complaints; which are all referred to members of our Dynamic Response Team, [DRT], to action. To date, we have received 95 intern complaints since the fast track process started in August 2012. Of those, 53 have closed.

Arrears of pay for 171 workers totalling £193,873 have been identified in 12 cases. These figures demonstrate that the issue of interns isn't as straightforward as it at first appears and there is a real 'blurring' of the distinctions between voluntary work and work which attracts NMW in this area. HMRC have asked for legal advice with a view to providing some clarity for interns and employers alike.

We have worked very constructively with the British Fashion Council, BECTU and with lobby groups like Intern Aware to tackle the exploitation of interns and to change employer behaviours. There is still much to do but we are committed to tackling potential non-compliance at the advertising stage as well as fast-tracking all complaints that we receive.

This is also why BIS policy officials comissioned young people from 4Talent[38], Channel 4's in-house scheme offering to help people gain entry into the creative industries, and internship stakeholders to produce innovative guidance for young people, providing clarity on when they are entitled to the National Minimum Wage. Further detail on this campaign is covered on page 73 of this evidence.

Our targeted enforcement campaigns have included the social care sector and hotel cleaning, the latter is ongoing.

[38] http://4talent.channel4.com/

NMW Naming Scheme

On 23 August we announced that the revised NMW Naming scheme will come into effect on 1 October 2013. The new rules are part of Government efforts to toughen up enforcement of the NMW and increase compliance. By naming and shaming employers it is hoped that bad publicity will be an additional deterrent to employers who would otherwise be tempted not to pay the NMW. This is on top of financial penalties which employers already face if they fail to pay NMW.

Under the original scheme, employers had to meet one of seven criteria before they could be named. The minimum amount of National Minimum Wage owed to workers had to be at least £2,000 and the average per worker at least £500 before an employer could be referred to BIS from HMRC for naming. The revised scheme will name employers that have been issued with a final Notice of Underpayment (NoU) by HMRC. This notice sets out the owed wages to be paid by the employer together with the penalty for not complying with minimum wage law.

Currently employers have 28 days to appeal against the NoU and this will continue. If the employer does not appeal or unsuccessfully appeals against this NoU, BIS will consider them for naming. The employer then has 14 days to make representations to BIS outlining whether they meet any of the following criteria: naming by BIS carries a risk of personal harm to an individual or their family ors there are national security risks associated with naming or there other factors which suggests that it would not be in the public interest to name the employer/ company. BIS will normally expect to inform the employer of any representations made within 14 days of receipt of any representation made by the employer. If BIS do not receive any representations or the representations received are unsuccessful, the employer will be named via a BIS press release under this scheme.

The new rules are part of Government efforts to toughen up enforcement of the NMW and increase compliance. By naming and shaming employers it is hoped that bad publicity will be an additional deterrent to employers who would otherwise be tempted not to pay the NMW. This is on top of financial penalties which employers already face if they fail to pay NMW.

Employment Tribunal Cases & County Court Judgements

Additionally we publicise, where possible, occasions where HMRC has been required to pursue debts on behalf of workers to County Court and have obtained a County Court Judgement. We have had some local and sectoral success with such briefings but have not been able to brief on every occasion because of the time lag between the award being given and the Ministry of Justice notifying HMRC of the award. One such briefing gave rise to commentary on Facebook[39], something we would like to see more of, especially as we launched an NMW Facebook page during the year. We also now regularly 'push' SMS messages to over 2,000 customers.

[39] Richard Lloyds Hairdressing - Salon Managers Academy – A Facebook group for Salon's managers listed the article.

Prosecutions

HMRC will refer suitable cases to prosecutors. The decision on whether to prosecute or not is made by the Crown Prosecution Service (CPS) who will consider the evidence provided in support of prosecution and whether it is in the public interest to prosecute.

Criminal investigations by HMRC and prosecutions by the CPS will not necessarily result in arrears of wages being paid to workers as this is not the objective of such proceedings. Further enforcement action may, therefore, still be required to ensure that workers are repaid their arrears.

The vast majority of employers pay the minimum wage and of those who don't the vast majority pay back arrears of wages on being required to do so by HMRC. In a small minority of cases HMRC will take further enforcement action and will pursue the debt to workers through the civil courts.

Since March 2013, eight cases have been referred by our officers for consideration of prosecution. Prosecutions continue to be resource intensive, in terms of time and money. We had one prosecution in February 2013- Kenneth Nnaemeka Ikerunanwa was fined £1,000 after pleading guilty to failing to pay the security guards he employed wages that they were legally entitled to. He was also sentenced to 18 months imprisonment, suspended for two years, for under-declaring VAT due of at least £72,000 and ordered to pay £20,000 compensation. Ikerunanwa, the proprietor of Widescope Security Services, Tottenham, provided security guards to construction sites. He also pleaded guilty to failing to produce appropriate documents for HM Revenue and Customs (HMRC) compliance officers during their enquiries.

We are reviewing our policy on prosecutions to ensure that it continues to be consistent with our overarching compliance strategy for the minimum wage.

Project based targeted enforcement

Social Care

We have developed sophisticated risking techniques which allow us to conduct, where we have the resources available to do so, project based targeted enforcement in high risk sectors.

We have targeted the residential and domiciliary care sectors. The national project began with extensive research including consultation with key stakeholders in this sector including the Care Quality Commission, academics and the Department of Health. Between April 2011 and March 2013 we carried out targeted enforcement as set out in table C.1:

Table C.1 – Social Care targeted enforcement results

Sub-Sector	Total Cases	With Arrears	% Strike Rate	Total Arrears	Total Workers	Average Per Worker
Residential	141	74	52%	£309,325	2024	£152.83
Domiciliary	83	27	33%	£29,510	420	£70.26
All	224*	101	45%	£338,835	2444	£138.63

The emerging findings from interventions that were started in the review period indicate that although deductions from pay are still a factor in causing underpayments of NMW, there are other more significant issues affecting NMW pay including unpaid induction training, a failure to pay NMW for all working time when travel time between clients is factored in, travel expenses incurred by workers in the performance of their work that reduce pay below NMW, and a lack of awareness regarding the payment of premium rates and their effect on NMW pay calculations.

Worker time recording systems need to be better and robust enough to correctly identify working time to include time spent with service users, travel time between visits, time spent on training, time spent awake during sleeping nights.

- Employers need greater awareness of the way in which deductions from pay affect pay for NMW purposes.

- Employers need to understand how premium rates of pay are treated for NMW pay calculations.

- Residential care providers need to be aware of accommodation offset rules for NMW pay purposes when accommodation is provided for workers.

This kind of intervention is resource intensive but allows us to take a 'whole view' approach to a high risk sector to really understand the reasons for non-compliance so that we can educate employers upfront, enabling them to comply more easily. We will be issuing the report in the autumn.

Retail Sector

A key risk trade sector for NMW is the retail sector. Traditionally workers employed in this sector, particularly those working for large multi outlet traders, are paid at or close to the national minimum wage. Effecting a change in behaviours will always influence large numbers of workers throughout the UK and not simply impact a small geographical area. NMW selected 12 companies and identified non compliance in 50 per cent of cases. Compliance activity identified NMW arrears of wages payable to 11,000 workers totalling £380,000. As a result of NMW intervention, six large national retailers have changed their working practices and implemented comprehensive systems to ensure that all workers are now paid for all time worked, including time attending team briefings before a worker starts their shift and deductions which reduced workers' pay to below NMW are no longer made.

High profile multi-agency operations

These are our biggest operations involving a wide variety of external agencies. This year we will be contributing to the cross-government task-forces announced by the Prime Minister in May 2013. The operation below builds on the work that we did with the Local Authority in Newham last year and tries the same approach in Blackpool.

On 11 July NMW working alongside HMRC, Police and Local Authority Enforcement officers launched the NMW Holiday Industry Taskforce. There were a total of over 60 HMRC officers, including 12 NMW officers, who visited premises throughout the day, working alongside Hidden Economy Group colleagues and in the late evening were back on the streets with Blackpool Trading Standards and Food Hygiene officers cold calling on hot food bars and carry outs. From 36 visits only three businesses were able to make available payroll records or have their workers give credible statements to the NMW compliance officers and NMW irregularities were identified in 50% of those visited. We generated extensive publicity in the local area.

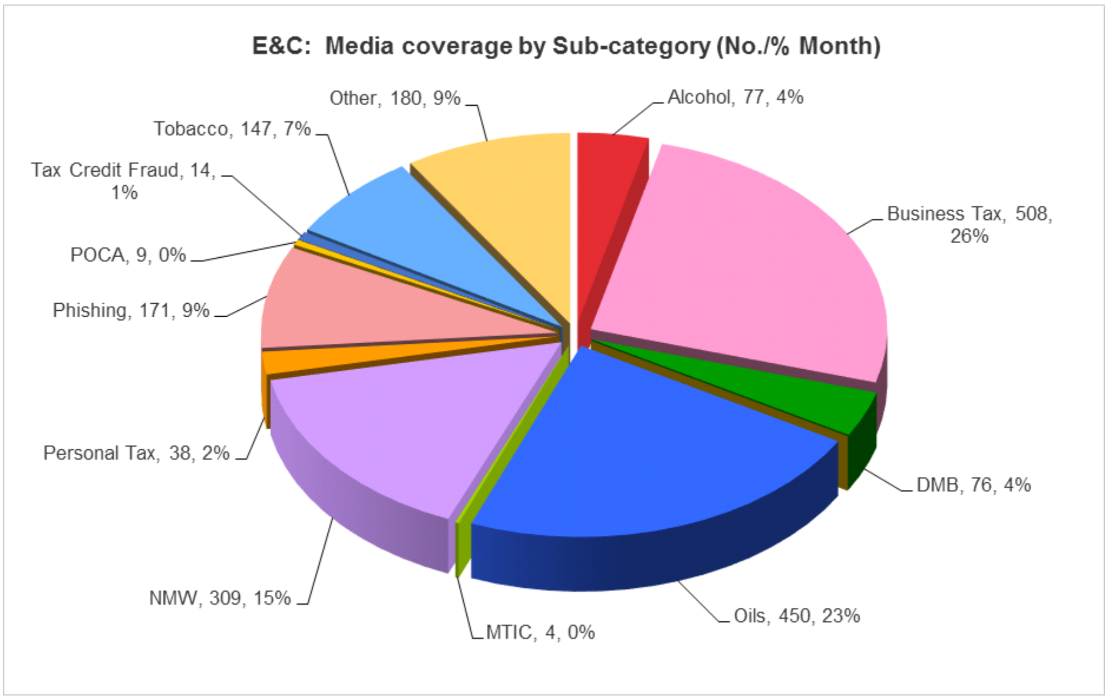
Raising the Profile of the work that we do

HM Revenue & Customs (HMRC) issued a national news release and various regionalised versions across the UK on 30 May 2013 to highlight the amount of National Minimum Wage arrears secured in 2012/13 (chart C.1). Details were also given of the number of complaints investigated, penalties charged and workers helped. Generic examples were also provided.

Blanket coverage was achieved, in print, online media (including BBC Online, Times, Guardian, Sunday Times, Independent and various regional media) and regional radio broadcasts, when the news release was issued saying that more than 26,000 workers denied the National Minimum Wage by employers had received a £4 million windfall after action by HMRC. In May 2013, as a consequence of this low-cost activity, we recorded over 300 items of National Minimum Wage coverage.

Chart C.1: Enforcement and compliance: Media coverage by sub-category

Number/per cent per month



In addition to extensive national media coverage during the year, including the front page of The Times, we got good local coverage for our ET reports, particularly Servizon, for our street sweep activities in Corby; and in the Blackpool Gazette for our work with Blackpool Local Authority. We take every opportunity to promote our enforcement work through low-cost media coverage, but we can never guarantee that stories will be picked up.

NMW Evaluation

We are currently carrying out an evaluation of the changes that were made to the National Minimum Wage enforcement regime by the Employment Act 2008 (which came into force in April 2009) which includes:

- the introduction of a new financial penalty;
- a requirement to pay workers arrears of wages at current NMW rates;
- and new powers for NMW compliance officers;

We are also evaluating the NMW compliance strategy and feeding into a cross Government consultation on Powers of Entry.

We will report on the outcome of this evaluation in summer 2014.

Section C2: Non-remit issues – Related policy updates

Young people and the Participation Strategy

In December 2011, the Government published its Youth Participation Strategy. Details were included in the Government's 2011 evidence to the LPC.

Participation in education and training is at a high level. Historically the proportion of young people who are NEET (Not in Education, Employment or Training) remains unacceptably high. The Government is committed to tackling this problem. Being NEET is an enormous waste of a young person's potential, their contribution to their community, and to the economy. This is why reducing the numbers of young people who are NEET is an important priority for the Government.

The Government is working to ensure that all young people are able to get the skills they need to succeed in a competitive, high-skilled labour market and make a successful start in employment. This is being done through raising the age of compulsory participation; making the education and training offer more attractive and relevant to young people; ensuring young people have access to information they need to make good choices; and providing additional support to the most disadvantaged, including extending the eligibility criteria of the Youth Contract.

Apprenticeships in England

Apprenticeships – paid jobs that incorporate on and off the job training leading to nationally recognised qualifications - are at the heart of the Government's drive to equip people of all ages with the skills employers need to prosper and compete, often in a global market.

Our aim in reforming Apprenticeships is to make our programme the new international benchmark for excellence. We are determined to raise all Apprenticeships to the standards of the best, so that the programme is rigorous, responsive, and meets the changing needs of our economy in the decades to come.

That is why we commissioned the Richard Review of Apprenticeships. On 14 March 2013 we published a consultation document[40], which set out our medium-long term vision for Apprenticeships, together with our proposals for achieving this, for consultation and debate. The consultation closed on 22 May. Detailed policy development continues. An implementation plan will be published in autumn 2013.

[40] https://www.gov.uk/government/consultations/future-of-apprenticeships-in-england-richard-review-next-steps

Preparations for legislative changes to enable the reforms are being made via the Deregulation Bill[41] which is currently undergoing pre-legislative scrutiny.

We are also consulting on a major reform of Apprenticeship funding. The consultation[42] seeks views on three ways of delivering these reforms: through a new online Apprenticeship system with payments to employers made directly from the system, or through utilising the PAYE system, or by reforming the existing provider funding infrastructure. We plan to publish our plans for implementation, depending on the delivery model, later this year.

Volumes

Over 200,000 employer workplaces employed an apprentice in 2011/12 academic year. There are more than 250 Apprenticeship frameworks available in over 1,400 job roles, covering an extensive range of skills levels and occupations.

We are investing £1.5 billion in apprenticeships in the 2012-13 financial year, of which £833,000 is for 16-18 year olds. In addition to wider efforts to create more apprenticeship opportunities, and to grow the programme amongst small and medium enterprises (SMEs), we have introduced incentive payments of £1,500 for small employers taking on their first new apprentice aged 16-24 years old. Latest figures show that almost 30,000 young people have been taken on under the current grant. On 24 July 2013, we announced[43] that we will extend this grant to December 2014, helping small and medium-sized business to take on an additional 35,000 young apprentices. We also fully fund apprenticeship training for 16-18 year olds, to provide an additional incentive to employers to take on a younger person and reflect their relative inexperience in the workplace.

There were 520,600 Apprenticeship starts (16+) in the 2011/12 academic year - an increase of 13.9 per cent compared to 2010/11. There were 187,900 Advanced Apprenticeship starts - a 22.1 per cent increase on 2010/11; and 3,700 Higher Apprenticeships (Level 4) starts - an increase of 67.6 per cent on 2010/11.

Apprenticeships across the UK

Due to our concern about the apparent level of non-compliance for apprentices with the NMW rules, we are ensuring that complaints from apprentices are investigated more speedily. We follow up every single complaint made to the Pay and Work Rights helpline and from July calls from apprentices are being prioritised for consideration. We will evaluate the impact of this process later in the year.

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[41] http://www.parliament.uk/business/committees/committees-a-z/joint-select/draft-deregulation-bill/news/have-your-say-on-the-draft-deregulation-bill/
[42] https://www.gov.uk/government/consultations/apprenticeship-funding-reform-in-england
[43] https://www.gov.uk/government/news/government-sets-out-radical-plans-to-shake-up-apprenticeship-funding

We are also stepping up our communication activity to increase the level of awareness of the minimum wage rules across the board, including apprentices. We want to help employers avoid falling foul of minimum wage rules unwittingly, and ensure that individuals are well-informed about their minimum wage eligibility.

We are improving guidance and information more generally, to ensure we have clear, comprehensive and consistent information on the minimum wage rules.

Study programmes

From September 2013, all 16 to 19-year-olds in education institutions will be on a study programme aimed at giving them the best opportunity to move into higher education, further training, an Apprenticeship, or secure skilled employment. Study programmes can be academic or vocational or mix of the two, and will ensure that young people focus on those areas that employers value most – English and maths, substantial qualifications and work experience. Traineeships for 16- to 19-year-olds (as described below) are a strand of study programmes. Further information about study programmes can be found here[44].

Traineeships

Traineeships are a new skills and work experience programme funded by BIS and DfE to help young people become ready for Apprenticeships and other jobs.

Traineeships will contain three core elements:

1. A focused period of work preparation training, focusing on areas like CV writing, interview preparation, job search and inter-personal skills.

2. English and maths (up to GCSE level) as these are seen as crucial qualifications that offer employability skills.

3. A high quality work placement to give the young person meaningful work experience and the opportunity to develop workplace skills.

Providers will also have the flexibility to integrate other support and training, such as mentoring, careers guidance, vocational qualifications and job search support.

The Programme covers England only and for 2013/14 can be delivered only by providers graded Outstanding or Good by Ofsted. Funding for providers is available from August 2013 but providers will choose their own start dates.

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[44] https://www.gov.uk/government/publications/study-programmes-for-16-to-19-year-olds

Traineeships will be available for young people aged 16 up to 24 (i.e. 16 to 23 year olds inclusive) and for young people with Learning Difficulty Assessments up to academic age 25.

The core target group for traineeships will be young people who:

- are not currently in a job and have little work experience, but who are focused on work or the prospect of it;
- are qualified below Level 3 or 19-23 and have not yet achieved a full Level 2; and
- providers and employers believe have a reasonable chance of being ready for employment or an Apprenticeship within six months of engaging in a traineeship.

Traineeships are exempt from the NMW under the exemption for work experience undertaken as part of a further education course. It will be necessary to emphasise that they are exempt from the National Minimum Wage.

Raising the Participation Age (RPA)

By 2015, all 16 and 17 year olds in England will be required to continue in education or training.

RPA legislation came into effect from 28 June 2013 and this means that all young people who left year 11 in summer 2013 have to continue in education or training until the end of the academic year in which they turn 17 and all young people who are in year 11, or below, from September 2013 have to participate until their 18th birthday.

Young people will be able to participate in a number of ways:

- full-time education, such as school or college (sometimes with a part time job alongside);
- an Apprenticeship, or
- work with part-time accredited education or training alongside.

The definition of the minimum required 'full-time' education for RPA is 540 hours. Those hours can be made up of study towards an accredited qualification, and any activities suggested within the principles of 16-19 study programmes (such as work experience and tutorials). Further information on study programmes can be found here[45].

With regard to young people meeting the duty to participate through working with part-time study alongside: the part-time education or training must be at least 280 hours per year. Volunteering, employment, self-employment and holding an office count as full-time work for the purposes of RPA. Further information on RPA can be found here[46].

There are no duties on employers in relation to RPA, so there will be no action taken against them if their young employee(s) fail to undertake part-time training. Whilst young people are under a duty to participate, employers are not under an obligation to provide or arrange that training.

However, having a trained and qualified workforce has clear benefits for a business, particularly in terms of productivity, so employers may wish to consider how training could support their business needs. The Government fully funds accredited training for 16-18 year olds and local authorities can provide further information about training opportunities that can best support the needs of local businesses.

The vast majority of 16 and 17 year olds already continue in some form of education or training and there will be no new costs to employers as a result of RPA.

Information about what RPA means for employers is being communicated to them in a number of ways including fact sheets and briefings to organisations such as the National Apprenticeship Service, the Federation of Small Businesses, the National Careers Service network, the Chambers of Commerce and CBI. The internet and social media are also being used, along with a letter to all MPs.

Youth Contract for 16-17 year olds

The Youth Contract for 16 and 17-year-olds supports disengaged young people to move into education, training or employment with training. It is contributing to the government's overall commitment to full participation for this age group as we raise the participation age to 17 in 2013 and 18 in 2015. This programme of additional, individualised support is focused on young people who are not in education, employment or training (NEET). Delivery of the programme began in September 2012.

The original core target group for this programme, as defined during the procurement exercise, focuses on providing support to at least 55,000 young people who are 16 to 17-year-olds currently NEET with low levels of attainment (no GCSEs at A*-C).

Savings made during the initial procurement exercise have allowed us to extend the eligibility criteria for the programme to meet the needs of an additional 15,500 16 and 17

[45] https://www.gov.uk/government/publications/study-programmes-for-16-to-19-year-olds
[46] https://www.gov.uk/government/policies/increasing-opportunities-for-young-people-and-helping-them-to-achieve-their-potential/supporting-pages/raising-the-participation-age

year olds in the following specific groups of disadvantaged young people who are NEET. In January 2013 it was announced that the eligibility criteria for the programme would be extended to include 16 and 17 year olds who are NEET and who have one GCSE A*-C or; who are in care/have left care (care leavers) or; who are young offenders released from custody or serving community sentences.

To the end of the 2012 to 2013 financial year, 4,364 young people have enrolled on the Youth Contract for 16 and 17 year olds, 1,202 of which have re-engaged successfully into education, training or employment with training[47].

On first inspection, these numbers appear low, however, programmes such as the Youth Contract, which provide support to a specific, targeted group of young people, are often subject to a slow start with providers required to build the necessary networks to engage these young people.

The length of the journey for a young person on the Youth Contract can also be anything from six to 12 months. The programme commenced in September 2012 and the data published is up to March 2013, therefore many young people who started on the programme are yet to re-engage in education, employment or training. For this data set, therefore, we did not expect the information to show significant numbers of young people who had progressed in education, employment or training and did not expect that any would have sustained for five out of six months in that outcome.

The latest Statistical Release from the Department of Education shows a decrease in the number of young people NEET. The decreased numbers of young people NEET means there are less young people eligible for the programme.

However, performance since April 2013 has improved and the Education Funding Agency (EFA) and providers delivering the programme are determined to increase the numbers of young people on the programme and help them to re-engage into a positive outcome.

The EFA ensures continuous improvement of the Youth Contract programme through:

- Contract management of the prime providers;
- Sharing good practice and;
- Payment by results model.

[47] This data is taken from the published data set on the Youth Contract website. Data is for the original cohort only. The next update of the data set in autumn 2013 will also include performance data for the extended cohort.

Work experience

Labour market analysis shows that work experience provides a real advantage to young people in securing employment. In fact one in three UK vacancies cannot be filled due to skills shortages, and the number of vacancies each year exceeds the number of young people who do not have jobs. The real challenge is supporting young people in gaining the qualifications and skills they need to secure the jobs that are available.

From September 2013, reforms to post-16 curriculum and funding in England will encourage the provision of work experience. All students will be offered a study programme that combines qualifications and activities, such as work experience tailored to the individual student's prior attainment or employment goals. The new Technical Level qualifications[48] announced in July 2013 will require work experience to form a part of the qualification or for employers to be involved in other ways.

The Government has invested £4.5 million over two years (2011-12 and 2012-13) to enable 25 further education (FE) colleges to trial innovative models for delivering work experience for 16- to 19-year-olds. The pilot helped colleges to place nearly 10,000 students (many of whom are from the most deprived areas and at risk of becoming NEET) into high quality work placements. Also as a result of this investment, the pilot has encouraged improved and sustainable partnerships between the FE sector and local employers of all sizes.

The full evaluation of the pilot, published this October[49], highlighted the importance of colleges providing a structured approach to work experience, including the appointment of a work experience co-ordinator to prepare students and make sure the employers and teachers work together to integrate the work experience into the curriculum. Almost 4,000 employers provided just under 10,000 placements with the average additional cost to the college being £11.45 per day. Many of the employers are keen to continue to offer placements.

The Government has made it easier for employers to provide opportunities for young people by:

- producing simpler and clearer health and safety guidance[50] for all those involved in work experience;
- securing commitment from the insurance industry to treat work experience students as employees so that they will be covered by existing employers' liability compulsory insurance policies;
- changing legislation[51] so that employers no longer need to carry out CRB checks on staff supervising young people aged 16 to 17 on work experience and;

Students undertaking work experience are exempt from the National Minimum Wage (NMW) because they are not classed as workers. This exemption will apply provided that

[48] https://www.gov.uk/government/news/new-tech-levels-to-raise-the-quality-of-vocational-qualifications
[49] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/246182/DFE-RR298.pdf
[50] https://www.gov.uk/government/news/ministers-to-end-work-experience-health-and-safety-confusion
[51] Rehabilitation of Offenders Act 1974 (Exceptions) (Amendment) (England and Wales) Order 2012

schools, colleges and training providers observe the study programme funding requirements that state they must plan, organise and supervise the students' work experience placements.

Universal Credit

The Universal Credit Pathfinder successfully completed its roll out on 29 July as Warrington and Oldham Jobcentres began accepting claims.

Ashton-under-Lyne and Wigan are already taking new claims to Universal Credit – the majority being made online. All the Pathfinder sites have been using the new Claimant Commitment and reviewing progress on the activities claimants have signed up to, and a number of claimants have moved into work. All these Jobcentres have been supported by the Universal Credit Service Centres in Bolton and Glasgow.

Following the successful launch of the Pathfinder in April DWP have also set out the next stage of the roll-out for Universal Credit.

This includes rolling out the current Pathfinder process on a phased timeline to a further six Jobcentres across the regions/countries - Hammersmith, Rugby, Inverness, Harrogate, Bath and Shotton. This plan means Universal Credit will be rolling out in areas of England, Wales and Scotland.

DWP will also roll out improved access to digital services across Jobcentre Plus. There will be 6000 new computers installed across the country, embedding digital technology and ensuring that jobseekers become used to online transactions.

At the same time, the other components of Universal Credit that will support the cultural transformation that the benefit will bring, such as the Claimant Commitment, and enhanced jobsearch support, will roll out across the country, including training 20,000 Jobcentre Plus advisers to achieve this.

Workplace Pension Reforms

An ageing population, combined with millions of people under-saving, is one of the biggest long-term challenges the UK faces, with approximately 11 million people currently not saving enough to deliver the pension income they want or expect in retirement.

To address this, the Government has introduced automatic enrolment, which places new duties on employers to automatically enrol their eligible workers into a workplace pension scheme. Automatic Enrolment went live on 1 October 2012 and will see up to 11 million people starting to save or saving more for their retirement, with a contribution from their employer. It will be rolled out over the next five years with the largest employers already automatically enrolling their staff. All employers will be included by February 2018.

Details of these reforms were provided in the Government's evidence to the Low Pay Commission in 2011

Since then, there are the following updates:

- We estimate that between six and nine million people will be newly saving in a workplace pension scheme as a result of the reforms;
- More than a million workers have been automatically enrolled since October 2012;
- Opt out is lower than expected so far. Previous research suggested around a third of people would opt out but the latest research with large employers indicates that around 9 per cent of individuals are choosing to opt out.

We are doing all we can to ease burdens on employers:

- The minimum level of contributions will be phased in during implementation to help both employers and individuals adjust gradually to the additional costs of the reforms;
- Until October 2017 the total contribution level (including tax relief) will be two per cent (on a band of earnings) with a minimum of one per cent coming from the employer;
- From October 2017 the total contribution level will be five per cent with a minimum of two per cent coming from the employer;
- Once fully phased in (October 2018), the total contribution level will be eight per cent with a minimum of three per cent coming from the employer; and
- Small businesses (1 - 49 workers) have been given additional time to prepare for automatic enrolment and will not have to begin automatically enrolling their workers until June 2015 at the earliest.

The Pensions Regulator continues to work with employers and schemes to ensure they understand and are able to meet their new duty. There are detailed guides and a number of interactive tools on the TPR website, including a planning tool to help employers prepare for their duties

Our analysis shows that in 2010 between 2.1 and 2.3 per cent of those eligible for automatic enrolment earned within 5 pence of the NMW. Figures were slightly higher for women than men (2.5-2.9 per cent and 1.7-2.0 per cent respectively).

Zero hours contracts

Following publication of the 2012 Q4 Labour Force Survey data, there was widespread, mostly negative media coverage on the increased use of zero hours contracts. Publicity focused on zero hours contracts being a particular issue for younger people, suggested that individuals could be exploited and that zero hours contracts created uncertainty because those employed on them were unable to plan other work, time or finances. By contrast some reporting showed there were people who liked the flexibility of zero hours contracts because they suite their lifestyle. For example, someone who has retired or partially retired but wants to remain connected to the labour market in a way that suits them.

Officials in BIS have carried out an information gathering exercise zero hours contracts and speaking with external stakeholders, including the LPC, to better understand the extent of their use, how they work in practice and any evidence of abuse of these contracts by employers.

Ministers are now considering this information and next steps will be outlined later in the autumn.

Agency Workers regulations

Recruitment Sector background

The recruitment sector places over 1.6 million people into permanent and temporary work each year. The sector is currently regulated by the Employment Agencies Act 1973 and the Conduct of Employment Agencies and Employment Businesses Regulations 2003 and is enforced by the Employment Agency Standards Inspectorate based in BIS.

The legislation is complicated and difficult for businesses and individuals to understand and was identified by the Red Tape challenge as needing reform. Between the 17 January and the 11 April 2013 the Government consulted on a proposal to establish a new regulatory framework and enforcement regime for the recruitment sector. The Government response to the consultation was published on the 12 July 2013.

Changes to legislation and enforcement

The Government intends to replace the current legislation with a new regulatory framework which removes some of the burden from business but continues to protect people who are looking for work. The new legislation will continue to ensure that employment agencies and businesses are restricted from charging fees to work-seekers and that employment businesses do not withhold payment from temporary workers.

The Government intends to change the recruitment sector enforcement strategy by moving to a more focussed and targeted enforcement regime. In future we will focus Government resource on helping the most vulnerable workers, particularly those on the National Minimum Wage by transferring some of the resource of the Employment Agency Standards (EAS) Inspectorate to HMRC's NMW team. Enforcement will be carried out under NMW legislation and will be subject to HMRC sanctions. A small team will remain in BIS to enforce the recruitment sector legislation.

While there have been some concerns raised by stakeholders about this change, and how resources will be allocated going forward, others such as the Recruitment and Employment Confederation, the biggest trade body in the recruitment sector, have said that they hope the new strategy may mean greater scrutiny of non-recruitment players in the supply of labour, such as umbrella companies (who do not fall within scope of recruitment sector legislation).

A common response has been to wait and see how the new enforcement strategy will work in practice.

Agency Workers Regulations

The Agency Workers Regulations (AWR) came into force in October 2011. From the first day of an assignment, agency workers are entitled to access to the hirer's facilities such as the canteen and childcare facilities, and access to information about job vacancies. After completing a 12 week qualifying period, the agency worker is entitled to the same basic terms and conditions that he or she would have received if recruited directly. This includes terms and conditions relating to key elements of pay.

Social Care

The social care workforce plays a vital role in helping to put people who use social care services in control of their lives. We are aware that low pay can be a concern for many working in the sector. However, it is the responsibility of employers to ensure that staff are paid at least the NMW.

Funding for social care comes from individuals who purchase their own care, the NHS and local authorities. Whilst the Government does not directly employ care workers, the Government does allocate resources to local authorities who make decisions about what proportion of their budget to spend on adult social care for those with eligible assessed needs who qualify for state funding. Both local authorities and the NHS have to ensure that they, and the service providers from whom they commission, offer a quality service.

Subject to being passed by Parliament, the Care Bill will introduce a new duty on local authorities in England from 2015 to facilitate and encourage their local markets for adult social care to ensure a diverse and sustainable range of high quality providers. The Department of Health is funding a programme to help local authorities prepare for this new duty, and will also working with the Association of Directors of Adult Social Care to develop standards and guidance for local authority commissioning that will encourage best practice on workforce issues.

The Department is also working with Skills for Care to develop a Care and Support Sector Compact (now called Social Care Commitment) to promote culture change and skills development. The Social Care Commitment is about those working in the adult social care sector publicly declaring their commitment to improving the quality of care and support services by signing up to a series of statements. By signing up to the commitment, employers and their workers are pledging to continually strive to deliver high quality care ensuring the public can have confidence in the services they use. The framework will look to ensure a positive culture and working environment is created. The Compact was launched on 22nd April 2013 with a further launch planned for later in 2013. For the first time also, Department of Health will target personal assistants (PAs), and their employers, with greater support, learning and training through the Workforce Development Fund. This will also help to improve the quality of the care and support delivered.

Responding the LPC 2013 report recommendations

We note the LPC's recommendations and acknowledge that there has been a lack of progress in taking forward the recommendations. However, we are looking to allocate resources to this important area of work in the near future and will seek to address LPC's recommendations.

We are looking to emphasise in the Care Bill the importance of appropriate working conditions for the care sector, this is subject to Parliamentary approval, Parliamentary procedure & HA approval and further information about this should be available later in the year. In addition, we are encouraging all social care employers to sign up to Social Care Commitment which incorporates an ambition to provide a quality service by ensuring a positive culture and working environment is created.

We acknowledge the findings of HMRC (summarised at page 55) and will commission Skills for Care to develop and publish guidance for employers with regards how they maintain worker records and how this impacts on NMW.

Internships

The government continues to promote and encourage the creation of high quality placement and internship opportunities. Internships can be a great way for young people to get their first experience in the labour market and recent evidence shows that young people who have undertaken this work experience are three times more likely get a permanent job.

It is crucial that young people are prepared when entering the world of work and are fully aware of what to expect from an internship (both paid and unpaid). That is why BIS has commissioned young people from 4Talent[52], Channel 4's in-house scheme offering to help people gain entry into the creative industries on a campaign to get messages about rights and responsibilities out to young people and encouraging them to call the Pay and Work Rights Helpline if they think they have been exploited.

We asked interns and apprentices from Channel 4's 4Talent programme to develop a poster campaign and a short film communicating key messages about internships – by interns, for interns - giving viewers the chance to hear directly from young people like themselves as well as the Minister for Employment Relations.

We need to go to where young people are and that means online and on social media such as Twitter, Facebook and other online portals. This is all in addition to detailed guidance for employers at gov.uk.

There is also a key responsibility on businesses and universities, who must work together to help students acquire the skills and knowledge that employers need. The government is continuing its support for graduate internships through the BIS funded Graduate Talent Pool (GTP) website[53]. GTP has proved a useful way of encouraging employers, especially small enterprises, to offer graduate internships, and of ensuring that those internship vacancies are available to the widest possible audience of recent graduates. GTP is free to employers and to graduates, provides information and advice on all aspects of internships, and includes a quality assurance process for vacancies. Around 98 per cent of vacancies are for paid internships. As at August 2013 the service has carried more than 55,000 vacancies since 2009, and has registered over 8,000 employers and 94,000 graduates.

BIS is working with the Gateways to the Collaborative Forum, an ad hoc advisory body made up of volunteers and representatives from around 60 professional bodies, to review their Common Best Practice Code for High Quality Internships. The content is aimed at employers and describes the core elements required in order to obtain the maximum benefits from internships for both interns and employers. It intends to make this material available, via the web, during autumn 2013.

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[52] http://4talent.channel4.com/
[53] www.graduatetalentpool.direct.gov.uk/

Annex D: Statistics on NMW Enforcement 2012/13

HMRC delivered just under £4million of arrears for around 26,500 workers for 2012/13.

Table D1: Enforcement Statistics 2012/13

Arrears	£3,974,008
Workers	26,519
Completed investigations	1,696
Total number of complaints from workers	1,408
Notices of Underpayment	736
Uplift to current rates	£195,216
Penalties Imposed	708
Penalty charges	£776,517
Resolved Worker Complaints	1,265
Average arrears per worker	£150
Incidence of non-compliance (strike rate)	43%

Table D2: Regional analysis of number of NMW complaints through Pay and Work Rights Helpline

Region	Cases	Per cent
East Midlands	132	5.88
East of England	143	6.38
London	201	8.96
North East	45	2.01
North West	204	9.09
South East	196	4.59
South West	103	4.59
Unknown	940	41.91
West Midlands	141	6.29
Yorkshire and the Humber	138	6.15
Total	**2243**	**100**

Table D3: Breakdown of cases by Standard Industry Sector

Standard Industry Sector	Total Number of Cases	Complaint Cases	Risk Assessed Cases
Agriculture, Forestry And Fishing	16	14	Fewer than 5
Mining And Quarrying	Fewer than 5	Fewer than 5	Fewer than 5
Manufacturing	91	55	36
Electricity, Gas, Steam And Air Conditioning Supply	Fewer than 5	Fewer than 5	Fewer than 5
Water Supply; Sewerage, Waste Management And Remediation Activities	26	18	8
Construction	76	71	5
Wholesale And Retail Trade; Repair Of Motor Vehicles And Motorcycles	283	225	58
Transportation And Storage	58	48	10
Accommodation And Food Service Activities	361	283	78
Information And Communication	32	22	10
Financial And Insurance Activities	19	17	Fewer than 5
Real Estate Activities	20	20	Fewer than 5
Professional, Scientific And Technical Activities	52	41	11
Administrative And Support Service Activities	196	146	50
Public Administration And Defence; Compulsory Social Security	6	5	Fewer than 5
Education	39	25	14
Human Health And Social Work Activities	161	82	79
Arts, Entertainment And Recreation	40	27	13
Other Service Activities	213	161	52

Table D3: Breakdown of cases by Standard Industry Sector

Standard Industry Sector	Total Number of Cases	Complaint Cases	Risk Assessed Cases
Activities Of Households As Employers; Undifferentiated Goods-And Services-Producing Activities Of Households For Own Use	Fewer than 5	Fewer than 5	Fewer than 5
Activities Of Extraterritorial Organisations And Bodies	Fewer than 5	Fewer than 5	Fewer than 5

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