Low Pay Commission 2011

TUC response

Introduction

The TUC is the voice of Britain at work. With 58 affiliated unions representing 6.2 million working people from all walks of life, we campaign for a fair deal at work.

Broadly expressed, the Low Pay Commission's stated goal is to deliver the highest minimum wage rates that can be sustained without causing serious economic side-effects such as net job losses. In our response to the LPC's inquiry, we set out the rates we believe would allow the Commission to achieve this goal, recommending further increases to the National Minimum Wage (NMW) rates next year.

There can be no doubt that the need for the LPC to pursue this goal has become even more pressing since the UK economy entered recession and that need continues to be very strong indeed during the current tentative recovery.

In particular, inflation has outpaced both the growth in average earnings and pay increases for some time, and so low paid workers have seen their real wages fall. To make matters worse, inflation has been worse amongst the basic commodities needed for life, thus hitting low paid workers particularly hard. In considering the case for further rises in the NMW our submission makes the following key points:

- While the recovery is progressing slowly (as evidence shows us is generally the case following a recession caused by a financial crisis) and the UK economy continues to face a number of external uncertainties the consensus of opinion is that growth will continue throughout 2011, strengthen in 2012 and is likely to return to trend during 2013.
- Economic commentators, almost without exception, foresee economic growth, employment and earnings increasing and inflation falling during the coming period.
- The key challenge currently facing the UK economy is a lack of demand and, with household consumption responsible for a significant proportion of GDP[1], boosting household spending power is an economic priority. Recent evidence shows that the current squeeze on household's living standards means that most lower and middle income households are currently simply unable to save. Sustainable wage increases therefore have a vital part to play in securing and strengthening the recovery, and given its impact on the incomes of the lowest income working households the minimum wage has a particularly important role.
- At a time of constrained public finances, with demand further weakened by the Government's planned cuts in public spending, it makes economic sense to ensure that employers pay as much as they can afford (therefore

[1] Indeed, consumer spending currently accounts for 62 per cent of the UK economy. Source: Oxford Economics, "Economic Outlook", vol 35, pt no 3, 2011, p6.

reducing expenditure on in-work benefits and tax credits) and that potential income tax and National Insurance receipts are maximised.

- Particularly in the current economic climate, underestimating the need to raise the minimum wage therefore risks much harm as overestimating it. Too low an increase would be to unnecessarily limit demand and put more strain than is necessary on the hard-pressed public finances.
- Throughout the recession and the recovery the labour market has performed far better than many forecasts anticipated. While it looks likely that we may currently be entering a further period of labour market weakness unemployment is forecast to peak in early 2012 at levels that are significantly lower than were seen in previous recent recessions.
- In particular there are some indications that the impact of recession has been worse amongst higher paid jobs rather than minimum wage jobs.
- While recent falls in productivity have been a cause of concern for some commentators, rates of productivity per hour have already returned to the levels beyond those of 2008. This trend supports the view that the labour market currently faces a problem of reduced demand rather than a significant drop in capacity, further suggesting that as the recovery strengthens labour market prospects will improve.
- In recent years young people's employment rates have also been a significant worry. But while their labour market prospects have certainly worsened when compared to the pre-recession period 16-24 year olds have been affected less than in previous recent downturns. In addition when those in education are excluded from the analysis unemployment rates, while still high, are well below the frequently reported headline rates. Furthermore, while some future risks do remain, the employment position has largely stabilised for young people during the past year.
- The consensus among economists is that the better than expected labour market performance we saw during the recession will continue into the recovery, certainly over the period with which the LPC is concerned.
- Corporate profitability has risen with the rate of return for non-financial companies in the service sector (14.5 per cent) rising 0.6 per cent on the year meaning the rate is now 1.4 percentage points higher than was the case at the end of the recession.

We therefore conclude that a larger increase in the minimum wage than was set for 2011 would be both sustainable and economically beneficial. This increase should not only keep pace with RPI inflation but should also go as far as it can in restoring what has been lost in recent years.

We then consider a number of areas where we have significant concerns about the enforcement of the minimum wage, concluding that:

- the misuse of interns, work experience and “volunteers” has become a very sizable problem, which demands tough action as a high priority;
- the abuse of workers providing social care and zero hours contracts is growing and needs to be dealt with;
- there is also concern about adverts for jobs paying below the NMW; and
- levels of awareness of the details of the NMW are falling.

We also look at groups of workers that are excluded from the NMW.

The LPC will be aware that the TUC has consistently argued that more must be done to protect seafarers, and some progress has been made during the year for EU/EEA seafarers. We now argue that the NMW should be extended to non-EEA seafarers (e.g. the majority of those working on British ships) where their employment has a sufficiently close connection with the UK economy.

Finally, we record our concern about the persistent abuse of domestic workers, and recommend both legislative change and targeted enforcement in this sector.

Low Pay Commission Remit 2011/2012

The Government has given the LPC the following remit for its 2011/2012 inquiry:

"The LPC will continue to monitor, evaluate and review the National Minimum Wage (NMW) and its impact, and review the levels of each of the different minimum wage rates.

As part of its remit the Government has asked the independent body to pay particular attention to:

- Youth employment - including those in apprenticeships and internships
- Possibilities for simplification of the current regulations
- The best way to give businesses greater clarity on future levels of the NMW.

The LPC will report to the Prime Minister and the Secretary of State for Business, Innovation and Skills by the end of February 2012."

It is expected that the response to the LPC report will be announced in March 2012, ahead of the Government's annual budget debate

Forecasts for the UK economy

The Low Pay Commission's deliberations are likely to be heavily influenced by their view of how the economic situation will develop in 2012 and 2013.

There is little doubt that the recovery will be slow. As the table below reports, city forecasters expect economic growth to increase from 1.2 percent this year to 1.9 per cent next year. The current Office of Budget Responsibility (OBR) forecasts are more optimistic, but they do not predict a full return to trend until 2013.

The TUC argues that a sustained recovery will rely on the revival of consumer demand, which has been depressed by the credit crunch, high levels of debt and costs in real living standards as inflation increases faster than earnings. Set against a backdrop of falling house prices, entrenched economic uncertainty, employment worries and Government austerity. The nation needs to spend, but lacks the wherewithal to do so.

Outside of the UK's control, there are also some obvious threats of external shocks, including difficulties in some Euro-zone countries and the USA, which may or may not come to pass and impact on this country.

In addition, the latest economic figures exclude the greater part of cuts in public spending. We expect that the cuts will reduce the scope for trading in some businesses such as cleaning and security and depress consumer demand. This in turn have some dampening effects the possibility of employment growth, although the OBR suggest growth of 0.6 per cent in 2012 and 1.0 per cent in 2013, which would equate to about half a million extra jobs during those two years.

Conversely, the extent to which the Olympics and the Diamond Jubilee will boost the economy next year is not yet clear, but we would expect the beneficial effect to be felt strongly in hospitality, with some stimulus to retail, cleaning and security arising from large number of extra visitors to the UK.

Claimant unemployment is predicted to fall by about 50,000 to 1.5 million next year. Predictions are mixed for 2013, but the more optimistic OBR expects unemployment to fall by a further 120,000 in that year.

Even though inflation is predicted to fall next year it seems very unlikely that the average worker will see their real pay stop falling before 2013. There is certainly no sense that wage increases have contributed to inflation.

Economic forecasts 2011-2013

	2011 indep. forecast	*2011 OBR forecast*		*2012 indep. forecast*	*2012 OBR forecast*		*2013 indep. forecast*	*2013 OBR forecast*
Employment growth	+0.6%	-0.1%		+0.4%	+0.6%		Not available	+1.0% (300,000)
Claimant unemp. (millions - q4)	1.55	1.56		1.50	1.50		1.55[2]	1.38
Average Earnings (median predict.)	+2.5%	+2.0%		+3.0%	+2.2%		Not available	+3.8%
GDP growth (whole year)	+1.2%	+1.7%		+1.9%	+2.5%		+2.4%	+2.9%
Domestic demand	No increase	+1.1%		+1.3%	+1.5%		Not available	+2.2%
CPI Inflation (q4)	+4.5%	+3.9%		+2.1%	+2.0%		+2.1%	+2.0%
RPI inflation (all items – q4)	+5.3%	+4.7%		+3.3%	+3.4%		+3.4%	+3.8%

HMT round up 17 August 2011 (only forecasts made in last 3 months), Office of Budget Responsibility, March 2011.

Predictions for earnings growth are also mixed, but increases have already rallied somewhat during the past year, increasing by about half a percent to average

[2] Note that HMT's round-up of independent forecasts for 2013 contains one rogue prediction of claimant unemployment rising to 5.5 million. This is clearly an error. The figure shown in the table is the average of the other 11 independent predictions.

around 2.5 per cent in past months. It is already clear that neither workers nor employers can continue with below inflation increases for much longer.

Independent forecasters predict earnings growth of 3.0 per cent for the whole of next year, but as the recovery continues it is likely that average increases will be below 3.0 per cent at the start of the year and above 3.0 per cent towards the end of the year. The OBR is somewhat more pessimistic than the independent forecasters when it comes to 2012, but predicts average earnings growth of 3.8 per cent for 2013. This is shown below.

The economic situation has led to a fall in the total number of employee jobs in a number of sectors with a high incidence of low pay. However, if we examine all the low-pay sectors as a single unit, they have done slightly better than the economy as a whole in terms of the net change in employee jobs over the past year. This suggests that the NMW has not been a significant factor in hampering job creation, as can be seen in the following table.

Employees in low paying Industries (thousands)

Industry	*Employees March 2011 (thousands)*	*Change since March 2010 (thousands)*	*change since March 2010 (Per cent)*
Agriculture, hunting and forestry	203	*+8*	+3.9
Textile, clothing and leather goods manufacture	79	-6	-6.7
Retail trade (not motor vehicle)	2,682	+15	+0.6
Hotels & restaurants	1,689	*+1*	+0.1
Social care	638	+44	+7.5
Employment agencies	625	+45	+7.8
Security	174	-28	-13.9
Cleaning	619	-12	-1.9
Leisure, travel and sport	485	+26	+5.6
Food processing	325	-10	-3.0
Hairdressing & other beauty treatment	84	-25	-22.9
All low pay sectors	8,040	+54	+0.7
Total employee jobs	25,978	+85	+0.3

Source: ONS LFS - employees only (excludes self employed, those on government training schemes and family workers). Total of main jobs and second jobs combined. Not seasonally adjusted. Results of less than 10,000 (italicised) are not statistically robust and should not be cited.

The retail sector is the biggest employer of low paid workers[3]. Here, sales have been more or less flat for the past year, with no increase in volume, but a 4.3 per cent increase in value reported in the latest ONS monthly figures[4] (which will in part be due to current high rates of inflation). Much has been written in recent weeks about the poor state of retail confidence[5]. The TUC's view is that this lack of confidence applies to the short-term only. Economic forecasters agree that GDP, employment and earnings will all increase to some extent during the coming year. It seems inconceivable that this would not generate some beneficial effect on consumer confidence and a revival in retail sales.

In contrast, hotels have benefitted from a strong revival in trading. Revenue per room increased by 3.8 per cent across the UK in the first quarter of 2011, whilst rates in London increased by 7.3 per cent[6] during the same quarter. Looking to 2012, the effect of the Diamond Jubilee and the Olympics should prove to be a strong stimulus, with the Olympics alone forecast to generate an extra 2.3 million bed/ nights. PWC are forecasting a 4.3 per cent RevPAR[7] increase index in London and 4.6 per cent across the country as a whole next year[8].

There is also evidence that suggests the NMW has scope to improve efficiency. For example, the security industry is an interesting case study, where it seems likely that price-sensitive clients are moving to the use of more sophisticated electronic surveillance methods, thus increasing effectiveness. One might think that this effect was already complete, given that there are said to be 75,000 security officers guarding companies and 4.25 million CCTV cameras in the UK[9]. However, a recent survey shows that the industry expects an increase in the use of more sophisticated video analytic programmes and biometrics during the next five years[10].

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[3] Although it's worth remembering that only 8 per cent of employees in retail are on the NMW. The LPC produces its own analysis of the number and proportion of low paying jobs by industry – see LPC 2010, p19, fig 2.2, which is reproduced as an annex to this submission.

[4] Retail sales figs August 2011 http://www.statistics.gov.uk/cci/nugget.asp?id=256

[5] See, for example, CBI press release, 25 August 2011: http://www.cbi.org.uk/ndbs/press.nsf/0363c1f07c6ca12a8025671c00381cc7/5cdda1aa17d2aa31802578f50054fc91?OpenDocument

[6] STR Global RevPAR Index. See, for example, commentary in Caterer Search: http://www.caterersearch.com/Articles/2011/05/17/338292/Revpar-of-UK-hotels-increases-3.8-in-first-quarter.htm

[7] REVPAR – Revenue per available room. The formula is Occupancy x ADR = RevPAR. (ADR = Room Revenue / Rooms Sold)

[8] PWC, UK Hotels Forecasts 2011/2012 – how big a party for UK hotels", 2011. See particularly tables 2, 3 and 4 (pps8/9).

[9] British Security Industry Association Factsheet, "Facts and Figures", 2011

[10] IFSEC, "Security Industry Outlook", May 2011.

Profitability

The employer's ability to pay increases to the NMW is a key consideration for the LPC. Profitability is therefore an important issue to consider.

We are most interested in non-financial companies in the service sector, since they are most likely to have a high concentration of low paid workers. Although the average gross rate of return for these companies is still below the pre-recession high point, the rate is still healthy at 14.5 per cent, and it has increased by 0.6 per cent during the past year[11]. This rate also marks a 1.4 percentage point improvement on the position these companies found themselves in at the end of the recession, in the third quarter of 2009.

14.5 per cent gross profit in the service sector also compares rather favourably with both the figure of 7.2 per cent in the manufacturing sector and the return on cash deposits at a time when the Bank of England base rate is just 0.5 per cent.

Productivity

Productivity *per worker* certainly took a substantial hit from the recession as overtime was cut and some workers accepted short-time working and reduced hours in order to preserve jobs. As the table below shows, this measure is just now starting to recover as the total number of hours worked in the UK economy creeps back up.

However, productivity per hour was much less affected by the recession, and is already inching above the 2008 peak.

Productivity – whole economy

Year	*Per worker*	*Per hour*
2007	102.0	101.5
2008	102.2	101.7
2009	97.9	99.6
2010	99.1	100.5
2011	99.4	100.8

Source: ONS. Indices base 2006 = 100. Data for quarter 1.

In the hospitality sector in particular productivity per hour fell at the start of the recession, from 99.1 to 97.7[12], then soared in 2009 following job losses (102.1) and by January this year had dropped back to its pre-recession level (99.0) as trading conditions stabilised.

Some commentators have argued that the effect of the recession on productivity

[11] Source: ONS. Figs for Quarter 1.
[12] Source: ONS, quarter 1. Index 2006 = 100

must mean that there will be more job losses to come, but the figures reported above indicate that they are likely to have misread the situation as it is productivity per worker that remains below the pre-recession level, not productivity per hour. Overcapacity has already been shed by reducing working hours. Indeed, in this recession total working hours fell by an amount that closely matched the fall in GDP, leaving unemployment less affected. Once the recovery takes firm hold we would expect both hours and productivity per worker to revive.

In order to throw more light on what has been happening to working time, we looked at the issue of paid overtime, as this is likely to be quite responsive to economic trends. The table below shows that the number of employees working paid overtime fell by nearly 800,000 between autumn 2007 and 2009 _14.9 per cent. However, in the past year the number working paid overtime has increased by 134,000 (3.3 per cent) and it seems likely that the practice will continue to revive.

Usually work paid overtime

Year	*Number working paid overtime(thousands)*
2007	4,825
2008	4,497
2009	4,106
2010	4,240

Source: LFS Microdata (autumn quarters). Employees only. Excludes those who work less than 1 hour of paid overtime per week.

The UK economy is suffering from a lack of credit and consumer demand. It is not undergoing widespread structural changes of the kind that we saw in the early 1980s recession, and has not seen an irreversible decline in specific sectors. Rather the recession has temporarily reduced the demand for labour hours. This is a very different situation from that of a sustained low productivity economy that would inevitably lead to job losses.

New legal duties that require employers to automatically enrol their eligible jobholders into a qualifying pension scheme.

In their briefing on forthcoming workplace pensions reforms, DWP state that: "The new requirements will be staged in over a four year period depending on the size of the employer and where the employer chooses to provide a money purchase arrangement, the minimum contribution requirements will be phased in to help both employers and individuals adjust to the additional costs gradually[13]."

This means that only the biggest companies will have to enrol their employers in a

[13] DWP - http://www.dwp.gov.uk/policy/pensions-reform/workplace-pension-reforms/

qualifying scheme in October 2012, starting with those who employ 120,000 or more. Smaller companies will gradually come into the scope of the legislation over the following four years. In addition, the employers' contribution rate will also be phased in, starting at just 1 per cent[14]. Given this, the TUC does not believe that auto-enrolment will have a significant impact on employers' ability to pay the NMW.

The position of young people

The TUC is concerned about the disproportionately low employment rates of young people. After the sharpest downturn since the 1920s it is however no surprise that youth employment rates have fallen and that rates of unemployment among this group are high, as the position of young people in the labour market is strongly related to the performance of the economy as a whole. A significant evidence base demonstrates that young people are disproportionately affected by recessions for a range of factors, including firms reduced tendency to invest during downturns and young people's likelihood of having less work experience than the general adult population.[15] As Petrongolo and Van Reenen recently concluded: "the data do not suggest that there is a special problem of youth unemployment in this recession compared with past experience".[16]

Research evidence also shows us what works best in tackling youth unemployment: well-funded, demand-led welfare to work programmes which provide young people with experience of real work paid at least the NMW.[17] The previous Government's Future Jobs Fund provided a good example of such a scheme, and the TUC continues to express concern that its replacement, an unpaid work experience programme with limited access to job search support or training, is poorly funded and less effective. More widely, we also continue to advocate for a more balanced and long-term approach to deficit reduction, which would provide the Government with greater scope to fund additional measures to enable young people to engage in education. [18]

We are therefore clear that it is not the NMW that has caused, or exacerbated,

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[14] http://www.legislation.gov.uk/uksi/2010/4/regulation/4/made

[15] For example see Bell and Blanchflower (2010) Young people and recession. A lose generation? CEP.

[16] http://cep.lse.ac.uk/pubs/download/cp338.pdf Petrolongo and Van Reenan look the timing of a number of factors, and tentatively suggest that the key factor might have been the point at which the New Deal was "possibly undermined" when the Employment Service changed the financial incentives for Job Centre Plus in a way that focussed "less on young people on JSA and more on other groups." (p4).

[17] For example see Gregg, P (2009) Job Guarantee: Evidence and Design.

[18] One area where the Government is giving welcome support to young people is in funding the expansion of the apprenticeships programme. Many other aspects of Government policy have been unhelpful, such as ending the Educational Maintenance Allowance and the Future Jobs Fund.

the weakness of the youth labour market. Indeed, while a cause for significant concern, relative to the fall in GDP the impact of this recession on young people has been less severe than in the 1980s (a less severe downturn than the most recent recession), particularly when young people who are in education are excluded from the unemployment rates. The problem of youth unemployment will be best solved by a growing economy where demand is strong, an outcome that a reasonable increase in the NMW will not prohibit, and indeed could help to secure.

Young people's experience in previous recessions

In terms of ILO unemployment rates the labour market impact of the 1980s recession was worse for 18-24 year olds than the most recent downturn, with unemployment remaining at 19.2 per cent in Q2 1984 three years after the downturn had ended, compared to 18.0 per cent in Q2 2011. Although by the ILO measure 18-24 year olds have fared worse in the current recession than in the 1990s, given that the most recent recession was both longer (lasting for six calendar quarters) and sharper, With a peak to trough fall in GDP of 6.4 percentage points, compared to 2.5 per cent in the 1990s and 5.9 per cent in the 1980s) this strongly suggests, relative to fall in GDP, that the youth labour market has performed better during this recession than previous recent downturns.

ILO unemployment rates 2007-2010 by age

Year	*16-17*	*18-24*	*All working age*
1984	22%**	19.2%**	12.1%
1994	19.2%	16.4%	10.4%
2007	27.4%	12.5%	5.5%
2008	26.0%	12.6%	5.5%
2009	32.0%	17.5%	8.0%
2010	33.1%	17.6%	8.1%
2011	36.7%	18.0%	8.2%

Source: ONS ILO unemployment rates by age. Figs for Q2. Note that age statistics were calculated from 1992 onwards. * = unavailable. ** = not seasonally adjusted. Data only available electronically from ONS since 1984.

In addition, the above statement is not enough on its own to understand properly the position of young people. Employment, unemployment and inactivity rates can appear somewhat misleading when read on their own, since the figures can be strongly distorted by the number of people who are not economically active because they are engaged in education, which is particularly the case for unemployment rates for 16-17 year olds in the table above. Many young people are still involved in full-time education, with those who do not take gap years commonly finishing A-levels at age 18 and completing their first degrees at age 21. In fact, nine out of ten 16/17 year olds are still in education, as are more than half of all 18-20 year olds and a quarter of 21-24 year olds. This means that a measure of youth unemployment that excludes those in education is likely to provide a more accurate assessment of the severity of weakness in the youth labour market.

For example, the number of young people who are inactive because they are in full-time education has almost doubled since 1992, increasing from 481,000 to 825,000 for 16-17 year olds and from 598,000 to 1,070,000 for 18-24 year olds[19]

When this trend of increasing educational participation is taken into account, the comparative youth employment picture between recessions also looks different. For example, in April-June 1984 three years after the recession had ended (and the earliest data available) 19.7 per cent of young people were unemployed and not in full-time education compared to 17.6 per cent of young people aged 18-14 in the same period during 2011.

In recognition of this kind of complication, the Government has recently asked ONS to begin producing a new analysis that separates those in full-time education from those who are not, with changes recorder on a quarterly basis[20] and employers' organisations, such as the CIPD, have also recognised this trend. These figures report that employment for 16-24 year olds went up by 20,000 in the last quarter[21], whilst inactivity fell by 42,000. ILO unemployment also increased by 15,000 during the quarter, perhaps unsurprisingly given the larger increase experienced by older age groups (for example the 25-49 year old group experienced a 3.2 percentage rise on the quarter compared on young people who, even including those in education, experienced a smaller rise of 2.1 per cent).

This is an interesting development, but it only gets us so far, because the LPC has to make its decisions on the basis of annual, rather than quarterly changes. Looking at changes on year to year basis also makes it more likely that the movements observed will prove to be of some significance. It is therefore worth considering what has happened to the key NMW age groups in terms of both economic activity and involvement in education and training *as a whole* since the recession began.

<u>What happened to young people since the onset of the recession?</u>

<u>1: Economic activity and participation in full or part-time education</u>

The tables below show employment levels falling strongly for young people, but also that this effect has been mediated by the continued growth of enrolment[22] in further and higher education, which increased by a total of 205,000 between

[19] ONS time series data – figs for May (latest month available).

[20] See ONS Labour Market Statistics August 2011, p6 and table 14.

[21] Ibid, table 14. Figs for April-June 2011.

[22] The TUC's analysis uses enrolment in a full or part-time education course (excluding purely leisure related courses) as a measure of involvement in education. This is the broadest measure available, but the results for the narrower LFS questions are very similar.

2007 and 2010[23]. This effect has been so strong for 16 and 17 year olds that the number of NEETs in this age group has fallen during the recession[24].] The table below shows that nearly nine out of ten 16 and 17 year olds are still in education (89.4 per cent) and that the number who are both ILO unemployed and not in education has fallen by 26,000 since 2007.

Economic activity of people aged 16-17 by whether enrolled in education course 2010. Changes since 2007 in brackets (thousands)

Economic activity	*In education*	*Not in education*	*Total*
In employment	317 (-130)	62 (-87)	379 (-218)
ILO unemployed	167 (+51)	46 (-26)	212 (+25)
Inactive	831 (+119)	45 (-15)	876 (+104)
Total	1,314 (+39)	152 (-129)	1,467 (-89)

Source: LFS Microdata (autumn quarters).

One in four (25.8 per cent) in this age group are in employment, and it is thus not surprising to find that the overwhelming majority of those in employment are also in education (83.6 per cent). The trend towards remaining in education combined with a 5.8 per cent decline in the cohort has led to the number of young people *not* in education falling by 45.1 per cent fewer since 2007.

The table below considers the position of 18-20 year olds. For this age group as a whole, employment has fallen quite sharply, whilst unemployment and inactivity have increased. However, 108,000 of those who define themselves as ILO unemployed are in education.

Economic activity of people aged 18-20 2010 by whether enrolled in education course. Changes since 2007 in brackets (thousands)

Economic activity	*In education*	*Not in education*	*Total*
In employment	486 (-10)	636 (-209)	1,122 (-220)
ILO unemployed	108 (+34)	249 (+84)	357 (+116)
Inactive	720 (+96)	207 (+26)	927 (+123)
Total	1,315 (+120)	1,091 (*)	2,407 (+19)

Source: LFS Microdata (autumn quarters). * = result omitted as not statistically significant

54.7 per cent of people in this age group are still in education, compared with 50.0 per cent three years ago before the onset of the recession, amounting to total increase of 120,000. Employment has held up quite well for those in education, although the number inactive has increased strongly.

The table below considers 21-24 year olds. The economy has struggled to cope

[23] Source: LFS Microdata, autumn quarters.

[24] DOE NEETS Statistics Quarterly Brief (August 2011) reports that the number of 16-17 year old NEETS fell from 123,000 in the second quarter of 2007 to 95,000 in the second quarter of 2011.

with a bulge in the population in this age group since 2007.

Economic activity of people aged 21-24 2010 by whether enrolled in education course. Changes since 2007 (thousands)

Economic activity	*In education*	*Not in education*	*Total*
In employment	406 (*)	1,883 (-47)	2,288 (-48)
ILO unemployed	49 (+15)	326 (+126)	375 (+141)
Inactive	382 (+32)	379 (+24)	761 +56)
Total	836 (+44)	2,588 (+104)	3,424 (+147)

Source: LFS Microdata (autumn quarters). * = result omitted as not statistically significant

Overall employment for 21-24 year olds has fallen by a moderate amount, whilst inactivity has risen by a similar number. The increase in the number unemployed broadly matches the significant bulge in the population in this cohort.

About one in four 21-24 year olds (24.4 per cent) are still in education, and the number enrolled has risen by 5.6 per cent since 2007. For those still in education, employment numbers have held steady, but unemployment and inactivity have increased by roughly the same amount for those in education as the increase in the number of students.

However, the bulk of the jobs-squeeze for young people came in 2008/2009. Although the situation is by no means rosy, the change in the total number of employee jobs for 18-24 olds in the last year was effectively nil[25]. In contrast, the number of 16-17 year olds in employee jobs fell by a further 44,000, whilst the total population of 16-17 year olds fell by a further 41,000 as the bulge in the cohort worked its way up into the next age group.

2: the industries and occupations that employ young people

In order to gain further insight we turn next to examine the occupations and industries that employ young people, looking in turn at 18-24 year olds and 16-17 year olds.

If the NMW had exacerbated the contraction of employment for this age group in a significant way then we would expect that the fall in elementary jobs would have been steepest, as they are most likely to be paid the minimum rates. In fact, the number of elementary jobs has fallen by 6.1 per cent whilst the overall number of jobs has fallen more steeply, by 7.6 per cent.

In addition, personal services and sales and customer service jobs have *risen* slightly since the recession began, whilst administration jobs fell considerably between 2007 and 2009 (-13 per cent), but have been stable during the past year.

[25] It was less than 10,000 - within the margin of error for the LFS.

Employee jobs by occupation aged 18-24: 2007-2010 (thousands)

Occupational group	2007	2009	2010		Change 2007-2010		Change 2009-2010
1 Managers and Senior Officials	147	165	135		-12		-30
2 Professional occupations	188	189	185		*		*
3 Associate Professional and Technical	375	326	346		-29		+20
4 Administrative and Secretarial	468	383	377		-91		*
5 Skilled Trades Occupations	363	312	316		-47		*
6 Personal Service Occupations	345	375	361		+16		*
7 Sales and Customer Service Occupations	681	653	691		+10		+38
8 Process, Plant and Machine Operatives	191	139	124		-67		-15
9 Elementary Occupations	713	663	670		-43		*
Total	3,478	3,211	3,213		-265		*

Source: LFS Microdata (autumn quarters). * = result omitted as not statistically significant

Indeed, figures for 2009-2010 also show that the biggest single reduction for this age group has been the loss of 30,000 managerial jobs, where the minimum wage is very unlikely to have been a significant factor.

The table below shows that employment has also been quite stable for 18-24 year olds as a whole during the past year[26]. Construction and some parts of the public sector appear to have suffered a small fall in number, but education and administration seem to have enjoyed small increases, and manufacturing, which lost 156,000 18-24 year old jobs between 2007 and 2009, restored 34,000 jobs for this age group in the year 2009 and 2010.

In terms of the low- paying industries, there was no measurable change in the

[26] Comparisons with 2007 are more difficult to make, as ONS has significantly revised its standard Industrial classifications since then.

number of 18-24 year old employees in retail, accommodation and food services during the past year.

Employee jobs by industry aged 18-24 2010 and changes since 2009 (thousands)

Industry sector in main job	*Employee jobs 2009*	*Employee jobs 2010*	*Change 2009-2010*
A Agriculture, forestry and fishing	19	20	*
B Mining, quarry	*	*	*
C Manufacturing	212	246	+34
D Electricity, gas, air cond supply	17	20	*
E Water supply, sewerage, waste	10	16	*
F Construction	219	203	-16
G Wholesale, retail, repair of vehicles	852	854	*
H Transport and storage	86	93	*
I Accommodation and food services	402	395	*
J Information and communication	61	66	*
K Financial and insurance activities	130	102	-26
L Real estate activities	24	24	*
M Prof, scientific, technical activ.	134	121	-13
N Admin and support services	138	159	+21
O Public admin and defence	123	105	-18
P Education	171	191	+20
Q Health and social work	323	300	-23
R Arts, entertainment and recreation	144	149	*
S Other service activities	102	90	-10
Total	3,180	3,169	-11

Source: LFS Microdata (autumn quarters). * = result omitted as not statistically significant.

The picture is not so good for 16 and 17 year olds who, by definition, are most likely to be concentrated in entry level jobs. The reduction in sales and elementary jobs account for 80 per cent of the fall in jobs since the recession started. The number of sales jobs continued to fall last year, but the number of elementary jobs has now stabilised.

Employee jobs by occupation aged 16-17 2007-2010 (thousands)

Occupational group	*2007*	*2008*	*2009*	*Change 2007-2010*	*Change 2009-2010*
1 Managers	*	*	*	*	*
2 Professions	*	*	*	*	*
3 Associate Professional and Technical	15	*	12	*	*
4 Administrative and Secretarial	21	18	13	*	*
5 Skilled Trades Occupations	41	23	24	-17	*
6 Personal Service Occupations	41	39	33	*	*
7 Sales and Customer Service Occupations	212	150	114	-98	-36
8 Proc, Plant, Machine ops	*	*	*	*	*
9 Elementary Occupations	207	148	146	-61	*
Total	551	391	347	-204	-44

Source: LFS Microdata (autumn quarters)

Retail accounts for 130,000 fewer 16-71 year old jobs than it did in 2007 (61 per cent of the total jobs squeeze), whilst food and accommodation and construction have each lost about 20,000 young people's jobs. But more recently, the squeeze has slowed. The number of employee jobs in retail fell by 23,000 last year, whilst food and accommodation fell by 11,000. The remaining 11,000 jobs that went last year were thinly spread through the remaining industries.

3: Young peoples' employment in the public sector

One particular concern for the TUC is that the record of the public sector in employing young people is nowhere near as good as it should be. This has been partly because of the high level of qualifications needed to undertake the professional jobs that disproportionately make up public sector employment and, less positively, by the tendency to outsource entry level jobs.

There are some signs that the public sector has been trying to address this issue, for example, via the reintroduction of apprenticeships to local government, but the table below shows that young people have not benefitted from the increase in public sector employment to the same extent as older workers and that there is still a long way to go. The Government has a strong influence over the public sector and should actively work to ensure that it employs its fair share of young people.

Public and private sector employees by age (thousands)

Age group	*All employees*	*Public sector employees*	*Per cent of employees who work in public sector (change since 2,000 in brackets)*
16-17	325	16	4.9 (+0.1%)
18-20	1,055	87	8.2 (-0.3%)
21-24	2,124	357	16.8 (+1.1%)
25 and above	20,907	6,620	31.7 (+5.3%)

Source: LFS Microdata (autumn 2010)[27]

<u>*4: Young people: conclusions*</u>

Our conclusions are that:

- Young people have been affected less by this recession than other recent, and less severe, downturns.

- While young people have experienced a fall in employment and a rise in unemployment, the scale of these falls are less severe once the changes in population of young people in education are removed from the analysis.

- The contraction of employment for 18-24 year olds during the recession has not been concentrated in the lower paying occupations.

- The position of 18-24 year olds has stabilised during the past year and should begin to improve measurably by October 2012.

- The position of 16 and 17 year olds is obviously less good, although the latest figures available do show that the jobs squeeze has now slowed to a crawl and the number of NEETs in this age group has fallen since the recession started, as enrolment in education continued to rise.

- However, the case of 16-17 year olds involves relatively small numbers, since most are in education. According to the LFS there are 76,000 ILO unemployed and 91,000 NEET. If the government plans to raise the compulsory participation rate to 18 in England and Wales, now would be a good time to focus on funding education and training for this group as well as encouraging both private and public sector employers to take them

[27] For an earlier analysis, see "The characteristics of public sector workers", ONS Economic and Labour Market Review, May 2007, table 3.

on. Indeed, if every major local authority and hospital trust were to take on just two 16/17 year olds then unemployment for this age group would fall by about a third.

There are still grounds for some caution, but there is no evidence to suggest that the NMW for young workers must fall behind. Our aspiration is that the threshold for the adult rate should be phased down to age 18 and that the 16-17 year old rate and apprentice starter rate should be brought significantly closer to the adult rate as soon as possible.

Apprentices

The TUC understands that BIS has now promised to produce a further survey on apprentice pay rates and that the results will be available before the LPC has to make its decision on this issue. We strongly suspect that this will find that significant improvements have taken place since the Government last conducted such a survey way back in 2007.

We also commissioned our own survey of employers, which was conducted for us by IDS and published in summer 2011. This provided some useful insights into why employers take on apprentices and what they get from them. It was clear that many employers valued their apprentices quite highly. There was also good news for the National Apprentice Service, as employers reported that they strongly valued their support. Whilst it was not possible to draw too many conclusions from the pay data, it was quite heartening to see that the reported lower quartile rate was £10,000 per year.

In previous submissions we have presented evidence that pay rates affect completion rates and indeed we would find it quite astounding if this were not the case. At the moment apprentices are operating in a field of constrained choices. Employment opportunities are quite scarce and the cost of higher education is increasing sharply. However, we believe that the economy is likely to improve somewhat by October 2012, as the recovery slowly gains hold. As more employment opportunities open up, employers will find it commensurately more difficult to attract and hold onto apprentices who are paid only the NMW apprentice rate of £2.60 per hour, which is one reason why uplift will be needed.

We are also concerned about the position of the young women who make up 46.9 per cent of those in apprenticeships[28]. In previous submissions we have shown how they are concentrated within the lower paying occupations and industries, with the result that gender pay gap for apprentices has been larger than for

[28] Data service, June 2011 statistical first release,, table 3:

http://www.thedataservice.org.uk/statistics/statisticalfirstrelease/sfr_supplementary_tables/Apprenticeship_sfr_supplementary_tables/

employees as a whole.

The TUC has advocated an iterative approach to the apprentice rate. We now take this to mean that a significant uplift should come as soon as there is enough evidence to warrant it. However, there is already some good evidence that the apprentice rate has not had adverse effects. The data service has recently published apprentice “start” figures for the first three quarters of the apprentice year 2010/2011, a period that commenced after it was announced that the new rate would apply. The outturns show the number of apprentice starts rising to 332,000 in a nine-month period compared with just 162,900 in the previous full year[29].

The latest estimates also show a strong growth in the starts of younger apprentices up to the age of 24, which rose from 113,800 in 2009-2010to 205,800 in the first three quarters of the current apprentice year alone, representing an increase of 80.8 per cent.

We argue this year that the rate should be increased, by what we consider to be a cautious target. The LFS, which is not a perfect instrument since it underreports the number of apprentices, suggest that only about 15 per cent of apprentices earned less than £2.80 in the latest quarter available[30]. If we assume that apprentice wages would in any case increase roughly in line with predicted average earnings in the period up until October 2012, then an uprating to £2.80 might be expected to benefit around 10 per cent of apprentices.

In terms of rates and progression, many high end apprentices in industries such as aerospace start near the adult NMW rate and progress to £12-£16 per hour on completion.

In the table below we look at a selection of the slightly more routine craft apprentice rates. It is worth noting that in case of the British Furniture Trade JIC agreement the fully qualified rate is 45 pence more than the NMW adult rate, yet the starting rate for 16 year olds is 85 pence higher than the NMW apprentice rate.

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[29] Ibid,, tables 3 & 18.1 :

http://www.thedataservice.org.uk/statistics/statisticalfirstrelease/sfr_supplementary_tables/Apprenticeship_sfr_supplementary_tables/

[30] Latest quarter available at the time of writing= autumn 2010. The TUC hypothesis is that the LFS underreports participation in apprenticeships because of misattribution in the non-traditional industries. In short, we think that some non-traditional apprentices and/or their LFS proxies will report that they are undertaking NVQs rather than apprenticeships

Selected apprentice rates – recent agreements

Employer	*Unions*	*Date commences*	*Rates and progression*
Thermal Insulation JNC	Unite	4.1.2011	Junior - £5.64 Intermediate - £8.00 Senior - £10.31
Thermal Insulation contractors JNC	GMB, Unite	4.1.2011	£5.27 – year 1 £7.71 – year 2 £10.41 – year 3
Plumbing industry	Unite	3.1.2011	£5.45 – year 1 £6.24 – year 2 £7.05 – year 3 £8.57 – year 3 with NVQ 2 £8.68 – year 4 £9.85 – year 4 with NVQ 2 £10.87 – year 4 with NVQ 3
First Hydro (power generation)	Unite, Prospect	1.1.2011	£6.30 – scale point 1 £7.64 – scale point 2 £8.75 – scale point 3 £9.62 – scale point 4 £10.59 – scale point 5 £11.65 – scale point 6
British Furniture trade JIC	GMB	1.1.2011	£3.35 - 16 year olds £4.15 – 17 year olds £4.94 – 18 year olds £6.38 – 19 and above (same as the qualified rate)
Scottish Agricultural Wage Board	Unite	1.10.2010	£3.61 - year 1 £6.51 – after 1st year

Sources: IDS, IRS Expert HR, trade unions

Setting new TUC targets for the 2011 LPC review

This section sets out the case for the TUC's proposed new targets for the minimum wage to apply from 2012.

There is a clear imperative that the minimum wage should be set at the highest level that can be sustained.

Although economic forecasts suggests that jobs growth will continue to be slow and average wage increases continue to fall below the headline rate of inflation there are also some positive signs. In particular, our consideration of targets has been carried out against the background of a general economic background that is slowly improving, with particularly striking improvements in corporate profits since the end of recession, and in the knowledge that sustainable NMW increases provide a modest fiscal stimulus to the economy.

We have brought forward evidence in previous submissions to show that NMW workers are likely to spend 100 per cent of any pay increase. This information has to be read in the context of the falling share of GDP that is going to low earners.

The Resolution Foundation found that that the share of GDP paid as wages to the bottom half of earners has fallen by a quarter over the last 30 years[31].In 1977, workers in the bottom half of the earnings distribution received £16 of every £100 of value generated in the economy; by 2010, their share had fallen to just £12. By contrast, the share of GDP flowing to the top 10% of earners increased from £12 per £100 of GDP to £14.

Our general experience of the NMW do far has been that employers have been able to absorb increases without generating any significant side effects – a trend that has held true throughout the recent recession and our emerging recovery.

It is also vital to recognise that the consequences of undershooting the highest sustainable rate are almost as serious as those which would stem from overshooting it.

Furthermore, there is evidence that low paid workers in poorer households have experienced higher inflation on average than richer households over the past decade[32], which demands that the NMW should be set at as high a rate as possible. People on lower incomes spend more of their money on gas, electricity and food, which have risen sharply. In 2009, the poorest 20% of households spent 9.4% of their incomes on household fuel, while the richest 20% spent only 4.4%.At the same time, people with higher incomes have benefited more from lower mortgage rates.

Too low a rate, particularly at a time of intense strain on the public finances, would increase tax credit expenditure while failing to maximise receipts. Indeed, as we have noted in previous submissions, the LPC's own analysis has demonstrated the significant benefits to the public finances that even modest increases in the NMW can bring.

Failing to set the highest sustainable rate would also reduce the potential

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[31] "Missing Out", The Resolution Foundation, July 2010:
http://www.resolutionfoundation.org/us/current-work/commission/

[32] "The spending patterns and inflation experience of low-income households over the past decade", IFS, July 2011. http://www.ifs.org.uk/publications/5606

expenditure of low-waged workers, thus further dampening consumer demand at a time when it needs to play a key role in sustaining our recovery.

Last year the TUC adopted a target rate of 3.5 per cent for all the NMW rates. We believe that the economy of 2012 will be somewhat better than that of 2011, and that the upward trend will continue through 2013. Therefore, after due consideration the TUC favours the following targets for October 2012.

TUC rate recommendations:

- *The adult rate should be increased again in 2012. It has already been agreed that the rate will increase by 2.5 per cent to £6.08 from October 2011. We now argue that the slowly recovering economy will be able to support a considerably more substantial increase by October 2012, which would improve the position of low paid workers measured against the growth in average earnings and RPI inflation. As a minimum, we would expect the rate to increase by more than RPI inflation and average earnings, whichever is the higher, in order to help to address the loss in the real value of the NMW.*
- The position of young people is discussed in detail above. Whilst there is clearly no room for complacency, neither is there any compelling evidence that young people should not continue to see their rates increase, especially if the Government were willing to take measures to help the relatively small number of 16 and 17 year olds who are unemployed. *The TUC argues that the rate for 18-21 year olds should increase in 2012 by at least the same percentage as the adult rate. We aim to see the adult rate paid at the age of 18 and a significant narrowing of the gap between the other rates and the adult rate as soon as possible.*

Living Wages

There is a considerable gap between the NMW and the living wage for many workers. There would thus be merit in Government moving towards paying a living wage in the public sector and promoting living wages in the private sector so that it does not have to supplement wages tax credits and benefits more than is really necessary[33].

Although the TUC understands the difference between the statutory floor and living wages, it is important to note that the latter have increased rapidly in recent years, which gives an indication of the extent to which real living costs have increased for the working poor.

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[33] We recall that David Cameron offered support for the living wage during the 2010 election campaign, calling it "an idea whose time has come". It seems to the TUC that this view is impossible to reconcile with the ongoing public sector pay freeze.

For example, the London Living Wage calculated by the GLA and actively promoted by the London Mayor has increased by 11.4 per cent during the past three years, reaching £8.30 by May 2011. Indeed, the most recent increase was 5.7 per cent, reflecting the strength of the effect of price rises in the capital on low paid workers.

As well as supporting the further development of the NMW and continuing to strive to increase wages through collective bargaining (see below), the TUC is also actively involved in living wage campaigns.

We are currently involved in a major campaign to increase the take up of the living wage in London that is spearheaded by London Citizens and funded by Trust for London. We are also working with the Fair Pay Network to target certain low paying sectors. This work is making worthwhile inroads into the low pay culture. Living wage policies are being adopted by more employers every year in public, voluntary and private sectors.

It would also be useful to establish as far as possible a national standard for the living wage outside of London, as differences in the cost of living are not particularly large once one moves away from the south east.

Donald Hirsch, Head of Income studies at the Centre for Research in Social Policy, Loughborough University) has calculated that the appropriate figure would be around £7.20 per hour. The Scottish Government has adopted a similar figure[34].

This useful figure has been adopted by the influential campaigning group Citizens UK and a number of trade unions and could usefully be used as a benchmark when letting contracts and promoted more broadly by government, in much the same way that the London Mayor promotes the London Living Wage of £8.30 per hour.

In addition, the Joseph Rowntree Foundation's annual calculation of pay needed to meet a decent minimum income standard for different family types across the UK as whole has now been released (see table below). These figures, which are for the UK as a whole, underline the extent of the gap that exists between the minimum wage and the living wage.

[34] £7.15 per hour. It is not yet clear when this will be uprated, so harmonisation may be possible if desired.

JRF Minimum Income Standard 2011

Family type	*Annual*	*Hourly*
Single working-age person	£15,000	£7.67
Couple (both working) + 2 children	£36,800	£9.41
Couple (one working) + 2 children	£31,584	£15.15
Lone parent + 1 child	£18,243	£9.33

Source: http://www.jrf.org.uk/publications/minimum-income-standard-uk-2011

Public sector starter rates

Despite the pay freeze that has been imposed on most of the public sector for the past two years, the bottom rates are all still well above the NMW.

Public sector lowest rates

Sector	*Bottom rate*
NHS	£7.11
Universities	£6.82
Further education	£6.99
Local government (E&W)	£6.30**

Sources: public sector trade unions and IDS

*Note that this rate now applies to a minority of universities. The majority have reduced contracted hours from 37 to 35, yielding a higher hourly rate of £7.25 from the same salary.

** Unilaterally imposed pay freeze since 2009/2010. Unions continue to argue for a flat rate claim of £500 per year on all posts.

In addition, police staff start at £7.53 per hour (E&W), whilst the in the probation service starts at £7.35.

The Government's excessive programme of austerity allows awards of £250 per year to be granted to some low paid workers in central government and to staff earning less than £21,000 in the NHS, although this payment has not been universally honoured by employers. This addition is not generally available to staff in other parts of the public sector such as local government or schools.

In addition, unions at the BBC[35] have made another deal that aims to preserve the earnings of the lower paid in a tough bargaining climate. In August 2010, the BBC agreed to pay a flat-rate increase of £475 for employees earning less than £37,726. This takes the bottom rate outside London to £14,177 per year.

[35] BECTU, NUJ

Civil service starter rates continue to vary considerably. The lowest grade is usually for administrative assistants, clerks or messengers. In many cases the lowest rates are for staff working outside London.

Civil service bottom rates

Department	*Bottom rate*
Crown Prosecution service	£7.29
DBIS	£6.55
DECC	£7.39
DEFRA	£7.94
DfE	£7.93
DfT	£8.40
DoH	£8.81
DWP	£7.28
FCO	£8.39
Forestry Commission	£7.53
HM Revenue and Customs	£7.41
Home Office	£7.30
MoD	£7.61
MoJ	£7.08
Ordinance survey	£7.25
Probation Service	£7.32
Prison Service	£7.27

Sources: public sector trade unions and "Pay in the Public services", IDS, 2011.

Selected collective bargaining outcomes

Trade unions are reporting far fewer pay freezes than in the past two years, and average collective bargaining settlements seem to be coming in around the 2.5-3.0 per cent mark, which is slightly higher than the out-turns for all pay rises, where non-union increases are also counted.

However, some deals are still considerably above the general average, as trade unions continue to press in very case for the best increase that can be sustained. Whilst some are established multi-year deals, others are single year deals or, slightly more rarely, new multi-year deals. The table below highlights some of the more memorable outcomes recorded this year.

Selected private sector collective bargaining outcomes 2011

Employer	*Unions*	*Date commences*	*Multi-year deal*	*Per cent increase*
Premier Foods (Wisbech)	Unite	1.7.2011	no	5.4
C2C Rail	RMT, TSSA	1.7.2011	Yr 1 of 2	4.5

BOC PGS Tanker Drivers	GMB, Unite	1.6.2010	no	4.25
Imperial Tobacco	Unite, GMB	1.5.2011	no	4.9
Commercial Theatre	Equity	4.4.2011	no	5.26
Astra Zeneca	GMB, Unite	1.4.2011	Yr 1 of 2	6.2
Virgin Trains	RMT, ASLEF, TSSA	1.4.2011	Yr 4 of 4	5.6
First Scotrail	ASLEF, RMT, Unite, TSSA	1.4.2011	Year 1 of 2 for drivers, year 1 of 4 for other staff	5.1
Rolls Royce (aero engines)	Unite, GMB	1.4.2011	no	5.0
McMillan Distribution (Swansea)	Unite	1.4.2011	No	5.0
Sellafield (Nuclear clean up and decommissioning)	Prospect, GMB, Unite	1.4.2011	no	4.9
RWE NPower Energy Services (retail and metering)	Unite	1.4.2011	no	4.75
Anglian Water	Unison, GMB, Unite	1.4. 2011	no	4.7
Yorkshire Water	UNISON, GMB	1.4.2010	Yr 2 of 5	4.7
BMI Aircraft Manufacture	Unite	1.4.2011	Yr 3 of 3	4.57
Employers in Voluntary Housing (Scotland) agreement	Unison	1.4.2011	no	£550 lump sum Equates to 4.1 % on lowest rate, meeting Scottish living wage - £7.15
TeleCityGroup	CWU	1.4.2011	no	4.2
CIBA Chemicals	GMB	1.4.2011	no	4.0

Castings PLC(Brownhills)	GMB	1.4.2011	no	4.0
VAE (transport by rail	RMT	1.4.2011	no	4.0
Engineering construction industry agreement	Unite, GMB	4.1.2011	Yr 2of 2	4.7
Nissan Motor Manufacturing	Unite	1.1. 2011	Yr 1 of 2	4.5 plus 1.73 merit or 1.18 lump sum (for different grps)
Forestry commission	Unite	1.1.2011	Yr 3 of 3	3.8

Sources, IDS, IRS Expert HR, LRD, trade unions.

In other cases, unions have simply negotiated a lump sum payment across the piece, in order to benefit the lower paid grades. One example would be the BMW plant at Hams Hall, where Unite agreed a settlement of £800 per worker, or an extra 41.5 pence per hour.

Agricultural Wages Board

The TUC deplores the Government's intention to do away with the Agricultural Wages Board for England and Wales and urges them to think again, as this will inevitably lead to skilled and premium rates in agriculture drifting down over a period of time, which will worsen rural poverty.

We recall that in the early 1990s farmers were keen to keep the Wage Boards, as they feared that they would otherwise not be able attract and retain sufficient labour. This concern has now ameliorated somewhat, but patterns of migration are still quite fluid and it is likely that English farmers[36] may come to regret their drive to abolish the Wages Board.

For the LPC, this means being prepared for the fall-out from abolition. The 120,000 agricultural employees in England and Wales reported by the LFS is likely to be rather an underestimate, as the survey excludes some agricultural accommodation and systematically undercounts migrant workers.

TUC recommendation

The TUC strongly opposes the abolition of the AWB for England and Wales. The LPC should support the AWB, but is should also develop the fallback position of

[36] Welsh farmers strongly oppose the abolition of the AWB, as does the farm workers trade union Unite. Scotland and Northern Ireland have their own AWBs, which are unaffected at the moment, although abolition in England and Wales may affect their position.

recommending that the expertise and funding from the DEFRA inspectorate should be transferred across to HMRC. It should also commission research and monitor the impact on wages and conditions, jobs and apprenticeships in the sector. In addition the LPC should develop close link with Gangmasters Licensing Authority and consider whether that authority should have a greater role in enforcement.

Seafarers

Following a campaign by trade unions in the maritime sector and the threat of infraction proceedings by the European commission, in August 2011 the UK Government was forced to extend the Equality Act to cover a number of seafarers from EU and EEA states.

Number of seafarers employed in the British commercial fleet by country of origin

Country of origin	*Number of seafarers*	*Per cent of seafarers*
UK and other high-cost EEA countries	6,815	34.9
Low-cost EEA and designated states	2,417	12.4
Low-cost other countries	10,307	52.7
Total	19,539	100.0

Source: British Chamber of Shipping submission to the Department for Transport. http://www.dft.gov.uk/pgr/shippingports/shipping/diffpay/pdf/report.pdf (derived from table 3)

This was a useful step forward, but as the table above shows, more than half of the seafarers on the British commercial fleet are still not covered, as they are from non-EEA countries like the Philippines.

Shipping Minister Mike Penning MP honoured a promise made by his predecessor by bringing the TUC and the maritime unions together with senior civil servants at the DfT to discuss whether it was possible to apply the minimum wage to these workers in some form.

An important area of debate in these discussions was around the extent to which the United Nations Convention on the Law of the Sea (1994) limited the government's right to action through its protection of the "right to innocent passage" through territorial waters. Trade union legal experts argued that the Government took a very pessimistic a view of what was possible, but were ultimately unable to change the minds of the Governments legal team.

However, the DFT team *was* able to agree that it would be legally possible to apply the NMW to workers from outside the UK, including those on foreign-flagged ships, on an "in personam" basis so as to include certain groups of seafarers. This could be done by the seafarers establishing the appropriate connection with the UK by satisfying the base test (as per Lawson v Serco/Diggins v Condor Marine Crewing Ltd) and/or by them falling within a new specific statutory test drafted for the purpose of catching a specified group of seafarers who have a close link to the UK but who serve on foreign-flagged vessels. For example, it is an absurdity that the NMW does not apply to all workers on foreign-flagged supply ships serving the UK offshore industry or to, say, staff on the Stranraer to Belfast ferry.

Now that the DfT working group has concluded that it would be possible to extend the protection of the NMW in this way, it would certainly be very desirable indeed to extend the protection of the NMW to this group of seafarers, since some of them are currently paid around £2.00 per hour

<u>TUC recommendation</u>
The LPC should recommend that the Government takes forward the conclusions of the DfT working group.

Interns and unpaid work
The TUC has become very concerned by the rapid spread of unpaid work in recent years. The practice of using internships and work experience used to be confined to the more glamorous careers, but has spread out into more everyday jobs. It is not uncommon to find internships advertised for personnel assistants, engineers and customer service assistants, for example.

There are also some signs that unpaid work is beginning to be used as gateway for older workers. One anecdote illustrates this emerging trend in a striking way. The TUC was contacted earlier in the year by a senior civil servant who was in the process of leaving the Government's employment during restructuring. Despite his MBA and his record in high-level public policy he was offered three months unpaid work by a private sector company "to see if they would get on".

Whilst well-structured internships and work experience can have a very positive role to play for young people entering the labour market, the current situation falls well short of that ideal.

The TUC's concerns are that:

- In many cases, "internships" have simply been used as a way of getting free work. Many US university business schools teach that businesses can "leverage" students and new graduates as a free resource, and this way of thinking is now taking hold in the UK as well.

- The spread of unpaid internships is undermining the national minimum wage legislation. The TUC believes that the law prohibits this practice, but that it has not yet been effectively enforced in the UK.

- Unpaid interns are being substituted for paid employees. This not only has an obvious negative effect on people seeking work, but also exerts a moderately negative influence on the economy and the public finances, in terms of reduced consumer demand, lost tax revenues and increased benefit payments.

- In addition, recruitment does not meet equal opportunities principles. Many interns are recruited from friends and family, whilst unpaid jobs automatically exclude many poorer families, which will impact disproportionately badly on ethnic minority families.

Furthermore, Government is still advertising intern opportunities that appear to break the law on its own graduate talent website. This site is largely unmediated, but in previous years a couple of one-off clean-ups have removed large numbers of such adverts. In one striking case, a tax consultant used the graduate talent pool to advertise for an unpaid accountant. This seems to us to be the antithesis of good public policy.

There is a related problem in broadcasting, the performing arts, and some other sector where the misuse of free work concerns those who are wrongly called "volunteers".

The broad problem of the misuse of free work has been developing for a number of years. It has become a very substantial problem and the NMW is being seriously undermined. The Government must now take decisive action to deal with it.

In July the TUC was pleased to see the Government endorse the "Common Best Practice Code for High Quality Internships", which came out of the Milburn report on access to the professions. This is a useful step towards setting better norms for the use of interns, but it will not be enough on its own.

DBIS has been working on new guidance for a number of years and it is now said that it is nearly ready, and should be published at the end of the summer. DBIS have also indicated that the publication of new guidance will be followed up by dissemination and targeted enforcement during the latter half of the current financial year. This is welcome news, but there must be no doubt at all that it is now imperative that this comes to pass.

The Government should draw in trade unions and other civil society organisations in order to help HMRC to make the most out of their enforcement budget for dealing with the misuse of unpaid work.

<u>TUC recommendation</u>
The LPC should remind the government that it is imperative that it published good guidance on unpaid work and takes serious steps to ensure that it is enforced. It should also evaluate any steps that the Government takes before the next LPC report is finalised.

Advertisements for jobs that pay rates below the NMW

The TUC is aware that trade unions and members of the public often complain about advertisements that advertise jobs that pay below the NMW, yet legally nothing can be done about such advertisements at the moment.

In some cases, this may be down to employers not knowing the correct rates, but the net effect is very abrasive. Indeed, the TUC has come round to the opinion that this state of affairs helps to create a state of affairs where subsections of certain industries openly hold the NMW in contempt.

The LPC should therefore considerer whether the law should be changed in order to make such advertisements illegal.

The LPC should certainly recommend that HM Revenue and Customs should always regard such advertisements as prima facia evidence of intent to break the law, should write to the employer in question in order to let them know what they need to do in order to comply with the NMW, and should add such employers to their list of high-risk businesses to be inspected. This would be in line with BIS NMW Compliance strategy, which stresses the value of intelligence in focusing enforcement[37].

Logically, this action would run in tandem with a campaign to deal with unpaid work and interns, since such a campaign should in itself deal with a sizable section of these inappropriate adverts.

<u>TUC recommendation</u>
The LPC should consider whether the law should be changed in order to make advertising jobs below the NMW illegal. It should also recommend that HMRC should regard all such adverts as evidence of intent to break the law, and take appropriate action to ensure that the minimum wage is duly paid.

Domestic workers

The TUC is becoming increasingly concerned about the position of those domestic workers who are exempted from the National Minimum Wage as they are said to be living as part of the family.

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[37] BIS, March 2010, paras 4.1-4.4

There is compelling evidence that a worrying number of servants in this position are abused in ways that go far beyond not paying the NMW, sometimes involving physical and sexual abuse. Whilst it is unlikely that the Low Pay Commission could put a complete end to this kind of abuse, it could certainly find a way to make it easier for domestic workers to prove that they have not been paid the NMW. It is now very clear that many domestic workers who do not live as part of the family cannot access the NMW rights because they are unable to meet the necessary evidential tests. In short, it is their lone word against that of their employer and the employer's family and friends.

This is creating a significant loophole in the NMW and leading it into disrepute in some sectors of society. In our view, the exemption for domestic workers should now be abolished and all domestic workers should be covered. This would help to end the dodge of pretending that domestic workers are part of the family. The burden of proof would then be squarely on the employers to show that they had complied with the NMW.

June 2011 saw the adoption of a new ILO convention on Domestic Workers, despite a disappointing lack of support from the UK Government. It is now time to ensure that they are not wrongfully excluded from the protection of the NMW.

In addition, this sector should be targeted for enforcement in 2012, using a multiagency approach in order to catch out-and-out people-traffickers as well as more moderately bad employers.

TUC recommendation:

The exemption for domestic workers who are said to live as part of the family should be abolished, as it has been subject to wide-spread abuse. The sector should be targeted for enforcement in 2012, using a multi-agency approach.

Non payment of care-workers for time spent travelling between clients

Conversations with home- care workers and unions suggest that it is becoming more common for companies delivering mobile home care services under contract to local authorities to try to avoid paying workers for travelling between clients.

A typical care worker in these circumstances will have a number of elderly or disabled clients who they will help to get out of bed in the morning, wash, make meals, check medication and put to bed at night. Work is often allocated and paid in 15 minute time slots and workers struggle to finish the tasks in the allocated time, which also often results in unpaid work.

Funding was coming under increasing pressure even before the current cutbacks. A significant number of employers are responding by setting up arrangements that exclude paying for travelling time, either by the inappropriate use of piece rates, as described in detail by UNISON in their 2010 submission to the LPC (see also section on simplifying the NMW below), or by the inappropriate use of zero hours contracts . This has led to many care workers losing between 30 minutes and 60 minutes pay per day.

This kind of chiselling is not fair on the workers, their clients or their client's families.

TUC recommendation
The TUC believes that non-payment of elder-care workers for travel between clients breaks the existing law and should be considered for targeted enforcement during 2012.

Zero hours contracts

One point that the LPC will want to examine very closely is the return of zero-hours contract working. This type of arrangement was extremely rare in the UK during the boom years, but was revived at the onset of the recession, increasing from around 40,000 employees to over 125,000 (from 0.2 per cent to 0.6 per cent of employees).

Around 30,000-35,000 employee in health and social care are employed on zero hours contracts, whilst a further 23,000 are employed in retail and 20,000 in the hospitality industry.

These contacts are frequently misused in order to try to remove part of the working day from the NMW calculation. In practice this means not paying care workers for travel between clients or not paying waiting staff in restaurants for times when there are no customers.

In most cases, such strategies are simply not legal. However, in any case the guiding principle must always be that the NMW should be enforced. If there is any doubt about whether the law can be enforced, then the NMW should be strengthened in order to bring certainty.

TUC recommendation
The LPC should investigate the abuse of zero-hours contracts, with a view to closing any loopholes and ensuring that the NMW is strongly enforced.

Awareness and enforcement

The LPC needs to continue to keep the enforcement regime under review and make recommendations for improvements. Every year employers develop new ways off trying to avoid the minimum wage rules, so constant vigilance is needed.

Some of the areas for the coming year are discussed above, including the misuse of interns and work experience, domestic workers, and the abuse of zero hours contracts and multi-client social care employment contracts that exclude travelling time.

In addition, the budget for enforcement has been frozen, which effectively means that it is declining in real terms. There is a close relationship between the resources available for enforcement and the quality of enforcement, so the TUC argues that the budget should be increased in order to ensure that low paid workers can enforce their NMW rights.

There is also concern that awareness of the practical details of minimum wage may be slipping among both workers and employers. The Government needs to give DBIS a budget that is sufficient to advertise the NMW rates so that workers can to know their rights and how they may be enforced.

TUC recommendation
The LPC should recommend that the budget for enforcement should increase so that it does not lose its real value. It should also recommend the restoration of the budget for advertising the key details of the NMW and how workers can enforce their rights.

Could the NMW be simplified?
In the TUC's view, the NMW is one of the simpler and more certain employment rights. We believe that the LPC has always kept these factors in mind when formulating its recommendations and the TUC has also always had these factors in mind. On the basis of experience, the simplicity of the NMW makes it easy to enforce.

Yet there are still some areas of difficulty due to historical exclusions, such as in the case of certain domestic workers and seafarers discussed above.

There is also a problem with certain employers actively trying to create loopholes, so that some regular attention is needed in order to maintain the certainty and simplicity which we desire.

One area that might constitute an unnecessary complication is the provision for Fair Piece Rates (FPR) in general.

In a previous submission we highlighted abuse in contract room cleaning in the hotel industry, and this practice continues in that sector. In addition, this type of arrangement can now be found in areas such as parcel delivery and fast food delivery, as well as those cited in previous submissions. In these cases it is unlikely that all the workers involved are genuinely output workers, and we have not been able to find evidence that any of these employers has used a time trial to establish a FPR.

The LPC's last review of FPR drew a poor response, with none of these employers coming forward to defend what they were doing. The TUC has now concluded that these provisions are more regularly abused than they are properly used.

Recommendation
The LPC should consider whether it would be any great loss if these provisions were abandoned and employers required to fall back on the standard provisions of the NMW.

Providing greater certainty for business

Some business voices have argued that the announcement of the NMW rate six months in advance does not give them long enough to plan properly.

There is an obvious trade-off between announcing the NMW earlier and the LPC having timely information on which to base their decisions.

From time to time the LPC also returns to the question of whether they should make recommendations for two years, or perhaps just give some indication about what might happen in the second year.

Although there are some attractions in making longer recommendations, on balance the TUC would advise against such a proposal. Two year recommendations will inevitably lead to the LPC being cautious in year two, followed by catch up. Such a course would also generate some concern amongst businesses. Making indicative recommendations for year two would not really change the problem, as they would effectively be set in concrete, with one side or other sure to defend the indicative recommendations to the death.

In sum, the TUC would argue that the current system of making an annual recommendation announced in March still stands as the best option.

Conclusion and recommendations

Last year the Low Pay Commission recommended an increase of 2.5 per cent to the adult rate of the NMW, which the TUC thought was too modest. In particular, inflation has continued to outstrip both average earnings and the growth in the NMW, which has eroded the real value of the rates. Although the recovery will be slow, and will be hindered by the effect of the government's programme of cuts in public sector spending on business opportunities and consumer demand, most economic forecasters agree that 2012 will be better than this year and that 2013 will continue the upward path.

This suggests that employers will be able to sustain a higher rate of increase in October 2012. Last year we argued that the NMW should increase by 3.5 per cent. The recovery has been somewhat slower than we would have hoped, but we believe that there is now room for a more generous increase The LPC should also recommend the extension of the NMW to excluded workers, including some domestic workers and seafarers.

The TUC's recommendations

- *The adult rate should be increased again in 2012. It has already been agreed that the rate will increase by 2.5 per cent to £6.08 from October 2011. We now argue that the slowly recovering economy will be able to support a considerably more substantial increase by October 2012, which would improve the position of low paid workers measured against the growth in average earnings and RPI inflation. As a minimum, we would expect the rate to increase by more than RPI inflation and average earnings, whichever is the higher, in order to help to address the loss in the real value of the NMW.*
- *The TUC argues that the rate for 18-21 year olds should increase in 2012 by at least the same percentage as the adult rate. We aim to see the adult rate paid at the age of 18 and a significant narrowing of the gap between the other rates and the adult rate as soon as possible.*
- *The TUC strongly opposes the abolition of the AWB for England and Wales. The LPC should support the AWB, but is should also have the fallback position of recommending that the expertise and funding from the DEFRA inspectorate should be transferred across to HMRC. It should also commission research and monitor the impact on wages and conditions, jobs and apprenticeships in the sector. In addition the LPC should develop close link with Gangmasters Licensing Authority and consider whether that authority should have a greater role in enforcement.*
- *The LPC should recommend that the Government takes forward the conclusions of the DfT working group on seafarers and the NMW.*
- *The LPC should remind the government that it is imperative that it published good guidance on unpaid work and takes serious steps to ensure that it is enforced. It should also evaluate any steps that the Government takes before the next LPC report is finalised.*
- *The LPC should consider whether the law should be changed in order to make advertising jobs below the NMW illegal. It should also recommend that HMRC should regard all such adverts as evidence of intent to break the law, and take appropriate action to ensure that the minimum wage is duly paid.*
- *The exemption for domestic workers who are said to live as part of the family should be abolished, as it has been subject to wide-spread abuse. The sector should be targeted for enforcement in 2012, using a multi-agency approach.*

- *Non-payment of elder-care workers for travel between clients breaks the existing law and should be considered for targeted enforcement during 2012.*
- *The LPC should investigate the abuse of zero-hours contracts, with a view to closing any loopholes and ensuring that the NMW is strongly enforced.*
- *The LPC should consider whether it would be any great loss if these provisions were abandoned and employers required to fall back on the standard provisions of the NMW.*
- *The LPC should recommend that the budget for enforcement should increase so that it does not lose its real value. It should also recommend the restoration of the budget for advertising the key details of the NMW and how workers can enforce their rights.*

Annex: Number and proportion of NMW jobs by industry

industry	Number of NMW jobs (thousands)	Industry	Per cent paid NMW
Non-low paying industries	303	Hairdressing	28%
hospitality	245	Cleaning	23%
Retail	231	Hospitality	20%
Cleaning	64	childcare	13%
Social care	58	Employment agencies	11%
Employment agencies	51	Leisure travel and sport	10%
Leisure travel and sport	40	Textiles	10%
Hairdressing	24	Retail	8%
Food processing	23	Social care	7%
childcare	18	Agriculture	7&
agriculture	8	Food processing	6%
textiles	7	security	5%
security	5	Non low-paying industries	2%

Derived from LPC report 2010, table 2.2.