|  |
| --- |
|  |
| The Low Pay Commission |
| TUC response 2012 |

**1:** **Introduction**

The TUC is the UK’s national trade union confederation. Our 54 affiliated unions represent 6.1 million people at work and our influence extends more widely through the coverage of trade union agreements and the advice that we give. The TUC can be said to articulate the voice of Britain at work.

This paper sets out the TUC's evidence to the Low Pay Commission's 2012 inquiry. Our submission looks at:

* the current economic situation and the prospects for 2013/ 2014, which is the period that the LPC’s next report will cover;
* the case for further increases in the minimum wage rates for 2013, taking into account the needs of low paid workers in the UK and their families, the ability of employers to pay, and the dangers of being too cautious as well as too bold; and.
* groups of workers that have so far been let down by the minimum wage and the need for better awareness and enforcement.

In formulating our recommendations, we have taken account of the following key points:

* Employment has grown much more extensively across the low paying sectors as a whole than in the rest of the economy, thus demonstrating that the NMW has had no significant negative effects.
* Economic growth is forecast to return in 2013 and increase in 2014.
* Earnings growth is predicted to increase during the next two years.
* Even a modest increase in average earnings generates the need for a corresponding increase to the minimum wage, otherwise low paid workers will fall behind;
* The underlying rationale for the Low Pay Commission (LPC) is to try to end low pay. This must mean improving real wages at the bottom end of the labour market, within the constraints of employer affordability.
* There is also an economic imperative to ensure that the National Minimum Wage (NMW) continues to play a strong part in supporting the wages of low paid workers. Affordable increases in the NMW help to incentivise labour supply by making work pay. The additional earnings are also an effective way of bolstering consumer demand, as minimum wage increases tend to go straight back into the local economy.
* Given that the economy is forecast to improve by the time that the 2012 recommendations take effect, a well-judged increase that increases the real value of the NMW would easily be absorbed by employers.
* Conversely, when the NMW falls short of the highest sustainable level the UK not only misses out on sustainable consumer spending but also lets employers transfer some of the cost of employment to the public finances, by leaving subsidy via tax credits and in work benefits to play too big a part in supporting low paid workers.

In the light of these factors, the TUC believes that the case for a further increase to established minimum wage rates that goes beyond keeping pace with the growth in prices and earnings is compelling.

The Joseph Rowntree Foundation calculates a Minimum Income Standard, which measures how much is needed in order to live in a way that meets “a minimum socially acceptable standard of living”[[1]](#footnote-1). This project reports that:

* A single person in the UK needs to earn at least £16,400 a year before tax in 2012, to afford a minimum acceptable standard of living.
* Two parents need to earn at least £18,400 each to support themselves and two children.

These figures translate into “living wage” rates that are well above the NMW, which serves to remind us of the compelling need to meet the needs of low paid people by reducing the gap between the minimum wage and the living wage as much as possible.

To make matters worse, low income families have been hit harder than average by the recent spate of inflation. In May 2012 the TUC launched its own living standards index, which looks at the impact of inflation by earnings deciles. This reaffirms the findings of earlier reports[[2]](#footnote-2) by confirming that the poor were hardest hit:

*“Consumer Price Index (CPI) inflation for the poorest 10 per cent of households in February was 4.1 per cent, compared to 3.6 per cent for middle-income households and 3.3 per cent for the richest 10 per cent. Headline CPI inflation was 3.4 per cent.*

*The poorest 10 per cent of households have been experiencing higher inflation over the last year because they spend a larger proportion of their income on food and utility bills - whose prices have risen faster than headline inflation - than the richest households.[[3]](#footnote-3)”*

Furthermore, ongoing reductions in the generosity of the tax-credit and benefits system will impact disproportionately on low paid workers, thus increasing their reliance on pay for income, and on the NMW in particular.

For example, from April 2012 the hours threshold for claiming working tax credits was increased from 16 to 24 in households where more than one person works. Part-time women workers on low wages featured disproportionately amongst the 210,000 households who had their tax credits reduced by this measure.

The TUC believes that working people have a right to decent minimum standards and that employers have a duty to do fully as much as they are able in order to deliver decent pay. The Coalition Government’s support for the minimum wage is therefore very welcome indeed – the National Minimum Wage makes the UK a better place.

Despite our economic difficulties, the UK is still a wealthy country, albeit one where the gap between rich and poor is extreme. Our citizens should have the right to expect that they will enjoy the best living standards that can be achieved. Developing the minimum wage on a continuous basis must be part of our shared strategy to foster the “good life” in this country.

2: Low Pay Commission remit 2013

The Low Pay Commission’s remit for its current report asks it to:

* “monitor, evaluate, and review the levels of the different NMW rates and make recommendations on the levels from October 2013;
* review the contribution the NMW could make to the employment prospects of young people, including those in apprenticeships, and as part of this review consider the implications of the introduction of the Raising of the Participation Age in England on the youth rates and apprentice rate;
* review the accommodation offset; and
* evaluate the NMW regulations for salaried-hours workers, and consider whether there are any measures which could be taken to make arrangements as simple and easy as possible for employers and individuals.”

In evaluating and making recommendations in these areas the LPC is asked to “also take into account the state of the economy and employment and unemployment levels, as well as the wider policy context. This includes pensions reform, introduction of the Universal Credit, the raising of the personal tax allowance, and any implications of the proposed abolition of the Agricultural Wages Board in England and Wales”[[4]](#footnote-4).

**3: Role of the LPC**

The TUC's view is that continued support for the minimum wage in difficult times owes a lot to the LPC. The Commission has succeeded in maintaining a consensus view that NMW is inherently worthwhile.

The TUC will often argue that the LPC should be bolder in making its recommendations, since this is our genuine evaluation of what could be achieved. Nevertheless, we recognise that the LPC is still committed to setting the highest rates that can be sustained, and always takes great care when making its decisions, drawing on as much evidence as possible.

We hope that our submission will make a useful contribution to the LPC’s work.

4: Prospects for the UK economy

The LPC is currently considering setting new rates to apply for the period from October 2013 until September 2014.

The Commission will want to gauge the ability of the UK economy to absorb the minimum wage increases. Most commentators are agreed that the UK economy will be improving in the years immediately beyond 2012 although, as the Governor of the Bank of England famously predicted, the course of the recovery will be “choppy”[[5]](#footnote-5).

Although the economic predictions for the UK (below) show improvement for the next two years, no one can deny that 2012 has been a disappointing year.

The origin of our current difficulties is well known. The crisis was precipitated by reckless banking practices leading to a credit crunch that robbed the UK economy of both finance and confidence.

Lack of affordable bank finance and concern about the future of the economy, including the external problems in the euro-zone, continue to depress both business investment and consumer demand.

The TUC argues that the situation has been made worse by the Government’s pursuit of austerity at any cost, which is exacerbating the lack of demand in the private sector, although, as we will see below, the effect is not predicted to be strong enough to outweigh the return of economic growth next year.

The central consensus amongst conventional economists is moving away from support for the Government’s austerity programme with, for example, the Chancellor being warned by the well-respected economist Kate Barker that the Government’s course risks becoming “self-defeating”[[6]](#footnote-6).

In addition, the International Monetary Fund’s view has increasingly swung towards warning Governments that too much austerity too soon is certain to lead to economic damage.

In January 2012 they warned at Davos that “inappropriate spending cuts could "strangle" growth[[7]](#footnote-7)”. In May, Christine Lagarde, Chief Executive of the IMF, praised the UK chancellor but also said that austerity should be eased to boost growth[[8]](#footnote-8).

In July, an IMF report made the dangers of too much austerity too soon absolutely explicit, warning that excessive austerity measures in a recession can trigger a vicious circle, with declining output, diminishing tax revenue and expenditure cuts reinforcing each other, creating a “a snowball effect”

The IMF paper argues that, in a recession, cutting government outlays proves to be detrimental to growth. According to the results, the fiscal multiplier for expenditure shocks generated by cutting public spending varies between 1.6 and 2.6. This means that every £1 of cuts costs £1.60 to £2.60 to GDP[[9]](#footnote-9).

Our strong view is that the green shoots of recovery need careful nurturing, not wilful exposure to a further artificial economic winter.

Given the current situation, companies are busily engaged in putting aside piles of cash reserves, whilst individuals are paying down debt.

The onset of the crisis was so steep that it initially drove inflation into negative figures, before sharply rising fuel prices and the government’s decision to increase VAT triggered a strong bounce-back which is only now dying away.

Wages initially grew strongly, before attenuating to a point below the level of inflation. They are only now returning to real growth.

Much has been said about the role of low wage growth in preserving jobs through the economic crisis. It is certainly true that where unions are present, they have played a strong role in judging what the employer can really afford. In other cases, it is less clear that employers are treating workers fairly. It is certainly the case that we can’t build a strong recovery without improvements to real wage growth.

One important down-side of low wage growth is that lack of wherewithal means that consumer spending cannot play a significant role in kick-starting the economy.

There is also a long-running trend for the share of GDP that is paid in wages to fall. There is a concern dawning belatedly amongst mainstream thinkers that the concentration of too much wealth in too few hands may play a part in making the UK economy alternate between unwanted volatility and untreated sclerosis.

We believe that stronger wages growth, whilst not necessarily the trigger for recovery, is certainly a necessary component of sustainable economic growth. Conversely, if too many enterprises bear down on wages even when they can afford increases then individual rationality will produce collective economic foolishness. “Time are tough” can all too easily become a self-perpetuating prophecy.

Perhaps a little surprisingly, the IMF has been doing some soul-searching on this issue, whilst not ditching their belief in fiscal rigour, they also argue that “countries with more equitable distributions of income are associated with greater macroeconomic stability and more sustainable growth over the longer term.[[10]](#footnote-10)”

More positively, one prominent strength of the current situation is the growth in financial reserves, which increased from £641 billion in 2007 to £724 billion in 2011[[11]](#footnote-11).

This means that there is a very plausible scenario in which the “animal spirits” of investors start to sense that the UK has embarked on a real economic recovery and unlock significant amounts of money very quickly.

The next LPC recommendations will apply from October 2013 to September 2014. It is therefore useful to examine the economic forecasts for the next two years.

The Office of Budget Responsibility (OBR) publishes its own forecasts on a twice yearly basis. These are very influential, but decline in relevance over a period of time. The last OBR figures were published in March 2012 before the double dip recession, and the next ones are not due until November.

In contrast, HM Treasury publishes a regular round up of independent economic forecasts on a monthly basis, including median averages of predications made in the past three months.

This latter series is able to respond to economic events in a more timely fashion. The TUC therefore puts more store in this series at times when the OBR’s latest forecast is more than 3 months old[[12]](#footnote-12), so it is to the independent forecasters that we now turn.

***HMR round-up of independent forecasts for the UK economy***

|  |  |  |  |
| --- | --- | --- | --- |
|  | 2012 HMT forecast | 2013 HMT forecast | 2014 HMT forecast |
| GDP growth | -0.3 | 1.4 | 1.9 |
| Private consumption | 0.0 | 1.1 | - |
| Real household disposable income | 0.0 | 0.3 | - |
| Employment growth | 0.5 | 0.3 | - |
| Claimant unemployment (median -Q4) | 1.67 mill | 1.70 mill | 1.61 mills. |
| Average Weekly Earnings | 1.7 | 2.2 | - |
| CPI Inflation | 1.9 | 2.0 | 1.9 |
| RPI-x inflation | 2.2 | 2.5 | - |
| RPI inflation | 2.3 | 2.6 | 2.6 |

Source: HMT round up of independent forecasts for the UK economy – median forecast made in last 3 months (August 2012)

The latest HMT round-up of independent forecasts for 2012 reflects the current difficulties, with a prediction that the economy will contract by 0.3 per cent this year, while the “feel-good” measures like private consumption and household disposable income are still on zero. Meanwhile, inflation is predicted to fall on all measures, despite the recent surprise hike.

Whole economy Average Weekly Earnings have been squeezed back from the previous year’s rate. However, it is worth noting in passing that the growth of part time employee jobs (+0.8 per cent during the past year), and the decline of full-time employee jobs (-0.5 per cent) depresses the index, as part-time employees tend to have lower weekly earnings than those working full-time[[13]](#footnote-13).

In terms of the predictions for 2013 and 2014, which is the period that the LPC is currently considering, independent economic forecasters think that GDP growth will return next year and strengthen in 2014, whilst still remaining below the long-run trend. Some return to household consumption growth is also expected.

As always, employment growth is forecast to lag behind the recovery and will be weak in the coming period, and unemployment will not fall significantly.

In contrast, wages growth is expected to pick up, with average weekly earnings predicted to rally by a further 0.5 per cent next year.

The Bank of England also publishes influential economic forecasts, albeit in the form of a wide range of probabilities. The Bank has recently revised its growth forecasts downwards, but nevertheless, they still predict 2 per cent GDP growth for 2013 and 2014[[14]](#footnote-14).

**Employment in low paying sectors**

The LPC will want to know how developments in the economy as a whole effect employment in the key minimum wage industries. If employment in these sectors is growing more quickly, or conversely falling less rapidly than employment changes across the whole economy, it is almost certain that the National Minimum wage must be having no negative effects on employment and job creation.

In fact, the relative position of the low paying sectors as a whole is very encouraging. As the table below shows, the number of employee jobs in sectors with a high incidence of low pay and minimum wage jobs rose sharply by 4.8 per cent during the past year, far outstripping the very modest 0.4 per cent growth in the non-low paying sectors and playing a disproportionate part in the 1.7 per cent employee jobs growth seen across the whole economy.

In particular, there was strong jobs growth in the food and beverage sector, where employment rose by 151,000, whilst the very substantial retail sector put on extra 88,000 jobs.

Indeed, only the hotel sector seems to be still stuck in the employment doldrums, as others sectors such as hairdressing and even textiles increased by more than 9 per cent and agriculture soared by 17.5 per cent.

Certainly nobody can say that the NMW had a detrimental impact last year, as 81 per cent of employee jobs growth in the last twelve months was located in the quarter of the economy that is occupied by the low paying industries.

***GB Employees in low paying industries (thousands)***

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Industry | March 2011 | March 2012 | Change | Per cent change |
| Agriculture, hunting and forestry | 165 | 194 | +29 | +17.5% |
| Textile, clothing and leather goods manufacture | 93 | 102 | +9 | +9.7% |
| Retail trade (not motor vehicles) | 2,680 | 2,768 | +88 | +3.3% |
| Hotels and accommodation | 371 | 369 | *-4* | *-0.5%* |
| Food and beverage service activities | 1,350 | 1,501 | +151 | +11.2% |
| Residential care and social work activities | 1,547 | 1,585 | +38 | +2.5% |
| Investigation and security services | 173 | 180 | +8 | +4.0% |
| Services to buildings and landscape activities | 607 | 628 | +21 | +3.5% |
| Hairdressing & other beauty treatment\* | 101 | 111 | +10 | +9.9% |
|  |  |  |  |  |
| **Total employee jobs in sectors with high incidence of low pay** | **7,087** | **7,438** | **+351** | **+4.9%** |
|  |  |  |  |  |
| **Non-low paying sectors** | **18.906** | **18,989** | **+83** | **+0.4%** |
|  |  |  |  |  |
| **All employee jobs** | **25,993** | **26,427** | **+434** | **+1.7%** |

Source: ONS Table “JobsS03”, employee jobs by 4 digit industrial class, published June 2012. Note - only GB figs available. Includes second jobs.

**Retail**

In retail, where employment has increased by 88,000 during the past year, the latest figures show July 2012 sales up by 3.1 per cent compared with July 2011[[15]](#footnote-15). This amounts to a good step on the road to recovery. Many forecasters predict that retail sales growth will continue to trend upwards in the coming period, albeit at a level that is still below the historical average[[16]](#footnote-16).

**Hotels**

London hotels report a considerable boost during the two-week Olympic Games period, with occupancy increased by 4.8 per cent and average room prices up by a very substantial 86.1 per cent[[17]](#footnote-17).

London hotels have benefitted more broadly from long-running advertising campaigns around the world which marketed 2012 as the year to visit, with the combined draw of the Golden Jubilee and the Olympics adding to the pull of London’s regular attractions.

Regional hotels, which are more likely to employ staff on the NMW, have not derived so much benefit from the 2012 events, but are forecast to do better in 2013, with the RevPar combined room rate/ occupancy measure predicted to increase by 2 per cent[[18]](#footnote-18).

**Restaurants and pubs**

In terms of employment, the sector bounced back strongly with the creation of 150,000 extra jobs this year, as reported above.

Whilst the road to recovery will be slow for the industry as a whole, with strong competition from retail sales, there is already solid growth in the restaurant and pub sector in London and good growth in low cost outlets throughout the country. The latter are, of course, amongst those most likely to pay staff at the NMW.

According to Barclay’s *Hospitality and Leisure Outlook*, “inflation-adjusted restaurant and pub turnover increased by 4.6 per y/y in Q1 (2012). However, conditions remain challenging with a protracted recovery in consumer spending forecast. As a result ‘value’ pubs, take-aways and other low cost operators are likely to continue to perform relatively strongly. Trading conditions in the London market are likely to continue to remain reasonably robust”[[19]](#footnote-19).

**Security Guards**

The security guard sector also remains fairly healthy with, for example, guarding companies affiliated to the British Security Industry Association enjoying a total turnover of £1.6 billion and employing 75,000 security officers[[20]](#footnote-20).

**Hairdressers and beauty salons**

As the table above showed, employment in hairdressing and beauty salons also increased this year. *New B2B*, which maintains a database of new businesses in order to market its support packages says, rather breathlessly, that “Beauty Salons & Consultants were the most popular business type …with a whopping 107 captured in June 2012.[[21]](#footnote-21)”

**Profitability**

Profitability will of course have some bearing on the affordability of NMW increases. The service sector has the greatest concentration of minimum wage workers. It continues to enjoy an average rate of profitability of 15.7 per cent in the second quarter 0f 2012, which is higher than the 12.1 per cent general rate of profitability for the whole economy excluding the financial sector. These figures compare favourably with past results, as the table below shows.

***Profitability of UK service sector corporations 2009-2011***

|  |  |  |
| --- | --- | --- |
| Whole year | Rate of return of all non-financial corporations | Rate of return of service sector corporations |
| 2009 | 11.5% | 14.0% |
| 2010 | 11.7% | 14.3% |
| 2011 | 12.0% | 15.4% |

Source: ONS, Profitability of UK companies Q1 2012: <http://www.ons.gov.uk/ons/rel/pnfc2/profitability-of-uk-companies/q1-2012/stb-profitability-of-uk-companies-2012q1.html>

**Productivity**

Labour productivity in the UK fell during the recession. There has been concern in some quarters that this may mean that the UK would have to lose more employment at some point.

The phenomenon is discussed in a recent ONS paper[[22]](#footnote-22), which suggests that part of the fall in productivity per worker can be accounted for by the loss of full-time jobs and the creation of more part-time jobs, meaning that average number of hours per worker has declined. The paper also points out that as whole, firms continue to have healthy cash flows and increasing reserves, and as we argue above, that profitability is also recovering.

It is also suggested that displacement of permanent full-time employees into involuntary part-time or temporary employment or self-employment might mean that such workers are less adept in their current roles, perhaps because they are missing certain skills. The TUC might also wonder whether such an experience might adversely affect motivation.

The ONS paper does not suggest we face significant additional capacity falls of the sort that would suggest a further significant shock to employment is on the horizon.

It seems unlikely that productivity will be a factor affecting NMW jobs at time when profitability is recovering and employment in the low paying sectors has been rising.

Indeed, productivity per job is also now recovering, when set against figures from the start of the recession or during its depths. The latest ONS figures, which are for the first quarter of this year, report that the whole-economy index has risen to 101.8, compared with a figure of 101.3 in 2007 and 98.3 in 2009.

The picture for hourly productivity in the service sector, where many NMW jobs are concentrated, shows a similar picture, with a return to positive growth confirmed by the start of 2012 (102.1 on the ONS index compared with 101.1 in the previous year and 99.1 in 2009[[23]](#footnote-23)).

***4: Young people***

The position of young people remains problematic. They have seen their employment levels fall fastest and face the highest risk of unemployment of all age groups, so that by the start of 2012 youth unemployment had reached the highest rate in 30 years.

The TUC argues that the Government could do more for young people. In particular, we have criticised the Government’s YouthContract as insufficient[[24]](#footnote-24).

Despite the continuation of the UK’s economic difficulties there are now some signs of improvement for 16-17 year olds, as their unemployment rate fell slightly in the past year, decreasing by 0.6 per cent[[25]](#footnote-25). Given that the rate had increased by 3.6 per cent in the previous year, there is now some hope that the worst has passed.

When considering the position of 16 and 17 year olds, we should remember that we are dealing with quite small numbers, so that the previous 3.6 per cent increase in the unemployment rate of 16 and 17 year olds actually amounted to a further 11,000 young people unemployed on the ILO measure, whilst the more recent fall equates to 5,000 less unemployed, given that the overall size of the cohort is also shrinking[[26]](#footnote-26).

As the following table shows, the vast majority of 16-17 year olds and a large proportion of 18 year olds are in education and training.

***Participation in full time education and training***

|  |  |  |  |
| --- | --- | --- | --- |
|  | 1998 | 2007 | 2011 |
| 16 and 17 year olds in full-time education (FTE) | | | |
| Number(thous) | 770 | 978 | 1,017 |
| Rate | 64.3% | 72.7% | 80.8% |
| 16-17 year olds in any form of education and training, including FTE | | | |
| Number(thous) | 998 | 1,162 | 1,177 |
| Rate | 83.3% | 86.4% | 93.6% |
|  |  |  |  |
| 18 year olds in full-time education (FTE) | | | |
| Number(thous) | 237 | 288 | 328 |
| Rate | 39.1% | 42.7% | 50.3% |
| 18 year olds in any form of education and training, including FTE | | | |
| Number(thous) | 374 | 419 | 454 |
| Rate | 61.7% | 62.1% | 69.1% |

### Source: DfE, “Participation in Education, Training and Employment by 16-18 Year Olds in England, end 2011 - Statistical first release” June 2012. Note, measured at year end.

The TUC welcomes the continuing trend for young people to stay longer in education and training, whilst recognising that many will find this more difficult to sustain if they cannot find part-time jobs to support their studies because jobs are still too scarce. Nevertheless, we note that there has been a long-running trend for participating in education and training among young people aged 16-18 to increase, which has been sharpened in recent years by the slack labour market. As the table above shows, there are now 50,000 more young people participating in education or training than there were at the start of the recession, despite a decline in the size of the overall cohort.

In addition, in the past year, the modest fall in employment for 16-24 year olds (-37,000) has been closely matched by a 34,000 increase in those in full-time education[[27]](#footnote-27).

We remain very concerned about young people aged who are not in employment, education or training (NEETS), especially the 21-24 year olds who are in this position.

In contrast, there are strong signs that the preference for education and training has now led to a large fall in the number of 16 and 17 year old NEETs, down from 98,000 in 2007 to 60,000 in 2011.

In addition, whilst there are no grounds for complacency, the number of 18 year olds who are NEET has now fallen back to 2007 levels (95,000) after being 20,000 higher in both 2008 and 2009.

Most importantly, despite actively looking for evidence that minimum wage rates might harm job creation for young people, neither the LPC nor any other commentator has been able to find any statistically significant evidence that this is the case. As anything that is not statistically significant can also occur through chance or sampling error, this is effectively the same as finding no evidence at all.

Whilst we know that there have been real concerns in the past about the effect of youth minimum wages on employment in some other European countries, the nations in question had set rates that were *very* much more challenging for employers than those in the UK.

Conversely, the TUC does not believe that it is possible to price young people into work by holding back the development of the NMW rates for young people, which is already some way below the adult rate. Our experience of the abolition of the UK wages councils in the 1990s was that both wages and employment fell. Faced with deregulation, employers simply paid less and pocketed the difference.

We are also concerned that very low pay rates are entrenching age discrimination without a clear justification of improving employment. There is also a danger that low pay rates send the message that work does not pay, which has an obvious effect on young people’s motivation.

**The effect of raising the compulsory participation age**

We also considered the effect of the Education and Skills Act 2008, which will mean that from summer 2013 onwards all 16 year olds will be expected to participate in education and training, as well as those who start the school year aged 16 but turn 17 during the course of the year, thus effectively raising the compulsory participation age for an average of one year above the current school leaving age.

The initial phase will thus effectively apply to the 16-year-old cohort. In England this comprises of a total 620,000 young people, of whom 534,000 are in education, 65,000 are in some form of training, 21,000 are NEET and 18,000 are in employment with no education or training[[28]](#footnote-28). The numbers affected are thus likely to be relatively small.

We could not see that this would cause any problems for employers, since there will be no duty to employ young people or to provide training, and no penalty for the employer employing a 16 year old without training.

We very much hope that more employers will provide apprentices or other forms of accredited attaining for this age group, and many unions will be negotiating to that end. However, it seems to us that employers who choose to train 16 year olds will gain from having more skilled and committed employees.

The effect of further raising the compulsory participation age in 2015 will be to extend the requirement to all 17 year olds[[29]](#footnote-29), or a further half-year on average, but this timescale falls outside the scope of the current LPC consultation.

***5: Other factors influencing the TUC’s 2013 NMW targets.***

Despite the previous false starts it is most likely that the UK economy will improve next year and that this trend will continue and accelerate in 2014. It is in this context that we set out the TUC’s recommendations for further increases to the NMW rates to take effect in October 2013.

The TUC shares the LPC’s tacit aim that the minimum wage should always be set at the highest level that can be sustained without producing any detrimental economic side-effects. The NMW rates should maximise the earnings of low paid workers whilst also maximising employment levels.

Our experience of the UK National Minimum Wage so far has been that employers have been able to absorb the increases set by the LPC, even though they may not like paying more. This finding has continued to hold true throughout the difficult economic times.

The LPC and many other commentators have actively looked for negative effects on employment, but have been able to detect no evidence along these lines that will stand up to their own rigorous examination.

The task before the Commissioners now must be to hold their nerve and continue to listen to what the evidence tells them. Given that the rationale for the LPC is to combat low pay, they should make recommendations that both ensure that low paid workers keep pace with the rest and try to improve their income relative to the median as much as is possible.

As the TUC has said before, the LPC’s task must be to make the best possible recommendations, getting the actual NMW rates as forensically “correct” as possible.

This is a challenge where the consequences of undershooting the highest sustainable rate may be as bad as those that could stem from overshooting it. Too low a rate would leave too many hard pressed working people living deeper in poverty than they need to, would lead to a greater reliance on the public finances in terms of tax-credits and in-work benefits than is necessary and would miss out on giving a modest but welcome boost to consumer demand by leaving low paid workers with less disposable income than they might otherwise have.

*In-work poverty*

Inflation rates have been higher than average wage settlements and the growth in average earnings in recent years, which means that many people’s real incomes have shrunk substantially. This is obviously very problematic indeed for those on the NMW and other low paid workers, since they have so little spare financial capacity to absorb any squeeze.

Early this year a report by the Alliance Research Trust re-affirmed that the low paid face higher than average inflation rates[[30]](#footnote-30).

The minimum wage also has an important role to play in lifting children out of poverty. The Child Poverty Action Group says that “Work does not provide a guaranteed route out of poverty in the UK. Almost two-thirds (62 per cent) of children growing up in poverty live in a household where at least one member works.[[31]](#footnote-31)” This equates to 2.2 million children in poverty in working households.

The LPC has a duty to help these children as much as they can. These children must not be left in poverty unnecessarily by an NMW increase that is too cautious.

*Public money unnecessarily subsidising low pay*

If the LPC were to be cautious in setting the rates, this would also have a negative impact on the public sector finances by diverting more money than is really needed away from the provision of public services into tax credits and in work benefits. The Exchequer would also miss out on potential income tax and National Insurance receipts. This is a matter of sharp concern at a time when the Government is set on making very significant cuts in public spending.

The LPC’s most recent report shows that the recommended increase of 1.8 per cent in 2012 should improve the public finances to the tune of £192 million[[32]](#footnote-32).

*Stimulating consumer demand offsets the cost of increasing the minimum wage*

The TUC argues that reviving consumer demand is a necessary condition for creating a sustainable economic recovery. Being too cautious on the NMW rates would mean that low paid workers would have less money to spend, which would mean that enterprises would miss out on a modest but worthwhile increase in consumer spending.

It is well-documented that NMW workers spend every penny of any pay increases, and that the local economy benefits most from NMW increase- related spending[[33]](#footnote-33).

In the US, this has led to some small business owners to campaign for an increase in the NMW on economic grounds. As small business campaign group ***Business for a Fair Minimum Wage* Director Holly Sklar puts it, “**We can’t build a strong economy on downwardly mobile wages.[[34]](#footnote-34)”

The Government has embarked upon a quantitive easing programme, but as the economic predictions suggest, it seems unlikely that this will result in a strong revival of demand next year. Given that it is still hard to find affordable credit and that many people are currently concentrating on reducing existing debt, the minimum wage must have a role to play in pushing recovery forward.

In these circumstances, a reasonable increase in the minimum wage could help to boost recovery in consumer spending.

*Auto enrolment in pension schemes*

Conversely, we also considered whether employers would be able to absorb the costs of the phasing in of statutory auto –enrolment in work place pension schemes[[35]](#footnote-35)

By 1 October 2013, employers with 800 employees or more will have to make a contribution to a qualifying pension scheme for many of their employees. By 2014, the provision will apply to those who apply 60 or more. But small firms, who employ a disproportionate amount of minimum wage workers, will not be covered during the period under consideration by the LPC.

For those who are covered, the statutory employer contribution will be 1 per cent of earnings within a band of £5,564 to £42,475, but auto-enrolment is also subject to an earnings trigger of £8,105, thus excluding very low earners.

However, there are a number of factors which may mean that low earners will not be covered or, regrettably, will choose to opt-out:

* Individual employees can choose to opt-out of the schemes. Current poverty may prove be a sharp incentive not to save for the future.
* The duty to make a contribution is subject to a 3-month qualifying period, which is likely to disproportionately affect low earners such as agency workers.
* Under-21s and older workers over the state retirement age are also excluded. Together they amount to 6.8 per cent of the employee workforce
* Crucially, around 6 out of 10 minimum wage workers are part-time employees, with an average working time of around 20 hours per week, thus generating an average salary of around £6,300. This means that they will not meet the £8,105 earnings trigger for auto-enrolment. Given that there is also a threshold of £5,564 for pay eligible for contributions, it seems unlikely that such workers would voluntary enrol in the scheme since they have little money to spare and the potential benefits of membership would be tiny. However, if they do choose to enrol, the employer contribution would amount to 1 per cent of around £700 per year, which comes to just 14 pence per week.

The employer’s contribution for those minimum wage workers who do qualify for automatic enrolment and choose not to opt-out will not be excessive.

Around 40 per cent of minimum wage workers are employed on a full-time basis. Assuming an average working week of 40 hours yields an adult minimum wage salary of £12,646. Subtracting the lower income qualifying threshold leaves £7,082 of qualifying salary, which equates to a statutory employer contribution of £70.82 per year.

As reported above, service sector profitability is recovering and corporate reserves are soaring. We do not foresee that the phasing in of modest statutory pension contributions will cause employers any problems.

*Universal Credit*

Finally, we have considered the implications that Universal Credit could have for the NMW rates. The period October 2013-2014 will see the initial roll out of Universal Credit, with new claimants of out of work benefits transferred to the system.

While UC will generally mean that those who are out of work receive a slightly higher return from moving into paid employment, the returns for some of those who are already in work and for many second earners in couples will decline. In addition, these benefits do not take account of childcare costs (which are rising significantly at the same time as the scale of Government support has been reduced) or the fact that DWP’s assessment of UC’s benefits are based upon the existing system in 2013, not the system that was in place before significant reductions in tax credit expenditure were introduced. Even under this arguably favourable assessment there will still be groups of both winners and losers from UC’s introduction, with the DWP’s impact assessment estimating 2.8 million gainers and 2 million losers.[[36]](#footnote-36)

Given this, the TUC sees no reason for the introduction of UC to have any particular bearing on the rate at which the NMW is paid. UC brings no new additional costs for employers, and while it will provide a small increase in the incomes of some low paid workers it will also lead to decreases in the incomes of others. In addition, over the 2013/14 period no working claimants will be transferred to the new system, remaining in receipt of tax credits. Indeed, the main impact of recent tax credit reforms has been to reduce their generosity (for example removing entitlements from couple parents who do not meet new hours requirements) leading to significant falls in the incomes of low paid workers, who will find themselves more dependent than ever upon the NMW if their living standards are to rise.

UC is also a strong indication of the Government’s view that work incentives matter as means to tackle unemployment, and recognition of the importance of the NMW as a means to increase labour supply is therefore implicit within this position.

**6: The TUC’s rate targets for October 2013**

When formulating our NMW targets for 2013 we have taken into account both the continuing difficulties that the UK economy is likely to face over the next two years and the widely held view that the next two years will be better than 2012.

Our view has been particularly influenced by the prospects for the main low paying sectors and the growth in employment that they have benefitted from in the past year.

We also note that NMW increases in the UK have had no measurable effects on employment, unemployment or even the position of young people. Clearly the current NMW rates are some way below the effective ceiling.

All the evidence points to the UK economy being able to bear a sensibly judged increase, which must be as bold as it can be on the basis of evidence in order to avoid the sub-optimal undershoot outcomes described above.

Given that average earnings are predicted to rise for the next two years, there should be room for a larger increase in October 2013 than in 2012.

Our medium term target is that the adult rate should be paid from age 18 and that 16 and 17 year olds should enjoy an increase that narrows the gap with the adult rate. Whilst the labour market position of young workers is difficult, it would certainly be wrong to let young workers fall further behind.

The number of apprentices has continued to increase strongly. The apprentice rate has now been established without generating any detrimental side effects. Given the strong growth in this sector and the value that apprentices generate for employers, we believe that there is room for much more significant increases in this rate.

Taking all these factors into account, the TUC’s view is that it will be possible to increase the real value of the NMW rates against both average earnings and inflation.

***TUC recommendations***

* ***The adult rate should increase again in 2013. As a minimum, we would expect the adult rate to rise by more than both RPI inflation and the growth in average earnings, in order to help to address the erosion of the real value of the NMW by inflation in recent years.***
* ***The TUC was saddened by the freeze in the youth rates last year. They should increase by at least the same percentage as the adult rate this year. In coming years we aim a significant narrowing of the gap between the other rates and the adult rate as soon as practicable, leading to the adult rate paid being paid from the age of 18.***

**7: Apprenticeships**

The TUC strongly supports the drive to increase the number of apprenticeships. Clearly, achieving this goal rests on high quality training places increasing. An integral part of our strategic approach to achieving that aim is to ensure that apprenticeships are seen as a good option by employers and workers alike. This means ensuring that both decent pay and training are always delivered.

We therefore welcomed the introduction of the new apprentice rate for those apprentices that used to be exempt from the NMW.

However, the TUC believes that the LPC has so far been too cautious with the rate and that significant increases will be possible in future years.

Our view is largely based on the sharp increase in the number of apprentices being employed. The latest figures show that apprenticeships starts rose from 280,000 in 2009/2010 to 457,000 in 2010/2011.

Whilst the greater part of this increase was for older workers aged over 24, there was also strong growth for younger apprentices, with starts in the 19- 24 bracket increasing from 114,000 to 143,000 (+25.4 per cent) and in the smaller 16-18 age group from 119,000 to 132,000 (+10.9 per cent)[[37]](#footnote-37).

Most apprentices earn more than the relevant NMW. However, the latest BIS pay survey gives grounds for concern. Whilst the median rate for all apprentices was £5.87 per hour,[[38]](#footnote-38) a considerable number were still paid below the relevant NMW and 5 per cent said that they were not paid at all.

There have also been some concerns about the quality of some apprenticeships and some allegations of existing training being re-branded by some employers. The TUC takes these allegations seriously. We are concerned to protect both individual apprenticeships and the brand as a whole.

The LPC should also consider whether the age thresholds set out in 1998 are still the right ones, as the number, type and average age of apprenticeships have all changed dramatically since the NMW was introduced.

Questions to be answered include whether a minimum wage discount is really needed for adult apprentices and, if so, whether it really needs to remain at 57.3 per cent of the full adult rate. Indeed, our view is now that a special rate for apprentices aged 19 and above has become very hard to justify at all. First, there is a broad policy consensus that the primary focus for apprenticeships should be young people aged 16-18 years. Second, as well as the re-branding of existing training mentioned above, there is growing concern about the substitution of adult apprentices for non-apprentice employees, The BIS survey shows that the percentage of apprentices aged 19 and above who are paid below the applicable rate of the NMW is actually quite small, so removing the discount for older apprentices would have little effect on the apprentice programme as a whole, but would prohibit exploitative practices and help to incentivise the hiring of younger apprentices.

In the TUC’s experience, low pay and poor training often go together. It is also the case that if apprentices perceive their pay as being poor, this is likely to lead to poor morale and high turnover, regardless of labour market conditions.

It follows that well-judged increases to the Apprentice Minimum Wage Rate are likely to have a positive effect on completions.

It is also the case that decent pay attracts more applicants. This might become crucial for the sustainability of the model when the labour market starts to tighten. Given the choice between a minimum wage job and a sub-minimum wage apprenticeship, a large number of you people would choose the NMW job, which might turn out to be a rational choice in industries where completing an apprenticeships does not generate as strong a pay premium, such a child care.

It is also still not clear that the implications of a minimum rate that leaves some apprentices below the minimum NICs threshold has yet been fully considered. The TUC thinks it essential that as many employees and employers as possible should pay NICs, both for the long-term benefit of the apprentice themselves and because we believe that everybody should make a fair contribution, especially in times when the public finances are tight.

***TUC recommendation: Given that the apprentice sector is booming, there is room to make a more substantial percentage increase to the NMW rate, which is currently very low indeed. There is also room to consider whether the age qualifications for using this rate are set too slackly.***

**8: The Agricultural Wages Board for England and Wales**

The TUC believes that the Agricultural Wages Board for England and Wales plays a vital role in ensuring that farm workers receive decent pay and conditions. Employment in this sector has grown strongly in the past year, thus demonstrating the industry’s ability to cope with the current arrangements.

If the AWB were to be abolished then these workers would have to rely on the general NMW, which is significantly weaker than the current minima in the industry.

The sector includes many employers that give the TUC cause for concern, including gangmasters and employment agencies that fail to comply with employment law across a number of fronts, including pay, and such issues as the provision of sub-standard accommodation such as tents and derelict caravans to temporary workers. In our view, a proportionate response would be to strengthen regulation in this sector, but at the very least the existing regulation must not be weakened.

Abolition is strongly opposed by the Welsh Assembly, and indeed by the Welsh National Farmers Union as well as by the agricultural workers trade union Unite.

With the Scottish Parliament pledging to keep its own AWB, there is now a danger that farm workers in England will end up with weaker protection than in the rest of the UK, which would obviously generate some difficult cross-border issues.

The LPC should do everything in its power to ensure that the AWB for England and Wales is retained, whilst also producing contingency plans in case this large group of at-risk workers comes under the NMW at some point.

***TUC recommendation: the TUC continues to oppose the abolition of the Agricultural Wages Board for England and Wales, as this will disadvantage many farm workers. In addition, this proposal is opposed by the farmers in Wales, and the Scottish AWB continues to have wide support. The LPC should be geared up to do everything that it can to ensure that that farm workers are not driven back to poverty pay.***

**9: Seafarers**

Some useful progress has been made in this area during the past year, but more remains to be done.

In the face of strong pressure from the European Union, the UK Government introduced regulations to extend the Equalities Act to seafarers from August 2011[[39]](#footnote-39). The effect of this legislation is to end the exemption from race discrimination legislation for seafarers from EU and EEA nations when it comes to differential pay rates. Seafarers from these countries make up about 20 per cent of the workforce on UK registered ships.

The shipping minister also took forward the legal working party recommendation that the NMW should be extended to non-domiciled seafarers on an individual “in personam” basis where they have a close enough link to the economic life of the UK, using a “base” test roughly along the lines of that established by the UK courts in Diggins v Condor Marine Crewing Services (2009). This initiative is very welcome and will help some seafarers.

However, it certainly does not deal with all our concerns. More than half of the seafarers on UK ships come from countries outside the EU/EEA, mainly from the Philippines. The same considerations apply to seafarers on foreign vessels which sail mainly in UK waters such as ferries working between two UK ports. Most seafarers on these ships will not meet the “base” test as they are recruited in another country, pay taxes in another country and so on.

Therefore we are still concerned that many seafarers are paid very low wages, even in cases where they have to live at UK prices because, for example, they are working solely between two UK ports.

There is also some concern that tighter regulation for just part of the workforce may intensify the process of substituting cheaper unregulated workers.

In addition, passenger lines are starting to face some reputational damage, with a series of media exposures of wages on cruise ships[[40]](#footnote-40).

The Low Pay Commission must take a proper interest in ending poverty pay on ships.

* ***We acknowledge the progress made this year through the application of the Equalities Act to seafarers, and the new guidance issued on NMW so that it can be applied to seafarers on an individual “in personam” basis where they can be shown to have a close enough link to the UK. Nevertheless, it remains the case that the majority of seafarers working on British ships are still exempt from the NMW. The LPC should continue to look for ways to ensure that more seafarers are protected.***

**10: Domestic workers**

The TUC continues to be very concerned about the mistreatment of domestic workers and others who are said to live as part of the family. The LPC will have heard the evidence presented by the campaign group Kalayaan, which represents migrant domestic workers in the UK. They have highlighted not just poor pay but also desperately bad cases of physical abuse by employers.

More recently, there has also been emerging evidence that the position of au pairs in the UK has changed over the years. Unlike many other countries, the UK has wound up its formal au-pair programme. The result appears to have been that the term has ceased to have any overtones of cultural exchange and has slipped back into meaning merely a domestic worker under another name. The TUC is becoming concerned that the term is simply becoming yet another route for avoiding the NMW.

The TUC believes that the situation is aggravated by the exemption from the NMW of domestic servants who are said to be “living as part of the family”. Our view is that this has now effectively become a loophole that employers actively exploit, and that the law should be amended to include such workers.

Whilst this would not be sufficient to end the abuse of domestic workers living in the employer’s premises, and there would be obvious difficulties in enforcement in some cases[[41]](#footnote-41), we have a duty to try to establish decent minimum standards in the sector.

* ***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. In addition, there are strong signs that the role of “au-pair” has lost its old meaning and is increasing becoming synonymous with domestic servant. The domestic workers sector should be considered for targeted enforcement.***

**11: Interns and work experience**

The TUC believes that the growing misuse of “internships” and work experience[[42]](#footnote-42) is still the fastest growing source of abuse of the minimum wage.

Whilst we are in favour of good work experience that is properly regulated, the current situation allows far too many employers to ignore the NMW Act with impunity.

Our view is that the law is broadly in the correct form. What is needed is a prolonged programme of enforcement that leads to some visible outcomes.

We welcomed the Government’s intention to target a number of high-profile sectors. In practice, this was rolled out just as a campaign in the fashion industry. Our view was that the campaign was well executed, although we have yet to hear how many employers were caught underpaying.

However, this was clearly not enough on its own to change behaviour in other sectors misusing interns. More sectors should be targeted in the coming period.

It has sometimes been said by other commentaries that interns are a rather privileged group who will go on to get good jobs, the implication being that they are not really being exploited. This view ignores the following:

* The interns route to good jobs disadvantages people from poorer backgrounds who cannot afford to work for free. This may be expected to include an element of structural discrimination.
* Some employers are making permanent staff redundant and taking on unpaid or low paid interns to take up the slack. This is a direct attack on all employment regulation, including the NMW.
* We have met a good number of interns who are either on open-ended placement, very long placements of over a year in duration, or are locked into a cycle of internship after internship. It is hard to see this as anything other than exploitation of the basest kind.

The TUC continues to campaign with other groups to ensure that interns know their rights and how they may be enforced. A number of unions are recruiting interns and several have taken cases to employment tribunal, although most complaints are settled out of court.

However, most interns will not complain, even when they feel that they have been very badly treated, since they fear that they will lose their reference. Bringing order to the sector therefore depends on active risk assessment and enforcement.

The terms “work experience” and “internship” have become more controversial as fair-pay campaigners have gained traction and failures in the Government’s work experience scheme have led to public disapproval and a number of companies distancing themselves from the scheme.

We have also more recently seen a strong increase in the number of employers in the private sector advertising for “volunteers”. This goes very far beyond the well-documented problem of non-charity employers demanding free work in the arts sector.

Whilst it may technically be possible to volunteer in the private sector, we have yet to identify a single genuine volunteer there. Volunteering in the public sector and for charities is largely driven by altruism. It is hard to see why people should feel altruistic about a private company, especially give the collapse of corporate charitable donations.

The problem of inappropriate free work is not confined to the private sector, although it is rife in some occupations, such as journalism. Involuntary “volunteering” is only too common in the performing arts, whether the employer is a money making concern or a charity. There is also an overreliance on the “voluntary worker” exemption in this industry. Special efforts are needed to establish new norms that comply with the NMW. In our view, bespoke guidance is needed for the entertainment industry but, as reported above, the thrust of government policy is towards unified guidance. At the very least, the unified guidance must have clear examples of how the NMW applies to the performing arts sector.

We have seen an increasing number of contracts that attempt to define a small number of young temporary workers as volunteers. Our view is that these contracts would fail to exempt employers from their duty to pay the NMW if they were put to the test, since workers in this position tell us that in fact they are treated the same as any other employee, with set hours and duties etc. We therefore argue that such contracts should automatically be regarded as suspicious, and should be investigated.

The case for considering whether the law ought to be changed in order to make advertising jobs below the NMW illegal also remains strong. At the very least, HMRC should take such adverts as evidence of intent to break the law, and take action to ensure that the minimum wage is enforced.

* ***TUC recommendation: The minimum wage must be properly enforced for internships and work experience. Further targeted enforcement is needed. The LPC should also consider whether the law ought to be changed in order to make advertising jobs below the NMW illegal. It should also recommend all such adverts must be taken by HMRC as evidence of intent to break the law, and take action to ensure that the minimum wage is enforced.***

**12: Awareness, guidance and enforcement**

The net result of the end of the budget for disseminating the NMW has been falling awareness of the actual rates, of how the NMW is enforced, and of the Pay and Work Rights Helpline.

The TUC therefore welcomed the re-establishment of government work on awareness in the current year, albeit with a very much reduced budget. This work should be developed further in coming years.

The TUC is concerned about plans to put all Government guidance onto a single website. Our past experience with the establishment of DirectGov and BusinessLink was that the previous guidance was both weakened and coarsened by being edited by those who were not au fait with the NMW.

We subsequently spent a number of years trying to remove misleading or partial statements and plugging gaps from the guidance in order to make it a useful guide for action for workers and employers alike. This process was only concluded in 2011.

The current review must learn from the difficulties caused by the previous process of editing the guidance. Unless it is at least preserved in its existing form and preferably improved still further, it will generate misunderstandings that will lead to fines and legal cases for employers and lost wages for workers.

Whilst we welcome the recent decision to undertake press work on every employment tribunal or court case, this is not enough on its own. Justice needs to be seen to be done if enforcement is to generate a deterrent effect that will encourage employers to pay the NMW. We detect that there is still a feeling amongst employers at the rough end of the labour market that they can get away with simple non-compliance.

In addition, a substantial minority of companies are actively looking for ways to avoid paying the NMW, including bogus self-employment, misusing piece rates, adopting zero hours contracts, making improper deductions for tools and travel and so on, and wrongly labeling workers as interns or volunteers.

The single biggest sector remains social care, where the misuse of zero hours contracts, non-payment for travelling time and the other issues documented last year continue to spread.

One new aspect has been the growth of Umbrella companies, some of which are charities, providing day to day managerial services for care recipients with individual care budgets. This begs the question of who is really the employer when such a body undertakes all the day to day management on behalf of the individual budget holder.

In addition, the problem of the inappropriate use of free work continues in broadcasting, the performing arts, and some other sectors. These workers may be known as interns, work experience, volunteers or voluntary workers, but the net result is the same – the employer ignores the NMW and gets something for nothing.

A strong push against the integrity of the NMW demands a push back from the Government, in the form of extensive, effective and visible enforcement. The NMW is actively enforced, and every year HMRC recovers significant amounts of money for low paid workers, which is a genuine success story. Nevertheless, government has found it hard to bear down effectively on certain types of NMW avoidance.

The TUC is particularly frustrated by the Government's apparent inability to follow up the commitment to name (and shame) the worst employers who have paid civil penalties for failing to pay the NMW. We told the last government that the criteria for naming were too tight when they were first adopted. Sadly, we have been proved right and not a single employer has yet been named under this scheme.

We believe that the objections being made by the government’s lawyers are not sufficiently strong to preclude going ahead with naming. If they really are convinced that they do not currently have the power to name serious offenders who have not been convicted in open court but who have been subject to civil penalties, then it is always open to the government to create such a power, perhaps via a one-clause bill. In any case, the matter needs to be resolved quickly, as the impasse is adding weight to the view held by some employers that they can “get away with it”.

“Naming” was meant to be an antidote to the dearth of prosecutions for the most serious NMW offences. In its absence, we reiterate our call for the rate of prosecution to be greatly increased.

Long-time students of the NMW will recall that at one point during the last decade the Government adopted a modest target of six prosecutions per year, only to drop it rather quickly when only one prosecution was actually achieved.

We recognise that this process is quite resource intensive, but we also believe that prosecutions have far more effect on the consciousness of the wider group of NMW-avoiding employers than other forms of enforcement action, not least because they are always picked up by the national press. We therefore believe that the LPC should press the Government to ensure that more cases are taken to court, so that the worst employers can be made to answer publicly for their criminal behaviour.

The NMW is in many ways a flagship policy for the Coalition Government. Extra resources should be found to step up the budget for enforcement in general, and naming and prosecutions in particular.

* ***TUC recommendation: The LPC must keep up the pressure to improve the Government’s guidance on the NMW. There is a real danger that quality may be eroded when all Government advice is placed on a single website in autumn 2012. The LPC should also recommend that the budgets for NMW dissemination and enforcement should increase so that they maintain and improve their real value. There should be more prosecutions and “naming” of bad employers so that enforcement can be made visible. The social care sector continues to cause concern. This sector should be made a high priority for enforcement***

**13: Accommodation offset review**

The TUC has responded separately to the LPC’s review of the provisions of the accommodation offset. The use of tied accommodation has declined in the past decade, but not any more in low paid jobs than in other occupations. The recent decline in the private sector is attributed to the collapse of the mortgage and property markets.

Our view is that the offset should remain, as employer accommodation can often benefit both parties.

However, we do not believe that the offset should apply in cases where the employee has no choice about living in the employer’s accommodation, for example, in cabins onboard ships.

In addition, there are some exploitative employer practices that should be stamped out. For example, the offset should not be granted for accommodation that is legally overcrowded or unfit for human habitation.

**Conclusions- the TUC’s main recommendations for 2012/2013**

* The adult rate should increase again in 2013. As a minimum, we would expect the adult rate to rise by more than both RPI inflation and the growth in average earnings, in order to help to address the erosion of the real value of the NMW by inflation in recent years.
* The TUC was saddened by the freeze in the youth rates last year. They should increase by at least the same percentage as the adult rate this year. In coming years we aim a significant narrowing of the gap between the other rates and the adult rate as soon as practicable, leading to the adult rate paid being paid from the age of 18.
* Given that the apprentice sector is booming, there is room to make a more substantial percentage increase to the NMW rate, which is currently very low indeed. There is also room to consider whether the age qualifications for using this rate are set too slackly.
* The TUC continues to oppose the abolition of the Agricultural Wages Board for England and Wales, as this will disadvantage many farm workers. In addition, this proposal is opposed by the farmers in Wales, and the Scottish AWB continues to have wide support. The LPC should be geared up to do everything that it can to ensure that that farm workers are not driven back to poverty pay.
* We acknowledge the progress made this year through the application of the Equalities Act to seafarers, and the new guidance issued on NMW so that it can be applied to seafarers on an individual “in personam” basis where they can be shown to have a close enough link to the UK. Nevertheless, it remains the case that the majority of seafarers working on British ships are still exempt from the NMW. The LPC should continue to look for ways to ensure that more seafarers are protected.
* 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. In addition, there are strong signs that the role of “au-pair” has lost its old meaning and is increasing becoming synonymous with domestic servant. The domestic worker sector should be considered for targeted enforcement.
* The minimum wage must be properly enforced for internships and work experience. Further targeted enforcement is urgently needed. The LPC should consider whether the law ought to be changed in order to make advertising jobs below the NMW illegal. It should also recommend all such adverts must be taken by HMRC as evidence of intent to break the law, and take action to ensure that the minimum wage is enforced.
* The LPC must keep up the pressure to improve the Government’s guidance on the NMW. There is a real danger that quality may be eroded when all Government advice is placed on a single website in autumn 2012. The LPC should also recommend that the budgets for NMW dissemination and enforcement should increase so that they maintain and improve their real value. There should be more prosecutions and “naming” of bad employers so that enforcement can be made visible. The social care sector continues to cause concern. This sector should be made a high priority for enforcement

1. Al Davis, D Hirsch, N Smith, J Beckhelling and M Padley, A minimum income standard for the UK”, JRF, July 2012 <http://www.jrf.org.uk/publications/MIS-2012> [↑](#footnote-ref-1)
2. See also reports by the Institute of Fiscal Studies (2011), Consumer Focus (2011) and the Alliance Trust economic research centre (2012): <http://www.ifs.org.uk/publications/5606> ; [http://www.consumerfocus.org.uk/publications/fuel-price- ;inflation-and-low-income-consumers](http://www.consumerfocus.org.uk/publications/fuel-price-inflation-and-low-income-consumers) ; [www.**alliancetrust**.co.uk/press\_releases/0168.pdf](file:///C:\Documents%20and%20Settings\sellerp\Application%20Data\Microsoft\Word\www.alliancetrust.co.uk\press_releases\0168.pdf) [↑](#footnote-ref-2)
3. “Cost of living is rising fastest for poorest households”, TUC, 11 May 2012: <http://www.tuc.org.uk/economy/tuc-21008-f0.cfm> [↑](#footnote-ref-3)
4. The consultation letter for the 2013 report, LPC, 2012. <http://www.lowpay.gov.uk/> [↑](#footnote-ref-4)
5. Mervyn King, Governor of the Bank of England, 7 August 2010. [↑](#footnote-ref-5)
6. Reported in, for example, the Daily Telegraph 23 August 2012: [http://www.telegraph.co.uk/finance/economics/9493022/ Kate-Barker-Osbornes-austerity-could-be-self-defeating.html](http://www.telegraph.co.uk/finance/economics/9493022/%20Kate-Barker-Osbornes-austerity-could-be-self-defeating.html) [↑](#footnote-ref-6)
7. See , for example, BBC report: <http://www.bbc.co.uk/news/business-16771939> [↑](#footnote-ref-7)
8. See , for example, Ch 4.report: <http://www.channel4.com/news/imf-chief-shivers-thinking-of-2010-and-britains-deficit> [↑](#footnote-ref-8)
9. Nicoletta Batini, Giovanni Callegari and Giovanni Melina, “Successful Austerity in the United States, Europe and Japan”, IMF working Paper WP12/190, July 2012. [↑](#footnote-ref-9)
10. Speech by Christine Legarde, MD, IMF, June 12 2012: <http://www.imf.org/external/np/speeches/2012/061212.htm>

    An earlier working paper demonstrated how growing inequality of incomes could generate higher indebtedness, which in turn led to squeezed demand in bad economic times - Michael Kumhof and Romain Rancière, “Inequality, Leverage and Crises” , IMF Working Paper 10/268; November 2010: [www.**imf**.org/external/pubs/ft/wp/**2010**/wp10268.pdf](file:///C:\Documents%20and%20Settings\smithn\Local%20Settings\Temporary%20Internet%20Files\Content.Outlook\SJP54SJ4\www.imf.org\external\pubs\ft\wp\2010\wp10268.pdf) [↑](#footnote-ref-10)
11. Reserves of private non-financial corporations only. Source: Table AF2, ON UK “Blue Book” national accounts. [↑](#footnote-ref-11)
12. We note that there is a complex relationship between the two series which has still not been studied properly, given the relative newness of the OBR. For example, the HMT roundup is drawn closely to the OBR predictions at the time when they are published, but moves much further away as economic events continue to unfold. [↑](#footnote-ref-12)
13. According to the latest figures, one year ago part-time employment made up 25.6 per cent of all employee jobs. The figure has grown to 26.8 per cent during the past year. [↑](#footnote-ref-13)
14. Bank of England, “Inflation Report”, August 2012 [↑](#footnote-ref-14)
15. ONS Retail Sales, July 2012 [http://www.ons.gov.uk/ons/rel/rsi/retail-sales/july-2012/stb-rsi-july-2012.html#tab-Key-Figures](http://www.ons.gov.uk/ons/rel/rsi/retail-sales/july-2012/stb-rsi-july-2012.html%23tab-Key-Figures) [↑](#footnote-ref-15)
16. For example, The Centre for Retail Research says “we expect 2013 to be better than 2012 with real sales rising by around 1.6%, in monetary terms 3.9% (as long as inflation stays low).” Forecast for increase in sales by value 2013 = 3.9 per cent, which is very close to the historical trend of around 4 per cent. <http://www.retailresearch.org/retailforecast.php> [↑](#footnote-ref-16)
17. Hotel News Resource, “London hotels report **Increases in ADRR and RevPar During the 2012 Olympic Games”, 17 August 2012** [↑](#footnote-ref-17)
18. # PWC, UK hotels forecast 2012 and 2013, March 2012: <http://www.pwc.co.uk/hospitality-leisure/publications/uk-hotels-forecast.jhtml>

    [↑](#footnote-ref-18)
19. Barclay’s UK hospitality and leisure outlook – second quarter 2012 (July 2012), p3.: [www.business.barclays.co.**uk**/BRC1/jsp/brcucontrol](http://www.business.barclays.co.uk/BRC1/jsp/brcucontrol) [↑](#footnote-ref-19)
20. BSIA website “ facts and figures”: <http://www.bsia.co.uk/facts-and-figures> [↑](#footnote-ref-20)
21. [http://www.selectabase.co.uk/blog/](http://www.selectabase.co.uk/blog/%20) , 18 June 2012 [↑](#footnote-ref-21)
22. J Grice, ONS Chief Economist, “The Productivity Conundrum, Interpreting the Recent Behaviour of the Economy”, August 2012: <http://www.ons.gov.uk/ons/rel/elmr/the-productivity-conundrum/interpreting-the-recent-behaviour-of-the-economy/art-interpreting-the-recent-behaviour-of-the-economy.html> [↑](#footnote-ref-22)
23. ONS Labour Productivity, Q1 2012 [↑](#footnote-ref-23)
24. Our detailed critique can be found In our submission to the Work and Pensions Committee’s inquiry: <http://www.publications.parliament.uk/pa/cm201012/cmselect/cmworpen/writev/youth/m03.htm>

    We have called for a new *Youth Guarantee*, offering a job, apprenticeship or education or training place for every young person unemployed over 6 months and a Youth Credit, merging Income Support with the help for students previously available from Educational Maintenance Allowances. [↑](#footnote-ref-24)
25. ONS Labour Markets Statistics, table AO5, August 2012. [↑](#footnote-ref-25)
26. Indeed, ONS believes that the trend towards young people staying in education rather than working has made comparisons difficult. As a result they now also publish a measure of the percentage of the cohort who are unemployed. [↑](#footnote-ref-26)
27. ONS Labour Market Statistics August 2012, Table AO6 [↑](#footnote-ref-27)
28. DFE, Participation in education, training and employment by 16-18 Year Olds in England, end 2011 - statistical first release, June 2012. [↑](#footnote-ref-28)
29. The requirement to be education or training will end at the individual’s 18th birthday. [↑](#footnote-ref-29)
30. Alliance Trust, “Low income households face higher rate of inflation”, see press release 9 April 2012: <http://www.alliancetrust.co.uk/pressroom/> [↑](#footnote-ref-30)
31. <http://www.cpag.org.uk/child-poverty-facts-and-figures> [↑](#footnote-ref-31)
32. LPC report 2012, p152 [↑](#footnote-ref-32)
33. See, for example, “The Spending and Debt Response to Minimum Wage Hikes”, Daniel Aaronson, Sumit Agarwal, and Eric French, Federal Bank of Chicago, December 2008. [↑](#footnote-ref-33)
34. Business for a Fair Minimum Wage press release 26 July 2012 <http://businessforafairminimumwage.org/news/00222/small-business-owners-support-fair-minimum-wage-act-introduced-today-congress> [↑](#footnote-ref-34)
35. DWP website description of the process: <http://www.direct.gov.uk/en/Pensionsandretirementplanning/DG_183783> [↑](#footnote-ref-35)
36. <http://www.dwp.gov.uk/docs/universal-credit-wr2011-ia.pdf>. [↑](#footnote-ref-36)
37. Data Service, Statistical First Release, June 2012, Table 8: <http://www.thedataservice.org.uk/statistics/statisticalfirstrelease/sfr_current/> [↑](#footnote-ref-37)
38. BIS Research Paper 68, Apprentice Pay Survey, March 28, pps 12 and 28: <http://www.bis.gov.uk/assets/biscore/further-education-skills/docs/a/12-p137-apprenticeship-pay-survey-2011.pdf> [↑](#footnote-ref-38)
39. The Equality Act 2010 (Work on ships and Hovercraft) regulations 2011 [↑](#footnote-ref-39)
40. See, for example: <http://www.guardian.co.uk/business/2012/apr/29/cruise-firm-performance-bonuses-tips> [↑](#footnote-ref-40)
41. But the law would be no more difficult to enforce than, say, the vehicle speed limit on the roads. [↑](#footnote-ref-41)
42. The two terms are used so loosely by employers that we regard them as effectively having the same meaning. [↑](#footnote-ref-42)