Regulatory Policy Committee	**Opinion**	
Impact Assessment (IA)	National Minimum Wage regulations 2014 – increase in rates	
Lead Department/Agency	Department for Business, Innovation and Skills	
Stage	Final	
IA number	BISLM003	
Origin	Domestic	
Expected date of implementation	1 October 2014 (SNR8)	
Date submitted to RPC	25 June 2014	
RPC opinion date and reference	04 July 2014	RPC14-BIS-2131
Departmental assessment		
One-in, Two-out (OITO) status	**Out of scope**	
Estimate of the equivalent net cost to business (EANCB)	**N/A**	
RPC overall assessment	**GREEN**	

RPC comments

The IA is fit for purpose. It assesses adequately the costs and benefits to business of amending national minimum wage (NMW) rates.

As the proposed adjustments to NMW rates are provided for in existing legislation and implement in full the recommendations of the Low Pay Commission, they are out of scope for OITO purposes. The Department has, nevertheless, estimated the EANCB at £401 million.

Background (extracted from IA)

What is the problem under consideration? Why is government intervention necessary?

If there is exploitation in the labour market, employers may abuse unequal bargaining power to pay unacceptably low wages, particularly where workers have a lack of experience, skills, mobility or opportunities. The National Minimum Wage (NMW) is a statutory pay floor that provides protection to low-paid workers by: preventing potential exploitation; preventing businesses from undercutting other organisations by paying exploitatively low wages; and providing a greater incentive to work. The NMW came into force in April 1999 and since then the NMW rates have been reviewed annually by the Low Pay Commission (LPC).

The LPC was set up in 1999 to make recommendations on the NMW. In making its most recent recommendations to the Government, the LPC has consulted extensively and undertaken substantial analysis. Details are contained in its 2014 report.

In response, the Government have two options to consider:

1. Agree with all the LPC recommendations on NMW rates and implement them.

2. Reject all, or some, of the LPC rates recommendations.

What are the policy objectives and the intended effects?

The objective of the NMW is to maximise the wages of the low paid without damaging their employment prospects by setting it too high. The NMW sets a wage floor below which pay cannot fall ensuring protection for low-paid workers, while also providing incentives to work.

Proposals

The Government have concluded that the LPC's recommendations are appropriate and, having agreed with all of them, propose to implement the new rates from 1 October 2014.

Comments on the robustness of the OITO assessment

The proposals represent a periodic adjustment to an existing regulatory regime that is intended to maintain the current level of regulation in the face of general wage and price inflation. The IA says that Government implementation of the Low Pay Commission's rate recommendations is out of scope of OITO.

As the proposed adjustments are provided for in existing legislation and implement in full the recommendations of the Low Pay Commission, the RPC confirms that these are out of scope of OITO in accordance with paragraph 1.9.8 viii of the Better Regulation Framework Manual (July 2013). The RPC notes, however, the assessment of the Low Pay Commission that the decision will increase the number of jobs covered by the minimum wage by one third and raise NMW workers' pay relative to average earnings (page 4 of the IA).

Comments on the robustness of the small & micro-business assessment (SaMBA)

The proposals increase the scope of regulation on business. A SaMBA is, therefore, required.

The IA includes a SaMBA. It draws attention to the LPC's consideration of the impacts on small firms. The LPC noted in its report that smaller firms were more likely to pay their employees at, or below, the minimum wage. It reported a clear relationship between the proportion of minimum wage jobs and the size of firm. Minimum wage jobs accounted for just under 4 per cent of jobs in large firms; about 6 per cent in medium-sized firms; 8 per cent in other small firms; and 13 per cent in micro-businesses.

The Government does not intend to use the default policy of small business exemption from these proposals. The SaMBA states that the Government has considered all options for mitigation of the impact of the proposals on small and

micro-businesses but has decided that all of them would have a negative impact on the primary objective of the proposals.

While the SAMBA is sufficient, the Department could improve it by providing a fuller discussion of the options for mitigation it considered and including more detail on the number of small and micro-businesses affected and the distribution of costs by size of business.

Quality of the analysis and evidence presented in the IA

The IA states that the impact on business is equivalent to the weighted average increase in hourly pay multiplied by the number of workers estimated to be affected for each age band. The result is an increased cost to business, over the first year of implementation, of £497 million, which includes both the direct wage bill and non-wage labour costs. The business NPV of £497 million is in 2013 prices with a 2014 present value base year. The EANCB of the measure is estimated as £401 million in 2009 prices with a 2010 present value base year. The impact on business and resultant EANCB will need to be reassessed at the time of the next annual uprating.

The analysis adequately assesses the costs and benefits to business of amending the national minimum wage rates. However, the exchequer impact should be described in more detail. The analysis indicates that employees and the exchequer will gain from the 17.8% non-wage labour costs. However, it is not clear what proportion of these costs will go to the exchequer. Furthermore, the analysis indicates that the exchequer will benefit from *"increased tax and National Insurance revenue (from employees) and reduction in benefits and tax credits as a result of changes in the adult NMW rate"*. Yet the IA states that *"there is no significant impact on public finances with changes in the NMW, and the net benefits on Public Sector Net Borrowing are very small, not significantly different from zero"*. While the value of these impacts may be small in public sector finance terms, in terms of this IA they would appear to be significant.

Signed **Michael Gibbons,** Chairman